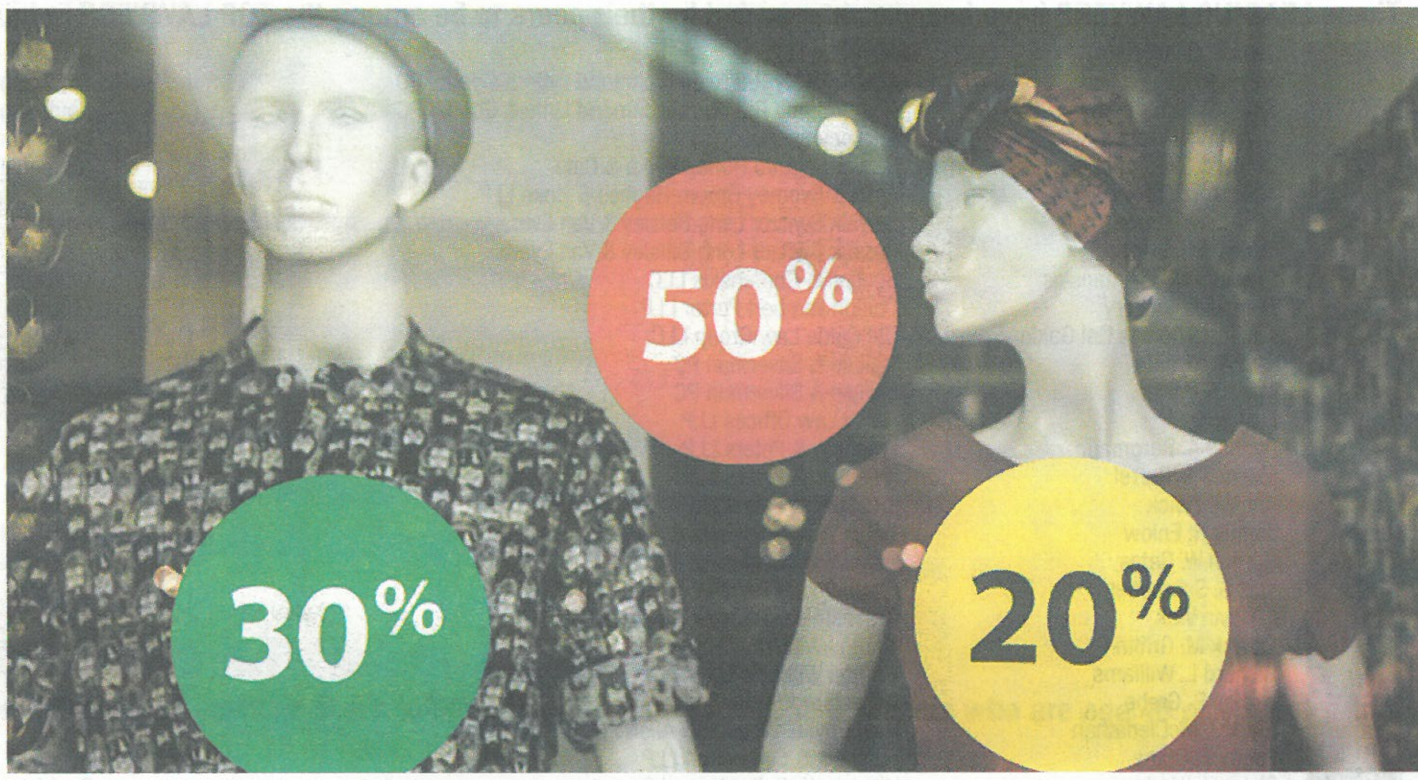
Empty storefronts pose unique retail opportunities

By Matt Baker, Editor

Over 2,500 storefronts closed during the first half of this year, with another 500+ retail locations expected to follow suit before the year is out. But all is not lost. According to a new retail outlook research report by JLL, these store closures present an opportunity for new retail and new uses, whether those vacancies are in strip malls, power centers or regional malls.



COMMUNITY, NEIGHBORHOOD AND STRIP CENTERS REMAIN HEALTHY

There's no getting around the daily needs of consumers, as tenants who cater to day-to-day essentials are a boon for shopping centers—a retail category that includes community centers, neighborhood centers and strip centers, all primarily anchored by groceries and local services. But entertainment is a rising retail category in these locations as well.

Absorption continues to be positive for shopping centers, according to the JLL report. Consolidating retailers are shrinking the brick-and-mortar footprint in shopping centers, but demand remains high enough to surpass vacated space, with net absorption just over 5 million square feet across the country in the second quarter. Vacancy has dropped 40 basis points in the last year for these centers as deliveries remained below demand.

Strip centers have enjoyed 6.1 percent rent growth in the last year, the highest increase among the shopping center subtype. Shopping centers as a whole recouped one of the highest year-over-year rent gains, second only to general/freestanding retail—a category where urban rents push up growth.

Chicago saw strong net absorption of shopping centers, with over half a million square feet absorbed in the second quarter. In fact, Chicago's shopping center fundamentals have been steadily improving, with vacancy falling 110 basis points and rents rising 4.1 percent in the last year. JLL points to the impact of non-traditional tenants like The Second City and Chicago Curling as they take on former big box retail space.

POWER CENTERS HURT BY VACATING BIG BOXES

Those big box spaces remain a challenge, especially in power centers as there aren't many tenants willing to take on the massive footprints. What success there have been are former big box stores leasing out to value brands and entertainment venues.

Around the country, power centers hurt by store closings such as Toys 'R' Us saw net absorption fall to negative 900,000 square feet and vacancy rise 20 basis points. Absorption was stung by move-outs, which totaled 7.6 million square feet. Power center rents continue to rise, however, increasing by 1.6 percent from the first quarter and growing 2.6 percent from this time last year.

Retail openings during the second quarter showed interesting trends including home furnishing retailers like At Home and HomeSense and entertainment tenants like Escape Room, Urban Air Trampoline Park and Jump!Zone. Future expansion plans for power centers include value tenants, groceries and sporting goods retailers.

MALLS ATTRACTING REPLACEMENTS IN STRONG MARKETS

Store closures by Sears, Bon-Ton, Claire's and others had a big impact during the second quarter, pushing mall net absorption into the red at negative 2.1 million square feet. Approximately 130 department stores shuttered last quarter, driving vacancy up from 3.7 percent in the first quarter to 4.0 percent in the second.

Mall move-outs totaled 7.8 million square feet, largely in low- to mid-rated malls, which comprised 4.8 million square feet—or 61.2 percent of vacated space. The country's top malls fared relatively well, as they not only have less exposure to closing retailers, but more quickly fill vacant space than average properties. Top-rated malls had negligible move-outs of less than 100,000 square feet—or a little over 1 percent of mall space closed.

It should be no surprise, then, that quality of the location determines how easy it is for properties to find replacement tenants. According to CoStar data, approximately 70 percent of well-located mall space re-leased within a year, contrasted with the 20 percent of space in average locations that was able to re-tenant in that time.