https://www.wsj.com/real-estate/commercial/bankruptcies-have-left-more-stores-vacant-but-the-space-doesnt-sit-empty-for-long-729ae976

REAL ESTATE COMMERCIAL

Bankruptcies Have Left More Stores Vacant, but the Space Doesn't Sit Empty for Long

Available retail locations are near record lows, making it easy for landlords to replace departing tenants

By Kate King Follow

May 28, 2024 5:30 am ET

Red Lobster became the latest national chain to enter bankruptcy when the seafood-restaurant company filed for chapter 11 this month, saying it would break leases at 108 of its 550 locations.

Kimco Realty owns one of those restaurants marked for closure. While that would have caused concern for the property owner a few years ago, these days it is more of an opportunity. The firm is already fielding inquiries about the space located outside of Tampa, Fla., including from fast-food joint Raising Cane's, coffee chain Dutch Bros and Fifth Third Bank.

"It's a nice time to be getting spaces back because you have the ability to pick a best-in-class retailer," said Conor Flynn, Kimco's chief executive. "You're able to push rents."

Retailer bankruptcies rose to 26 last year, the highest number since 2020, according to Morgan Stanley. More than a dozen retailers have said they would close stores after entering bankruptcy proceedings so far in 2024, including Express, Rue21 and Ted Baker.

A Ted Baker store in New York City. The retailer entered bankruptcy this year and intends to close stores. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

The closures leave gaping holes in malls and shopping centers as more companies succumb to online competition, inflation and changing consumer tastes.

Yet landlords are mostly unfazed. Years of little construction have helped push retail availability to near record lows, making it easier than ever to replace departing tenants—often with more successful ones who pay higher rent and draw more customers to the shopping center.

"If you have to get space back in a bankruptcy, today is a good time to have that happen," said Matthew Harding, CEO of real-estate firm Levin Management.

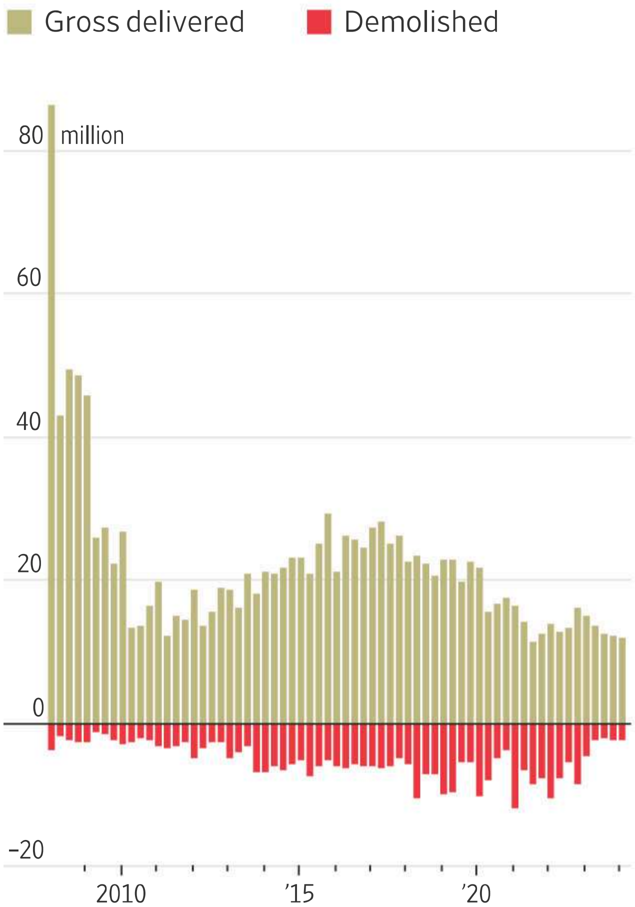
More than three-quarters of Stein Mart's stores have been taken since the discount department-store chain filed for bankruptcy and closed its 280 locations in 2020, according to Bill Read, an executive vice president of real-estate firm Retail Specialists.

And 40% of the 721 closed Bed Bath & Beyond locations tracked by Read have been leased in the year since the home-goods retailer filed for bankruptcy, representing a brisk pace, he said.

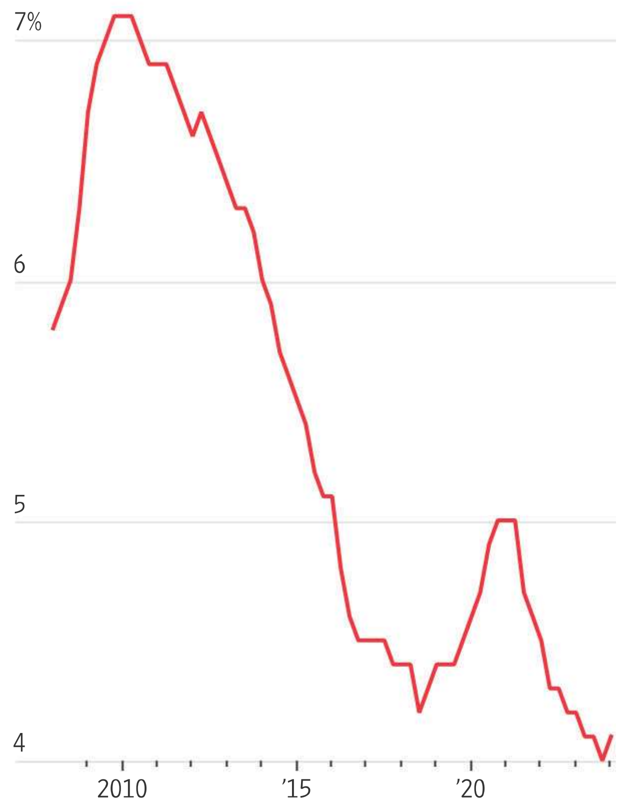
Apparel retailers have snapped up the most locations, with discount department store Burlington filling 73 former Bed Bath & Beyonds.

Even with the uptick in bankruptcies, U.S. retailers are still on track to open more stores than they shut this year. Announced store closures are about 23% higher in 2024 than they were at the same point last year, according to the data firm Coresight Research. Planned store openings, by contrast, are about 4% lower.

U.S. gross construction vs. demolition of retail space, square feet



U.S. retail vacancy rate



Source: JLL Research analysis of CoStar data

The slowdown in store openings isn't because retailers don't want to expand. Rather, it reflects how retail vacancy has fallen to a near-record low of 4.1%.

"People aren't announcing openings because there's nowhere to open," said Coresight CEO Deborah Weinswig.

Retail construction fell sharply between 2008 and 2010 because of the financial crisis and has been at record-low levels since the onset of the pandemic. Developers completed 9.5 million square feet of net new retail space in the first quarter of this year. That is just a fraction of the more than 80 million square feet completed in the first quarter of 2008, according to data firm CoStar Group and JLL Research.

Meanwhile, about 155 million square feet of mostly aging retail space has been demolished over the past five years, according to JLL. Supply is unlikely to increase soon. Building retail space doesn't pencil out given the high cost of land, construction and labor.

"Rents would need to increase close to 35% to justify a wave of new supply," Kimco's Flynn said.

Retail's strong recovery from the pandemic is a far cry from the years after the 2008-09 financial crisis, when retail vacancies skyrocketed after hundreds of retailers went bust and consumers slowed spending.

A Bed Bath & Beyond store in New York City last year. Some closed locations of the home-goods retailer are being leased. PHOTO: THALIA JUAREZ FOR THE WALL STREET JOURNAL

But there are areas of weakness, particularly low-end enclosed malls.

High interest rates and inflation are also weighing on the retail sector. Red Lobster's bankruptcy signaled that restaurants—a sector that led retail openings coming out of the pandemic—are under pressure as higher prices drive customers away, said Ermengarde Jabir, senior economist at Moody's.

"The signs are pointing to slower consumer spending," she said.

Still, landlords have had a much easier time replacing failed retailers.

Open-air shopping-center landlord Kite Realty Group has signed leases or is in negotiations to fill most of the nearly two-dozen former Bed Bath & Beyond stores in its portfolio. New tenants include value retailers and grocers, said CEO John Kite.

In another sign of strong demand for retail space, the landlord didn't need to subdivide—a costly and lengthy process—any of the vacated spaces to attract tenants.

"We used to be so fearful" when retailers declared bankruptcy, Kite said. "And now it's become an opportunity."

Write to Kate King at kate.king@wsj.com

Appeared in the May 29, 2024, print edition as 'Vacant Stores Find New Tenants Fast'.

Buy Side from WSJ

Expert recommendations on products and services, independent from The Wall Street Journal newsroom.

PERSONAL FINANCE

Why Do Lenders Keep Inviting Me to Check My Credit?

BUY SIDE EXCLUSIVES

Travel in Style With Paravel's Sustainable Luggage Collection

SHOPPING HOLIDAYS

The 22 Best Deals to Shop Online Right Now

PERSONAL FINANCE

How to Use Biweekly Mortgage Payments to Pay Off Your Home Loan ASAP

PERSONAL FINANCE

Are You Overpaying Your Financial Advisor?

PERSONAL FINANCE

What the Fed's Interest Rate Decision Means for Savers