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New Round of Stores Closings Expected as Dept. Store Chains Shrink Real Estate Footprints

Nearly 1 Billion Square Feet of Retail Space Expected to be 'Rationalized' In Coming Years

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Like watching a car wreck unfold in slow motion, department store chains continued to deliver disappointing financial results ahead of a holiday season which are projected to see higher sales than last year.

However, the important retail sales period if off to a slow start as the Commerce Dept. announced lower-than-expected November retail sales on Wednesday during the height of the Thanksgiving-to-New Year's period that accounts for as much as a one-fifth of annual sales.

This same week, Dallas-based luxury retailer Neiman Marcus Group became the latest department store chain to report a quarterly loss and announce more cost-cutting measures.

Neiman Marcus cited a number of factors factors for its less than stellar performance, ranging from lower foot traffic to online shopping patterns and glitches in a new computerized merchandising system. The retailer reported a 7.4% decrease in revenues for its first fiscal quarter, compared to $1.16 billion for the same period last year. The company reported a loss of $23.5 million, more than double the net loss of $10.5 million a year ago.

"It's hard to cast these results in a positive light. They are very disappointing," Neiman Marcus CEO Karen Katz said in the company's earnings call on Monday.

"We also continue to see fewer international shoppers in our stores located in tourist destinations and gateway cities, as a result of the continued strength of the U.S. dollar versus other currencies, as events such as Brexit and the weakening British pound continue to impact the dollar," Katz said.

Not to be outdone in the under-performing category, Sears (Nasdaq: SHLD) reported comparable-store sales declined 10% at Sears stores and 4.4% at its Kmart stores during the third quarter as the reeling chain slumped to a net loss of nearly $750 million, its fifth straight quarterly loss, compared with a loss of $454 million a year ago.

Although Sears announced no new closings in its earnings call last week, the chain will continue to shutter stores next year, CFO Jason Hollar said. About 550 of the company's stores have leases expiring in the next few years. The company is trying to find buyers or investors for its Kenmore, Craftsman and DieHard brands.

Other department store retailers are also continuing to struggle, although not to the same extent as Sears. Macy's Corp. after Christmas is expected to announce 100 store closings during early 2017, in addition to the 38 stores closing this year.

Hudson’s Bay Co., the Toronto-based owner of Saks, Hudson's Bay and Kaufhof in Germany, on Dec. 5 reported its third consecutive quarterly loss, on the heels of an announcement last month that the Toronto-based company will reduce planned capital expenditures.

"Nearly one billion SF of retail space will be 'rationalized' in the coming years," said Suzanne Mulvee, director of U.S. research, retail, for CoStar Portfolio Strategy. "This may take the form of store closures, conversions to other uses, or rent roll downs."

Mulvee said retailers, on average, are generating fewer sales per square than they did during the decade leading up to the recession, meaning that fewer stores are economically viable. The trend is likely to continue and even pick up its pace in 2017, Mulvee added.

While this year’s holiday shopping season will generally be better than last year bricks-and-mortar retailers, that "won’t be enough to slow the trend of store closures that we are going to see in first-quarter 2017," said Garrick Brown, vice president of retail research for Cushman & Wakefield.

The good news is that the bloodletting anticipated early next year will be mostly relegated to a few key retail categories such as department stores and apparel chains. However, the closure wave will set the tone for retail during 2017, Brown said.

"Once that negative news cycle hits, it tends to color all of retail with the same broad brush and certainly doesn’t help the stock price or brand equity of those publicly traded concepts that are otherwise weathering a challenging atmosphere out there," Brown added.