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CRE Research

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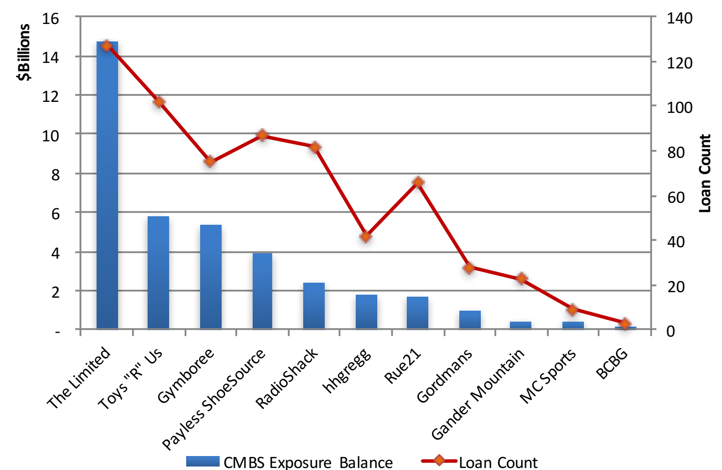
The 11 Largest Retailer Bankruptcies of 2017

In the first 11 months of 2017 alone, more than 30 US retailers filed for bankruptcy protection. That news certainly made those in structured finance take notice to the mounting concern surrounding brick-and-mortar retail. According to Trepp data, more than $35 billion of CMBS debt is exposed to retailers that sought bankruptcy protection this year. The main culprit for what many call the brick-and-mortar "retail apocalypse" is the continued growth of ecommerce and transformed consumer trends. Online shopping giant Amazon and other retailers with a comparable digital platform have proven that ecommerce can compete with virtually every corner of the retail industry; consumers are buying greater portions of apparel, home goods, shoes, electronics, sporting goods, and even groceries online. Ecommerce demand began to skyrocket in early 2015, and has continued to grow relentlessly as more and more retailers implement faster last-mile delivery services.

While Sears, Macy's and JCPenney were clear of bankruptcy filings this year, the three widespread department store chains have shuttered over 500 combined locations in 2017 alone. In step with the rise of ecommerce, the popularity of traditional department store anchors is plunging, and hundreds of malls nationwide have reported dwindling foot traffic. Consequently, retail CMBS loans secured by regional malls and shopping centers are the groups most severely impacted by the recent rounds of retail bankruptcies and deserted department stores. Another fundamental reason for the struggles of big-box retail is simply that America built too many malls between 1970 and 2015. According to Cowen & Co. research analysts, the number of malls expanded more than twice as fast as the population during that period. Meanwhile, Cushman and Wakefield reports that mall visits have consistently declined every year since 2010.

GRAPH 1: CMBS EXPOSURE TO RETAILERS BY BALANCE, LOAN COUNT



Source: Trepp

According to *Retail TouchPoints*, the slew of bankruptcies this year does not necessarily indicate a weak retail sector, but rather a "survival of the fittest" movement. Retail sector sales increased by 2.6% in 2016, and 5.6% in the first half of 2017. The retailers filing for bankruptcy relief and closing stores have "largely failed to adapt to the shift towards ecommerce and away from malls." Industry experts also observe that many of the companies declaring bankruptcy are concentrated in a few highly competitive verticals. Leslie Hand, VP of IDC Retail Insights, observes that "the majority of weakness that we have seen is in apparel, footwear and related segments, consistent with our expectation that these segments are overstored, overstocked, and simply out of alignment with consumer share of wallet/spend."

The rise of social media offers an illuminating look into forward-looking consumer spending trends. Overall sales for clothing stores have declined in recent years,

while the dollar amounts tied to traveling and dining out have skyrocketed. Although many disregard social media content as trivial and subjective, filtered snapshots of dreamy vacation spots and appetizing "foodie" pictures are now widespread trends, and they have a much broader implication: people are interested in spending more for photogenic experiences, restaurants/food services, and travel destinations. In this light, traditional malls have lost some appeal. Within the mall sector, REITs and developers are focusing more on revamping Class-A malls while shedding Class-B and C assets. Food, entertainment, fitness, and other specialty retailers that can adapt and incorporate experiential technology will likely continue to take a growing market share. Based on Trepp's CMBS data, the following is a ranking of the retailers with the largest amounts of outstanding CMBS debt to file for bankruptcy in 2017.

1. The Limited – $14.7 billion

The Limited, which specializes in working woman's clothing, declared bankruptcy in mid-January and was subsequently purchased by private-equity firm Sycamore Partners. The Ohio-based apparel company closed all 250 of its US stores, and sold off its ecommerce domain and brand name. The retailer later moved its entire inventory online and relaunched its ecommerce site in late October. About $14.7 billion of CMBS debt across 127 notes is exposed to The Limited, but the majority of these loans are collateralized by large regional malls that do not feature the retailer as one of the five largest tenants by square footage.

2. Toys "R" Us – $5.6 billion

A total of $5.6 billion in CMBS debt is exposed to retail properties that feature Toys "R" Us or Babies "R" Us as a top-five tenant. The big-box retailer filed for Chapter 11 bankruptcy protection in mid-September in order to focus on restructuring its $5 billion debt load ahead of the holiday shopping season. Toys "R" Us indicated that the bankruptcy filing will not affect any of the retailer's operations in the US or Canada. The firm operates 885 Toys "R" Us and Babies "R" Us stores in the US, and is headquartered in Wayne, New Jersey. Since the bankruptcy filing, Toys "R" Us has received a final approval of $3.1 billion in debtor-in-possession financing to continue operations.

3. Gymboree – $5.4 billion

Children's clothing company Gymboree filed for bankruptcy in mid-June, reporting about $1.4 billion in debt. According to USA Today, Gymboree plans to remain in business but will close up to 450 of its 1,281 stores. The company buckled due to declining mall traffic, as well as competition from digital retailers and established brick-and-mortar purveyors such as Children's Place and GapKids. Ecommerce sales comprise 21% of Gymboree's revenue, but its digital platform is reportedly dated and unsupported. CMBS exposure to the retailer totals $5.4 billion between 75 loans, though the majority of those notes are backed by malls that do not count Gymboree as a top-five tenant.

4. Payless ShoeSource – $3.9 billion

Discount footwear retailer Payless ShoeSource announced in April that it filed for Chapter 11 bankruptcy protection and immediately shuttered 378 US stores. In the following months, the number of store closures increased to about 700. In CMBS, 86 loans totaling $3.9 billion are secured by properties that feature Payless as a tenant. However, exposure to the stores marked for closure comes to $935.3 million across 31 loans. The firm emerged from Chapter 11 in August, and a company spokesperson stated that Payless will need to take "additional steps" to create sustainable growth. This includes significant workforce downsizing, and expanding its ecommerce business. According to Payless' website, the company still operates more than 2,700 US stores.

5. RadioShack – $2.4 billion

Longstanding electronics retailer RadioShack filed for bankruptcy relief in March, which marks the firm's second bankruptcy filing since February 2015. As of

this writing, CMBS exposure to all US RadioShack stores in operation totals $2.4 billion across 82 loans. The court document listed 365 locations that RadioShack intended to close. The retailer ended up closing 1,000 stores by the summer of 2017, leaving just 70 stores across the country open, along with 500 dealer-owned stores. Now, the remaining company-run stores are only present in seven states, with the greatest concentration in New York, Pennsylvania, and RadioShack's native Texas.

6. hhgregg – $1.8 billion

In early March, appliances and electronics retailer hhgregg and its Gregg Appliances unit filed for bankruptcy protection after struggling with declining sales for four years. hhgregg is listed as a top tenant in collateral properties behind 42 CMBS loans, which combine for $1.8 billion. The Indianapolis-based firm was unable to stay afloat with falling electronics prices, due to increased competition from the likes of Amazon and Best Buy. A month after filing, the company announced it was going to liquidate all 220 of its stores after having failed to find a buyer in bankruptcy court.

7. Rue21 – $1.7 billion

Teen clothing chain Rue21 announced in April that about 400 of its 1,218 US locations were going to close. The company filed for Chapter 11 bankruptcy in May, citing "decreased sales and increased operating costs, the shift away from brick-and-mortar retail sales to online channels, and the tightening of trade credit in the months prior" as the causes which drove it to bankruptcy. CMBS exposure to Rue21 is approximately $1.7 billion across 66 loans. However, the majority of these loans are backed by large malls that do not list Rue21 as a top-five tenant. In late September, Rue21 emerged from bankruptcy with a significantly deleveraged balance sheet and just 758 US stores.

8. Gordmans – $944.3 million

In mid-March, Nebraska-based Gordmans department store chain filed for bankruptcy with plans to liquidate all assets and inventory. In April, the filing publicized the list of 48 Gordmans stores that were slated for closure, as well as the locations of 57 Gordmans locations that would remain open as discount stores under the new ownership of Stage Stores. Stage Stores acquired the locations and Gordmans' Omaha warehouse for roughly $40 million in total. The final plan of liquidation was approved by the court in early November. Total CMBS exposure to Gordmans locations amounts to $944.3 million across 28 loans. However, only eight CMBS notes totaling $312.8 million are tied to Gordmans locations that are marked for liquidation.

9. Gander Mountain – $432.6 million

Outdoor goods retailer Gander Mountain filed for bankruptcy relief in March. In May, the company was acquired by Camping World Holdings, Inc., which announced plans to rebrand the acquired locations as Gander Outdoors and Overton's stores. There is a total of $432.6 million in CMBS exposure to properties that had Gander Mountain as a tenant this year. The company announced 32 closures in March, but those only affected five CMBS loans that combine for $65.7 million.

10. MC Sports – $417.2 million

In February, sporting goods chain MC Sports filed for Chapter 11 bankruptcy, citing poor sales performance due to increased competition from ecommerce and larger chains such as Dick's Sporting Goods and Cabela's. In total, 10 CMBS loans which amount to $417.2 million are exposed to the retailer. CEO Bruce Ullery said that a restructuring was not feasible, particularly after a reinvestment and remodeling project failed to generate adequate results. According to court filings, the Michigan-based company has over $14 million in trade debt, and was scheduled to hold liquidation sales at all 68 of its stores.

11. BCBG - $164.9 million

After the $35 million BCBG Portfolio loan – which represented 2.9% of the remaining collateral behind

CGCMT 2007-C6 – was disposed in June, CMBS exposure to BCBG Max Azria shrank to just $164.9 million across three notes. In January, the Los Angeles-based high-end fashion house announced it was going to close 120 of its stores. BCBG filed for bankruptcy in March, which marks its third attempt in two years to rescue the business. By June, the New York court in charge of the filing approved an offer by two companies to buy BCBG out of bankruptcy. Marquee Brands offered $108 million for the label's intellectual property, and Global Brands Group Holding Limited acquired the company's inventory and the right to keep 22 stores running for $23 million.

While there are large amounts of CMBS debt exposed to Toys "R" Us, The Limited, RadioShack and hhgregg, respectively, there are more distressed retailers that also filed for bankruptcy this year which don't back a notable volume of loans. Some of the largest retailer bankruptcies that did not have a significant impact on CMBS include Styles For Less, Aerosoles, Perfumania, True Religion, Wet Seal, and Alfred Angelo Bridal.

Looking ahead, most industry players are keeping their eyes peeled on mall loans. Since middle-market department stores have generally gone out of style, the Class-B or lower malls that they tend to anchor have become obsolete. On the other hand, Class-A malls boast record high occupancy levels and rents, as well as waiting lists of new tenants that want to lease their retail space. According to research from Chilton Capital Management's REIT Team, many Class-A malls are now surrounded by high-end residential, hotel, and office properties that further enhance the mall experience. Developers and owners have also been proactively investing large sums of capital to enhance the physical layout of Class-A malls that will improve the shopping experience, adding more dining and entertainment options, and diversifying tenant bases.

Up to 15% of existing mall supply is estimated to close or be repurposed over the next decade. However, the vast majority of these will be Class-B and -C properties. On the positive side, it appears that consumers still favor Class-A malls, as well as specialty and free-standing retail shops. The downfall of department stores and other struggling big-box retailers will continue make space for the rise of newer, more digitally-adept retailers and ecommerce's growing market share. The new slew of retailers that will succeed in the digital age will likely be characterized by fast production times, strong digital platforms, competitive last-mile delivery services, and experiential aspects within their brick-and-mortar presence.

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