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JLL, Gordon Brothers Team Up to Try to Help Retail Clients Adapt

Venture to Sell Advice to a Sector Reeling With 5,000 Closings Already Announced This Year

Neiman Marcus is trying to dodge the industrywide store closings phenomenon by opening a 188,000-square-foot flagship at the Hudson Yards project in New York. Illustration: Elkus Manfredi Architects

It's only March and already the retail industry is on track to shatter two straight years of record store closings, an unwanted high mark that became more glaring when national merchants announced in less than a week's time that more than 700 stores would go dark in 2019.

The number of announced closings is already over 5,000, on a fast track to outpace CoStar research's tally of 5,398 last year.

The idea of an overstored America is hardly new – retail experts have been grumbling about it for decades. But the rapid pace of bankruptcies and closings outnumbering new-store openings is creating opportunity in some corners.

Chicago's JLL, formerly known as Jones Lang LaSalle, is among those real estate services firms using the so-called "retail apocalypse" to find new avenues to help its clients. It has partnered with Gordon Brothers, the restructuring consultants whose name pops up in many a bankruptcy filing, in a venture aimed at not only deciphering broad-based shifts in consumer behavior but helping retailers figure out which road to take.

"We're seeing a lot of retail clients having to change from what was business as usual a decade ago to something else," said Walter Wahlfeldt, executive vice president of retail corporate services for JLL. "Many are saying, 'I have to take a look at my entire portfolio and figure out how do I adapt this and run my business on a different model.'"

By joining forces, JLL and Gordon Brothers have created a mega team of real estate experts to help retailers in all cycles of the business by uniting retail real estate with asset optimization. JLL's know-how in leasing, investment and operations, coupled with Gordon Brothers' deep experience with valuation, restructuring and liquidation, could help give struggling retailers a more concerted look at what options are available and what the ramifications are of each.

"For most of our clients, it all starts with a portfolio review where we can dive into the guts of the business and leases and make recommendations," said Mark Dufton, chief executive of Gordon Brothers. "Sometimes it's best to do nothing or simply run a store out [of] its best lease."

Wahlfeldt insists the swelling list of bankruptcy filings didn't prompt the partnership as much as the striking speed of the retail evolution that is underway.

"Most of our customers are really not in a distressed situation, but they need to change," he said. "Sometimes that requires working with a third party to look strategically at what should we close, rebrand, remodel? How do we go about getting capital to do these things?"

Some of the changes are logical ones, like legacy stores such as Nordstrom, Saks Fifth Avenue and Bloomingdale's opening off-price outlets as a means of getting rid of off-season merchandise and attracting customers who don't typically shop their full-price stores.

In a tale of two retail worlds, the off-price stores have experienced extraordinary growth at the same time bigger department and specialty stores have shrunk in melodramatic fashion. Consider that L Brands is closing 53 Victoria's Secret stores at the same time Stage Stores is converting 220 department stores into off-price Gordmans locations.

“For the last few years, the off-price sector has seen tremendous growth despite the challenges that have faced traditional retailers,” Michael Glazer, Stage’s chief executive, said on a quarterly conference call.

That’s been evident with the massive amounts of store closings from Toys R Us, Sears, Kmart, Payless ShoeSource, Gap, Abercrombie and J.C. Penney, to name a few.

But not all stores closing are created equal. Sometimes a broad stroke of closings is not necessary when occupancy cost adjustments could be made, Wahlfeldt said. Dependent on the lease, a landlord might be willing to give a lease extension ahead of an expiration in exchange for a rent reduction, for example. Or some retailers simply need an investment.

And in this age of retail reinvention, others are opting to up the store experience with new technological bells and whistles – and defying the expectation that legacy stores are all contracting.

Neiman Marcus, for example, is weighed down by hefty interest expenses on $4.5 billion in debt, but is transforming itself into what it calls a “customer-centric luxury platform.”

Its 188,000-square-foot “retail theater” kicked off last week with the opening of its three-story flagship at the Hudson Yards development in New York. High-end cosmetics and fur coats will be sold alongside cooking and mixology demonstrations. Two full-service restaurants and bars will be on the upper floors, and coffee and pastries will be available at the first-floor store levels.

But it doesn’t stop there: The store will have a spa, a shoe shine and cobbler service, and fitting rooms that feature interactive touchscreens. Shoppers can opt for flowers while buying pricey pocketbooks or custom-made hats. Or skip it all for hair, nail, brow and makeup services. There’s even an in-store basketball court.

“In the space itself, retailers are trying to change the in-store experience,” Wahlfeldt said. “Shopping is much more of an interactive experience that engages the consumer … and builds the brand experience.

“But,” he added, “there’s no cookie-cutter approach.” Indeed, the future of retail is now in a constant state of change.