INSIGHTS FROM THE BDO REAL ESTATE & CONSTRUCTION PRACTICE

NAVIGATING THE NEW AGE OF RETAIL REAL ESTATE

By Stuart Eisenberg and David Berliner

Plagued by seven straight years of unprofitability, Sears filed for bankruptcy at the urging of banks that hold the retailers' debt this October. Near the end of the year, Sears will close 142 unprofitable stores in addition to the previously announced closure of 46 stores.

Sears joins a long list of retailers shuttering storefronts this year. In the first six months of 2018 alone, more than a dozen retailers with 20 stores or more filed for bankruptcy and closed a total of 3,838 stores according to [Retail in the Red](), BDO's biannual bankruptcy update.

Despite strong underlying economic fundamentals and high consumer confidence, brick-and-mortar retailers have continued to suffer. A confluence of factors are to blame for retail's decline, including: burdensome levels of debt, the rise of e-commerce and rapid delivery, shifting consumer preferences, and younger generations spending more on experiences rather than on physical goods.

ARE RETAIL LANDLORDS FEELING THE IMPACT OF THEIR TENANTS' FINANCIAL HARDSHIPS?

The real estate industry is keeping a close eye on retail's restructurings and bankruptcies. Many large owners and operators of malls—including retail REITs—have experienced financial damage due to retail vacancies and declining demand. Real estate owners that have older malls or lost anchor stores—like Bon Ton, Sears, or Macy's—at many different properties in their portfolios were the hardest hit.

HOW ARE RETAIL OWNERS, OPERATORS—INCLUDING RETAIL REITS—RESPONDING?

One approach gaining momentum among retail REITs to refresh retail properties and fill vacancies is designing a "reimagined mall." With the goal of increasing foot traffic, many mall operators are redeveloping and repositioning lagging properties to adapt to changing consumer tastes. This generally involves adding dining and entertainment options and shifting some of the property for

Read more ▶

new uses, including apartments, hotels, fitness centers, wellness, office buildings, distribution space, and even supermarkets like Whole Foods.

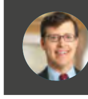
While redeveloping and repositioning sounds like a winning strategy on paper, there are significant hurdles to execution. The largest stumbling block to launch such projects is access to adequate investment capital and prior expertise executing similar initiatives. Retail REITs and property owners may not be able to undertake such an initiative on their own, and consequently, may pursue a sale or become an acquisition target for a buyer that has the resources. For instance, following Brookfield Property Partners' acquisition of retail REIT GGP, Brookfield **plans to expand** GGP's top-tier properties, while adding office and other mixed-use spaces to less successful malls.

Developers constructing new retail properties are factoring in the future of retail into their blueprints. In Florida, a proposed project for what would be **the largest mall in the country** plans to include an indoor ski slope, submarine pool, and other unconventional attractions. The cost implications for such a project, however, are potentially enormous. The American Dream Meadowlands, a similar project first proposed in 2003, faced numerous legal and financial setbacks **that have delayed** its opening to Spring 2019.

BDO'S TAKE: WHAT TO EXPECT THROUGH 2019

Even if retailers finish the year with strong sales, BDO projects more bankruptcy announcements and store closings before the new year. The future of retail is changing, and real estate owners and operators that embrace multiuse space will be best positioned to attract the next generation of consumers.

Stuart Eisenberg is a partner and national leader of BDO's Real Estate and Construction Practice. He can be reached at seisenberg@bdo.com.



David Berliner is a partner in BDO's Restructuring & Turnaround Services Practice. He can be reached at dberliner@bdo.com.

BDO REAL ESTATE & CONSTRUCTION PRACTICE

BDO's Real Estate and Construction practice consists of multi-disciplined professionals who are well-versed in compliance and consulting matters. Our professionals have many years of experience in financial reporting and accounting, tax and auditing issues and are continually updating their knowledge and, therefore, are dedicated to giving timely and accurate advice.

ABOUT BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 650 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 73,800 people working out of 1,500 offices across 162 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

CONTACT

STUART EISENBERG
Real Estate and Construction Practice Leader
212-885-8431 / seisenberg@bdo.com

IAN SHAPIRO
Real Estate and Construction Practice
Co-Leader
305-420-8052 / ishapiro@bdo.com