RETAIL MERGERS, ACQUISITIONS, BANKRUPTCIES AND LIQUIDATIONS AND THEIR IMPACT ON THE SHOPPING CENTER INDUSTRY

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Overview

Retail bankruptcies, liquidations, mergers and acquisitions have profoundly changed the face of retailing over the past several years. Much has been written on the effect of this activity from the perspective of the retailer, but little has been written to assess the impact on the shopping center owner. It has been estimated that over 100,000 retail bankruptcies have taken place since 1990. This has huge implications for the shopping center industry. In order to assess the impact that these 100,000 bankruptcies have had on shopping center owners, this study will examine bankruptcy, liquidation, merger and acquisition activity from 1990 to 1997 for the most common shopping center anchor stores: department stores, discount department stores and large specialty stores. This study will attempt to assess the financial impact of this retail activity on the shopping center owner.

■ Introduction

Over the past few years, it seems that hardly a week goes by without being confronted with headlines in the *Wall Street Journal, Business Week* and other periodicals that read: "Retail Stores in the Grip of a Painful Shakeout," (*Knight Ridder/Tribune Business News,* 1996a) or "Strawbridge & Clothier Shareholders Vote to Sell 128-year-old Chain," (*Knight-Ridder/Tribune Business News,* 1996b). Bankruptcies, liquidations, mergers and acquisitions appear to be the norm these days in the retail industry. Most distressing is the recent estimate made by Management Horizons that there have been over 100,000 retail bankruptcies since 1990 (*Chain Store Age Executive,* 1996). Obviously, this retail industry activity has had a significant impact on the shopping center industry.

When smaller nonanchor stores like Herman's or Merry-Go-Round liquidate, shopping centers are left with vacant stores scattered throughout the mall and there is a small effect on profitability of the shopping center. Add to this a bankruptcy/liquidation of an anchor store and there is a potentially serious profitability problem. The exit of an anchor store can have disastrous consequences on both short term and long term profitability. If the shopping center cannot replace the anchor tenant quickly, the shopping center may never recover. In addition to retail bankruptcies and liquidations, shopping center managers have also had to deal with mergers and acquisitions that have resulted in the divesting of unproductive stores, adding to the vacancy (and profitability) problem.

While many articles have appeared on the subjects of retail bankruptcy, liquidation, mergers and acquisitions featuring one retailer or another, there has been no attempt to tally the cumulative effect on the shopping center industry. This would be a huge (if not impossible) task given the number of bankruptcies alone (estimated at over 100,000). However, it would not be impossible to take a "slice" of retail bankruptcy, liquidation, merger and acquisition activity and analyze it to determine the impact on the shopping center industry. The "slice" chosen will be major anchor stores, department, discount department and large specialty stores that attract customers and drive sales (and hence profitability) at community, regional and superregional shopping centers. This type of analysis, while not comprehensive, would provide insight into this retail activity and its effects on profitability of the shopping center owner.

■ Review of Literature

The trend toward consolidation among retailers has forever changed the face of the retail industry. These changes have, in turn, also impacted the shopping center industry. Shopping center developers used to place anchors like Sears and JCPenney in a shopping center along with a few local stores and one or two major nonanchor chains and they were assured success. Today, however, the retail scene has changed and is more complicated than ever. Bankruptcies, liquidations, mergers and acquisitions have eliminated many department and discount anchor stores, as well as specialty stores (*Chain Store Age Executive,* 1993).

Shopping center developers have found themselves in the middle of a nightmare with the number of tenants filing Chapter 11, and all the consolidation in the industry. Many have found it a real challenge to fill vacant space. In May 1996, the International Council of Shopping Centers (*The SCORE Report,* 1995) estimated that while vacancy rates in shopping centers nationwide had appeared to have fallen to 4.6% overall, there were many centers in serious trouble because of Chapter 11 filings (*Chain Store Age Executive,* 1996). Richard Wolf of *New America Network* called these weak, troubled tenants "virtual vacancies," in the *1996 Real Estate Planning Guide.* While these troubled anchors have not actually vacated the shopping center, they could close at any time, thus creating holes in tenant mix very quickly. (*Chain Store Age Executive,* 1996).

The effect of a Chapter 11 or Chapter 7 filing is immediate. When a retailer files Chapter 11 (Reorganization), an injunction immediately takes effect which suspends any action or attempt to collect debt by a creditor (including a landlord). The retailer (debtor) does not have to honor any lease obligations including rent, taxes, maintenance fees, etc. The retailer (debtor) usually retains possession of all assets and operates the company with the intent of reorganizing its operations, and paying creditors when it emerges from bankruptcy. In Chapter 7 (Liquidation), the assets of the retailer (debtor) are liquidated by the court and the proceeds are distributed to creditors according to a strict hierarchy of priorities. Whether a retailer chooses Chapter 11 or Chapter 7, the effect can be the same. It virtually means that any retailer can walk away from any lease obligation without penalty (International Council of Shopping Centers, 1997).

The new growth in the retail industry in recent years has come in the form of category killers and big box discounters. While there has been an increase in the number of big box discounters and category killers, they are passing on traditional centers and opting for new shopping centers or freestanding sites. "Power centers" are the current focus of retailing development. These centers look for more affordable locations closer to population centers and bypass existing centers (*Chain Store Age Executive,* 1996). This means that shopping center developers are not able to attract these high growth retailers to spaces vacated by bankruptcies, liquidations and consolidations, and these retailers opt for new sites where they can have better control over costs as well as better access.

The other major source of growth in the retail industry is through mergers and acquisitions. For years, industry experts have been pointing toward a major "overstoring" problem along with consumers who are time-constrained, aging, ethnically diverse and have lost their love for shopping. (Even mighty Wal-Mart has succumbed to the downturn in the retail market) (*Chain Store Age Executive,* 1996). Retailers have seen these trends reflect on their profitability and have opted for divestment, restructuring of management and growth through carefully managed acquisitions. While these acquisition strategies have helped many retailers survive and grow, they have an obvious detrimental impact on shopping centers. Shopping centers have fewer replacement anchors to choose from and have no new retailers coming up to take the place of these vacancies.

So far, there has not been an assessment in the retail literature of the extent of the problem of bankruptcies, liquidations and consolidations and how this all would impact on shopping center profitability. Most information is anecdotal without a real accounting of the extent of the problem. This paper proposes to remedy that lack of information with hard data and analysis and will present recommendations for dealing with this situation. Because anchor stores are the driving force in community, regional and superregional shopping centers, this paper will focus on department stores, discount department stores and large specialty retailers to examine the effect of bankruptcies, liquidations, mergers and acquisitions from 1990 to 1997. The impact on the shopping center industry will be examined and an attempt will be made to assess the corresponding financial impact.

■ Methodology

In order to get a full appreciation of the problem at hand, four separate approaches were taken for data analysis. First, a list was compiled of those anchor stores (in the three retail segments: department, discount department and large specialty stores) that have declared bankruptcy, liquidated, merged, acquired (or been acquired) between 1990 and 1997. The years for analysis, 1990 through 1997, have generally been identified as the peak years for bankruptcies, liquidations, mergers and acquisitions. The compiled list of bankruptcies and liquidations, mergers and acquisitions for these three major retail segments provide a snapshot of the extent of the problem on superregional, regional and community shopping centers.

Second, a financial analysis of the discount department store segment was conducted to analyze financial trends of those that went bankrupt or liquidated in an attempt to identify patterns for monitoring retailers in the future. The discount department store segment was chosen because it has taken the biggest "hit" in terms of bankruptcies and liquidations in the years 1990 to 1996. Trends in sales, earnings and number of stores were examined for the discount department store segment from 1990 to 1996. Financial patterns leading to bankruptcy and liquidation were identified.

Third, a survey of the top shopping center developers was conducted to gather information on vacancies caused by bankruptcies, liquidations, mergers and acquisitions in superregional, regional and community shopping centers. Surveys were sent to 143 top shopping center owners/managers in September 1997. The list of owners/managers was drawn from *Shopping Center World's* top managers/owners for all US shopping centers and strip centers (International Council of Shopping Centers, 1997b). Two weeks after the initial mailing of the survey, a second copy of the survey was sent along with a reminder card. Fifty-five surveys were completed and returned for a 38% return rate (typical rate for surveys of this type).

Each owner/manager was asked to provide information about bankruptcies, liquidations, mergers and acquisitions of their managed properties since 1990. Owner/managers provided the following information: the total GLA (Gross Leasable Area) managed; breakdown of shopping center type (community, regional, superregional) managed; vacancy rates; GLA of lost anchor tenants due to bankruptcies, liquidations, mergers and acquisitions; region of the country most impacted by bankruptcies, liquidations, mergers and acquisitions; whether anchor tenants were lost in suburban or urban shopping center locations; ease/difficulty of replacing anchor tenants once lost; specific stores lost; and the overall drop in profitability of their managed properties due to bankruptcies, liquidations, mergers and acquisitions. Data were analyzed using SPSS (Statistical Package for the Social Sciences) frequencies and crosstabs programs.

Finally, research was conducted to determine what steps have been taken by mall developers to solve their vacant tenant problems. This could take the form of measures such as temporary tenanting or, more creatively, redefining the shopping center into a theme center.

■ Results

This section is divided into five basic parts. First, a "snapshot" of bankruptcies and liquidations from 1990 to 1997 will be presented and discussed. Next, a second "snapshot" of mergers and acquisitions from 1990 to 1997 will be presented. A financial analysis of retailers in the discount department store segment who have filed Chapter 11 or Chapter 7 will follow. Fourth, the analysis of the developer survey on bankruptcies, liquidations, mergers and acquisitions will be discussed. Finally, a review of uses of vacated anchor space will complete the section.

I. Analysis of Bankruptcies/Liquidations

Sixty-five bankruptcies and liquidations were tracked for department, discount and specialty anchor stores from 1990 to 1997 (Table 1 and Figure 1). Discount department stores filed Chapter 11/Chapter 7 at the highest rate, with 24 retailers filing. Of these 24 retailers, half were liquidated, representing 735 total stores.

In order to appreciate the financial impact that these discount department store liquidations have had on shopping center profitability, a quick calculation can be made with the number of stores liquidated, the average size of a discount department store in square feet and average net operating income per square foot (see Table 2). If an assumption were to be made that each of these 735 liquidated stores was vacant for 12 months during a retrofit or an attempt at a new lease, this would represent a loss of over $291 million (1996 dollars) in net operating income (net operating income = gross revenue minus expenses) for shopping center owners. (735 liquidated stores × 62,000 square feet [average discount store size] = 45,570,000 square feet × $6.40 [average net operating income per square foot] = $291.6 million).

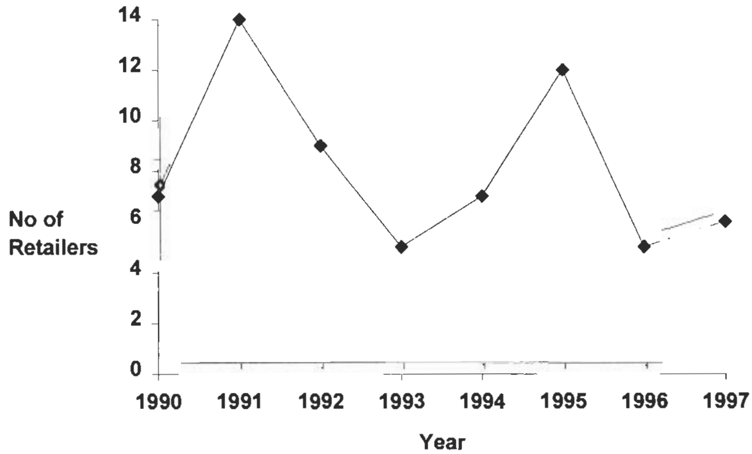
It would, of course, be very difficult to generate an exact figure of how many stores were vacant for how long, but this simple calculation

TABLE 1. NUMBER OF BANKRUPTCIES/LIQUIDATIONS FOR ANCHOR STORES 1990–1996

Year	Total Chapter 11/7 Filings	Department Stores	Discount Stores	Catalog Stores	Consumer Electronics	Other Specialty
1990	7	3	4	0	0	0
1991	14	3	3	5	1	2
1992	9	1	3	1	2	2
1993	5	0	4	1	0	0
1994	7	4	0	2	0	1
1995	12	2	9	1	0	0
1996	5	0	1	2	1	1
1997	6	1	0	2	1	2
Total	65	14*	24	14	5	8

**Note: This number should be higher as Federated, Allied and Broadway stores were each counted as one retailer.*

FIGURE 1. BANKRUPTCIES/LIQUIDATIONS BY YEAR



gives some indication of the magnitude of the problem. Add this $291.6 million to the net operating income loss for discount department store retailers that "downsized" during their Chapter 11 bankruptcy period (without liquidation) and the figure is probably closer to $320 million in loss (1996 dollars) (a conservative estimate of an additional 10% was added). This is a staggering figure considering it only accounts for the loss in the discount department segment.

Department stores also filed Chapter 11 at a very high rate. However, some of the department store filings probably would not have happened had it not been for Campeau's highly leveraged position which resulted in Chapter 11 filings for Allied Department Stores (Bon Marché, Jordan Marsh and Maas Brothers) and Federated Department Stores (Lazarus, Bloomingdale's, Burdines, Goldsmith's/Rich's, Bullocks, I. Magnin, and Abraham & Strauss). Out of all these department stores only I. Magnin has been liquidated. Of the other major department store players, Macy's and Broadway Stores also filed for Chapter 11. Both are now part of Federated Department Stores. Smaller department stores like Kline's, Miller & Rhoads and Buffum's did not survive Chapter 11.

Catalog stores also had huge losses and retailers such as Best Products, Brendle's, Consumer's Distributing, David Weiss and E.H. Tepe have disappeared from the retail landscape. In Consumer Electronics, Highland Superstores, Fretter/Silo, and Newmark & Lewis liquidated.

Table 3 shows a conservative estimate for the net operating income that was put at risk during 1990 to 1997 from Chapter 11 and Chapter 7 filings. Using figures from the *Score Report, 1997* and Table 2 it is esti-

TABLE 2. BANKRUPTCY/LIQUIDATION FILINGS 1990–1997

Store Name	Store Type	Filing	Year	Stores Prior	Stores 1/97	At Risk Sq/Ft (000)	Type of Center
ALCO	Disc	C11	1990	100	185	2,200	Com
Alexander's	Disc	C11	1992	11	0	682*	Com
Allied	Dept	C11	1990	119	0	17,850*	Reg
Ames	Disc	C11	1990	681	303	19,278	Com
Ames	Disc	C11	1992				Com
Barney's	Dept	C11	1995	N/A	N/A	N/A	Reg
P.A. Bergner	Dept	C11	1991	67	N/A	10,050*	Reg
Ben Franklin	Craft	C11	1996	874	0	6,992	Com
Ben Franklin	Craft	C7	1997				Com
Best Products	Cat.	C11	1991	195	159	1,836	Com
Best Products	Cat.	C11	1996	169	159	510	Com
Bradlees	Disc	C11	1995	136	110	1,976	Com
Brendle's	Cat.	C11	1992	51	30	840	Com
Brendle's	Cat.	C11	1996	30	0	1,200	Com
Broadway Stores	Dept	C11	1991	88	0	13,200*	Reg
Buffums	Dept	Liq	1991	16	0	2,400*	Reg
Caldor	Disc	C11	1995	166	161	565	Com
Child World	Toy	C11	1992	125	0	4,500	Com
Clover	Disc	C11	1995	26	1	2,125	Com
Conran's	Cat.	C11	1994	14	0	168	Com
Consumer's Distrib	Cat.	C11	1995	73	0	876	Com
David Weiss	Cat.	Liq	1991	18	0	180	Com
E.H. Tepe	Cat.	C11	1994	10	0	450	Com
Elder-Beerman	Dept	C11	1995	48	50	7,200*	Reg
Enstar	Var	C11	1991	332	N/A	4,980*	Com
Federated	Dept	C11	1990	217	275	3,550*	Reg
Fisher's Big Wheel	Disc	C11	1993	70	0	3,150	Com
Foland's	Cat.	C11	1993	6	0	72	Com
Fretter's/Silo	CE	C11	1996	250	0	3,250	Com
Glosser Bros	Disc	Liq	1990	35	0	2,170*	Com
Highland Superst	CE	C11	1991	49	0	1,176	Com
Hill's	Disc	C11	1991	195	165	2,040	Com
House Of Fabrics	Spec	C11	1994	269	262	84	Com
I. Magnin	Dept	Liq	1995	13	0	2,304	Reg
Incredible Universe	CE	Liq	1997	17	0	3,128	Reg
Jamesway	Disc	C11	1993	108	0	6,372	Com
Jamesway	Disc	C11	1995	90	0	5,310	Com
Kiddie City	Toy	C11	1991	99	0	3,663	Com
Kline Bros	Dept	Liq	1994	26	0	3,900*	Reg
LA Joes	Disc	C11	1991	71	0	3,053	Com
RH Macy	Dept	Liq	1992	133	N/A	19,950*	Reg
McCrory's	Var	C11	1992	819	162	9,198	Com
Miller & Rhoads	Dept	Liq	1990	15	0	2,250*	Reg
Montgomery Ward	Dept	C11	1997	574	574	77,490	Reg

TABLE 2. (CONTINUED)

Store Name	Store Type	Filing	Year	Stores Prior	Stores 1/97	At Risk Sq/Ft (000)	Type of Center
Newmark & Lewis	CE	C7	1992	26	0	364	Com
Nobody Beats the Wiz	CE	C11	1997	50	50	60	Com
Pic N' Save	Disc	C11	1995	27	0	1,620	Com
Polk Bros.	CE	Liq	1992	5	0	215	Com
Prange Way	Disc	C11	1995	22	0	1,320	Com
Rich's	Disc	C11	1996	25	0	1,625	Com
Rose's	Disc	C11	1993	215	105	4,840	Com
Sky City	Disc	C11	1991	55	0	3,410*	Com
Sprouse-Reitz	Disc	C11	1993	73	0	1,022	Com
Stuart's	Disc	C11	1990	23	0	1,219	Com
Stuart's	Disc	C11	1995				
Swallen's	Disc	Liq	1995	8	0	480	Com
The Present Co.	Cat	C11	1991	22	0	264	Com
Value House	Cat	C11	1991	5	0	60	Com
Van Leunen's	Disc	Liq	1995	7	0	770	Com
W. Bell	Cat	C11	1991	8	0	96	Com
John Wanamaker	Dept	C11	1994	N/A	N/A	N/A	Reg
Ira Watson	Disc	C11	1992	32	N/A	96	Com
Witmark	Cat	C11	1997	10	10	350	Com
Woodward & Lathrop	Dept	C11	1994	24	N/A	3,600*	Com
Woolworth's	Var	Liq	1997	400	N/A	6,800	Com

KEY:

Cat = Catalog	C11 = Chapter 11	Com = Community Shop. Ctr.
CE = Consumer Elect.	C7 = Chapter 7	Reg = Regional Shop. Ctr.
Dept = Department	Liq = Liquidation	
Disc = Discount		*Estimate
Var = Variety	N/A = Not available	

TABLE 3. LEASABLE SQUARE FEET AND NET OPERATING INCOME AT RISK (1996 $)

1996	5.10 bil total leasable square feet in US shopping centers[1]
1990–1997	90 mil leasable square feet liquidated in department, discount, and specialty anchor stores alone in US shopping centers (1.8% of total leasable square feet)
1990–1997	247 mil leasable square feet in Chapter 11 for department, discount and specialty anchor stores in US shopping centers that did not liquidate (5% of total leasable square feet)
1996	$6.40 net operating income per square foot for US strip centers[2]
	90 mil sf × $6.40 = $576 mil + Liquidated
	247 mil sf × $6.40 = $1.6 bil + Chapter 11 (current or emerged)

Source: [1]*International Council of Shopping Centers, 1996*
[2]*SCORE, International Council of Shopping Centers, 1998.*

mated that about 1.8% of total leasable space (1996) of US shopping centers was liquidated in just department, discount and specialty anchor stores from 1990 to 1997. This represents a total loss of approximately $576 million (1996 dollars) in net operating income (assuming the stores stood vacant for one year). Approximately 247 million additional leasable square feet were put in jeopardy through Chapter 11 filings for a potential loss of $1.6 billion (1996 dollars) in net operating income (if stores had been vacated and were empty for one year). Even if only 10% of this 247 million square feet of leasable was left vacant due to closing of unprofitable stores during the Chapter 11 bankruptcy period, that would add $158 million (1996 dollars) to the liquidated loss of $576 million for a total loss of $734 million (1996 dollars) in net operating income. Obviously, this has had a major financial impact on the profitability of the shopping center industry.

II. Analysis of Mergers and Acquisitions

Merger and acquisition activity was also heavy during the time period under study (1990–1997). Table 4 and Figure 2 display the total number of department, discount and specialty retailers that underwent some type of merger and/or acquisition activity during 1990 to 1996. Fifty-seven retailers merged or acquired real estate during this time period. The years 1990 and 1996 saw the most activity. Department stores completely dominated the merger and acquisition activity as this seven-year period witnessed the merger of several of the major department store players (Federated, Allied, Broadway Stores and Macy's). Table 5 lists the merger/acquisition activity for this time period.

TABLE 4. NUMBER OF MERGERS/ACQUISITIONS OF ANCHOR STORES 1990–1996

Year	Total Merg/Acq	Department Stores	Discount Stores	Toy Stores	Other
1990	*13*	4	3	4	2
1991	*7*	2	2	2	1
1992	*7*	5	1	1	0
1993	*4*	1	2	0	1
1994	*8*	6	0	0	2
1995	*3*	3	0	0	0
1996	*11*	7	2	1	1
1997	*4*	2	2	0	0
Total	*57*	*30*	*12*	*8*	*7*

FIGURE 2. MERGERS/ACQUISITIONS BY YEAR

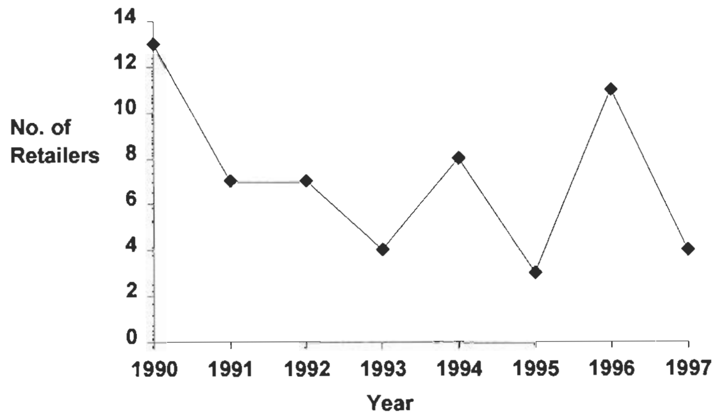


TABLE 5. MERGER/ACQUISITION ACTIVITY 1990–1997

Store Name	Store Type	Acquired by	Year	Store Count Prior
Brick Church	CE	Acquired by Newmark & Lewis	1990	17
JB Ivey	Dept	Acquired by Dillards	1990	23
Marshall Fields	Dept	Acquired by Dayton Hudson	1990	N/A
Miller & Rhoads 4 stores	Dept	Acquired by May Co.	1990	N/A
Thalhimer	Dept	Acquired by May Co.	1990	26
Glosser Bros	Disc	Acquired by Schottenstein	1990	35
Heck's	Disc	Acquired by Jordache	1990	60
Prange Way	Disc	Acquired in LBO	1990	22
Circus World	Toys	Acquired by Melville	1990	330
GeeBee Stores	Toys	Acquired by Schottenstein Stores	1990	35
Tons of Toys	Toys	Acquired by Merchants West	1990	21
Toy King	Toys	Acquired by Value Merchants	1990	20
Maxway	Var	Acquired by Variety Wholesalers	1990	35
Lord & Taylor - 5 stores	Dept	Acquired by Mervyn's	1991	5
Maison Blanche - 8 stores	Dept	Acquired by Dillards	1991	8
Alexander's	Disc	Acquired by Hannaford Bros	1991	11
Ames - 2 stores	Disc	Acquired by Montgomery Ward	1991	2
Fabricland	Craft	Merged with House of Fabrics	1991	N/A
Child World	Toys	Acquired by Avon	1991	150
K & K Toys	Toys	Acquired by Melville	1991	136
Federated	Dept	Merged with Allied	1992	162
Hess - 8 stores	Dept	Acquired by Proffitt's	1992	8

TABLE 5. (CONTINUED)

Store Name	Store Type	Acquired by	Year	Store Count Prior
Higbee's	Dept	Acquired by Dillards	1992	12
Joseph Horne - 5 stores	Dept	Acquired by Higbees	1992	N/A
Maison Blanche - 16 stores	Dept	Acquired by Mercantile	1992	16
Prange Way	Disc	Acquired by Younkers	1992	24
GeeBee Stores	Toys	Acquired by Value City	1992	17
Silo	CE	Acquired by Fretter	1993	101
Hess - 9 stores	Dept	Acquired by Proffitt's	1993	9
Ames - 8 stores	Disc	Acquired by Pamida	1993	8
Heck's 3 stores	Disc	Acquired by Pamida	1993	3
Lechmere	CE	Acquired by Montgomery Ward	1994	24
Leeward's	Craft	Acquired by Michaels	1994	101
Albert Steiger	Dept	Acquired by May	1994	4
Chappell's	Dept	Acquired by Proffitt's	1994	6
Joseph Horne	Dept	Acquired by Federated	1994	N/A
RH Macy	Dept	Acquired by Federated	1994	122
McCurdy & Co - 8 stores	Dept	Acquired by May	1994	N/A
McRae's	Dept	Merged with Profitt's	1994	N/A
Belk Stores - 2 stores	Dept	Acquired by Dillards	1995	N/A
Broadway Stores	Dept	Acquired by Federated	1995	83
Woodward & Lathrop	Dept	Acquired by May Co.	1995	17
Best Products	Cat	Acquired by Schottenshein	1996	169
A,M & A	Dept	Acquired by Bon Ton	1996	N/A
Federated - 9 stores	Dept	Acquired by Sears	1996	
Marshall Fields - 3 stores	Dept	Acquired by Saks Holdings	1996	
Marshall Fields - 1 store	Dept	Acquired by Federated	1996	N/A
Strawbridge & Clothier	Dept	Acquired by May Co.	1996	13
Steinbach	Dept	Acquired by Lord & Taylor	1996	N/A
Jamesway - 11 stores	Disc	Acquired by Ames	1996	11
Rose's	Disc	Acquired by Fred's	1996	105
Kay-Bee Toys	Toys	Acquired by Consolidated Stores	1996	1,004
Federated - 3 stores	Dept	Acquired by Dillard's	1997	N/A
Proffitt's - 7 stores	Dept	Acquired by Dillards	1997	N/A

TABLE 5. (CONTINUED)

Store Name	Store Type	Acquired by	Year	Store Count Prior
Mervyn's - 6 stores	Disc	Acquired by Dillards	1997	6
Venture	Disc	Sold real estate assets to Kimco	1997	93

Key: CE = Consumer Electronics
Cat = Catalog
Dept = Department
Disc = Discount

The plot in Figure 3 shows the trend of combined bankruptcies, liquidations, mergers and acquisitions. It is interesting to see that heavy merger and acquisition activity follows a heavy bankruptcy/liquidation year. Of course this makes sense, as other retailers are taking advantage of locations opened up through liquidations and downsizing during a Chapter 11 bankruptcy period. Figure 4 shows this trend more clearly. If the number of mergers and acquisitions is advanced one year (i.e., plot 1995 number of mergers and acquisitions as the 1996 number) the bankruptcy/liquidation trend is almost identical to the merger acquisition trend.

FIGURE 3. NUMBER OF BANKRUPTCIES,/LIQUIDATIONS, MERGERS AND ACQUISITIONS 1990–1996

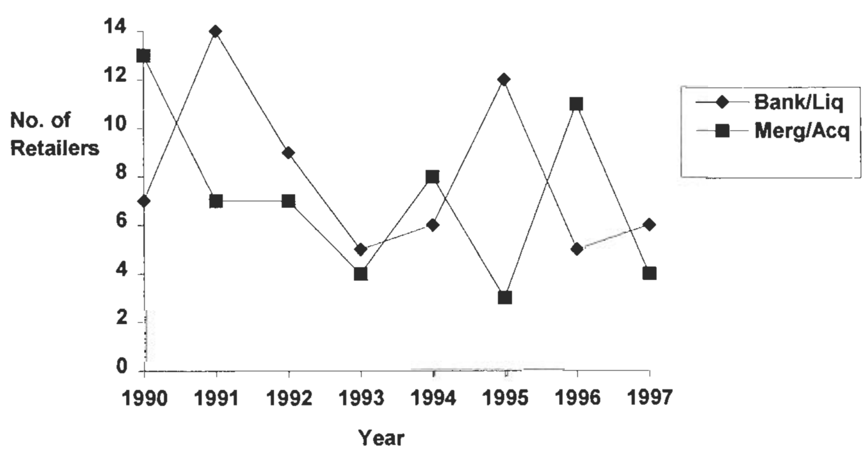
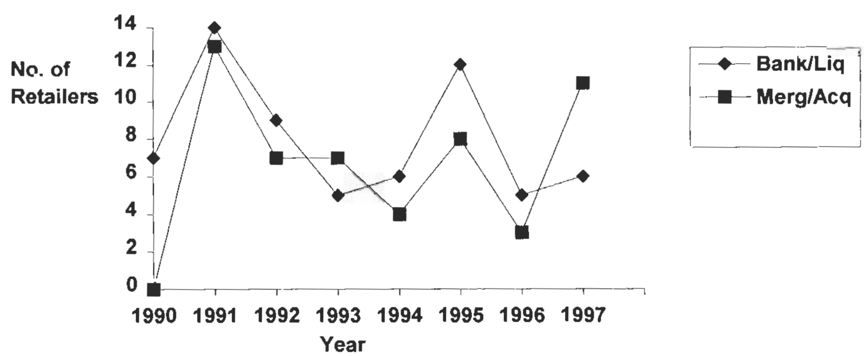


FIGURE 4 BANKRUPTCIES AND LIQUIDATIONS PLOTTED AGAINST MERGERS AND ACQUISITIONS (ADVANCED ONE YEAR)



III. Financial Analysis of Discount Department Store Segment Bankruptcies and Liquidations

It has been established that discount department stores took the brunt of the liquidations and Chapter 11 filings during the 1990–1996 time period. For that reason, 12 of the discount department stores that filed Chapter 11 or liquidated were studied for financial trends to see if any identifiable patterns emerged. Sales, earnings (operating income—profit and loss from continuing operations before taxes and extraordinary items) and number of stores were collected for the years 1990 to 1996 for the following discount department stores that filed Chapter 11 or were liquidated: Ames, Bradlees, Caldor, Clover, Fisher's Big Wheel, Hill's, Jamesway, PrangeWay, Rich's, Rose's, Sprouse-Reitz and Stuart's. Of these 12 discount department stores Ames and Hill's has emerged from Chapter 11, Bradlees and Caldor are still in Chapter 11 and the remainder have liquidated.

Because these discount department stores went in and out of Chapter 11 or liquidated at different times they cannot all be directly compared against one another. However, when all the sales, earnings and store count data had been assembled some clear patterns emerged. Table 6 identifies these patterns and shows which of these retailers conform to these observed patterns. The majority of Chapter 11 stores had negative sales growth and negative earnings one year and two years prior to filing Chapter 11 or liquidating.

All of these stores (with one exception) had sales growth much lower than the discount department segment as a whole, and most had

TABLE 6. FINANCIAL ANALYSIS PATTERNS PRIOR TO DECLARING CHAPTER 11 OR CHAPTER 7

Store Name	Sales Trend is Less Than Industry Average	Negative Sales Growth 1 Yr Prior to Chapter 11	Negative Sales Growth 2 Yrs Prior to Chapter 11	Negative Earnings 1 Yr Prior to Chapter 11	Negative Earnings 2 Yrs Prior to Chapter 11	Store Number Trend Less Than Industry Average	Store Number Trend Less 1 Yr Prior to Chapter 11	Store Number Trend Negative 2 Yrs Prior to Chapter 11
Ames	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bradlees	Yes	Yes	No	Yes	Yes	Yes	No	No
Caldor	No	No	No	No	Yes	Yes	No	No
Clover	Yes	No	Yes	N/A	N/A	Yes	Yes	Yes
Fisher's Big Wheel	Yes	Yes	Yes	Yes	N/A	Yes	Yes	Yes
Hill's	Yes	Yes	Yes	No	No	Yes	Yes	Yes
Jamesway	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
PrangeWay	Yes	Yes	Yes	N/A	N/A	Yes	Yes	No
Rich's	Yes	Yes	No	N/A	N/A	Yes	Yes	No
Roses	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Sprouse-Reitz	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Stuart's	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of Yes Responses	11	10	9	7	7	12	9	8
No. of No Responses	1	2	3	2	2	0	3	4
No. of N/A Responses	0	0	0	4	4	0	0	0

also "downsized" the number of stores both one and two years prior to filing Chapter 11 or liquidating. The only exception to these patterns is Caldor that was forced, probably prematurely, into Chapter 11 by comments of a financial analyst in the media (vendors panicked and stopped shipping merchandise that forced Caldor to file Chapter 11 to keep merchandise on the shelves).

It appears that if shopping center developers keep their eye on sales growth, earnings and store numbers for their anchor stores then they can determine which are at risk to file Chapter 11 or Chapter 7. Because most major retail chains are public companies, information such as sales, earnings and store count data can be compiled through annual reports (most retailers have Web sites with financial information), SEC 10k filings, and annual listings from *Discount Store News* and *Chain Store Age*.

IV. Shopping Center Owner/Manager Survey

Fifty-five shopping center owners/managers responded to the survey. Table 7 shows a profile of survey respondents. Most of the respondents managed approximately 16 million square feet of GLA (gross leasable area) although the range went from 1.2 to 140 million square feet GLA. Most respondents were community shopping center owners/managers. Overall, they had an 8% vacancy rate in their total shopping centers. Specific vacancy rates were 6% for community shopping centers, 8% for regional shopping centers and 7% for superregional shopping centers.

Bankruptcy/Liquidation Profile

Table 8 shows the profile for bankruptcies and liquidations for respondents. Eighty-seven percent of the total sample said they had lost anchor

TABLE 7. PROFILE OF SURVEY RESPONDENTS

Question	Response
Approximate GLA Managed	
Mean	16 m sf
Range	1.2 m to 140 m sf
Approximate percentage breakdown of above GLA managed by shopping center type:	
Community Shopping Centers	64%
Regional Shopping Centers	48%
Superregional Shopping Centers	34%
Approximate overall vacancy rate of total GLA managed:	8%
Approximate vacancy rate (percentage) by shopping center type:	
Community Shopping Centers	6%
Regional Shopping Centers	8%
Superregional Shopping Centers	7%

TABLE 8. PROFILE OF BANKRUPTCIES AND LIQUIDATIONS 1990–1997

Question	Response
Have you lost anchor tenants due to retail bankruptcies/ liquidations in the last seven years?	Yes 87% No 13%
What is the approximate number of anchor stores lost due to bankruptcies/liquidations in the last seven years?	
1–2 anchor(s)	31%
3–5 anchors	38%
6–10 anchors	10%
11 or more anchors	21%
What is the approximate GLA of lost anchors due to bankruptcies/liquidations in the last seven years?	
<100,000 sf	11%
100,001–200,000 sf	21%
200,001–300,000 sf	23%
300,001–400,000 sf	11%
400,001–500,000 sf	18%
500,001–600,000 sf	7%
600,001–700,000 sf	2%
>700,001 sf	7%
Mean (sf)	356,780
Range (sf)	25,335 to 2,000,000
Please estimate the percentage of lost tenants due to bankruptcies/liquidations in the last seven years by shopping center type:	
Community Shopping Centers	23%
Regional Shopping Centers	15%
Superregional Shopping Centers	18%
Are these centers with lost tenants due to bankruptcies/ liquidations in locations that are predominantly urban, suburban or mixed urban-suburban?	
Predominantly urban	0%
Predominantly suburban	69%
Mixed urban-suburban	31%
Please indicate which geographic region(s) of the US had the highest concentration of vacancies due to bankruptcies/ liquidations?	
New England (CT MA ME NH RI VT)	35%
Mid-Atlantic (DC DE MD NJ NY VA WV)	47%
Southeast (AL FL GA KY LA MS NC SC TN)	37%
Midwest (IL IN OH PA MI MN WI)	33%
Great Plains (AR IA KS MO MT ND NE OK SD TX WY)	12%
West (AK AZ CA CO HI ID NM NV OR UT WA)	19%
How difficult has it been to replace these tenants lost to bankruptcies/liquidations?	
Extremely difficult to replace tenants	13%
Moderately difficult to replace tenants	38%

TABLE 8. (CONTINUED)

Question	Response
Difficult to replace tenants	31%
Easy to replace tenants	10%
Moderately easy to replace tenants	8%
Extremely easy to replace tenants	0%
What is the overall drop in profitability of your managed properties since 1990 due to retail bankruptcies/liquidations?	
No drop in profitability	11%
Less than or equal to a 5% drop in profitability	61%
A 6 to 10% drop in profitability	23%
An 11 to 20% drop in profitability	5%
A 21 to 40% drop in profitability	0%
A greater than 40% drop in profitability	0%

tenants due to bankruptcies and liquidations in the last seven years. Sixty percent of the respondents that lost anchor tenants due to bankruptcies and liquidations said they had lost between one and five anchors to bankruptcies and liquidations. Twenty-one percent said they had lost 11 or more anchors.

GLA of lost anchor tenants was on average, 356,780 square feet, but ranged from 25,335 to 2,000,000 square feet. Again, a simple calculation would help to assess the magnitude of loss for shopping center owners. Taking the average GLA lost of 356,780 square feet and multiplying it by the average dollar value of net operating income per square foot of $6.40, and again assuming the space was vacant for one year, this means that each owner/manager averaged a loss of over $2.2 million dollars (1996 dollars) in net operating income. If we also assume that 87% of the 143 largest owners/managers (125) also took this average loss in net operating income, the total loss of net operating income amounts to over $285 million (1996 dollars).

Fifty-five percent of respondents have lost 300,000 square feet or less of GLA. Almost half of the respondents, 45%, took much larger losses and lost 300,000 square feet or more in anchor stores. Hardest hit were the community shopping centers in suburban locations. This is no surprise as discount department stores, catalog stores and large specialty stores provide most of the anchors for these types of centers in suburban locations.

The hardest hit geographic area of the country for bankruptcies and liquidations of anchor tenants is the Mid-Atlantic area (DC, Del, MD, NJ, NY, VA, W VA). The New England region, the Southeast and the Midwest also had heavy losses. Shopping centers in these regions are older with trade areas that display very little population growth. This makes it more of a challenge to replace these tenants. Sixty-nine percent of the shopping center owner/managers felt it was difficult to moderately difficult to replace these anchor tenants.

The majority (61%) of shopping center owners/managers felt that they had sustained a 1 to 5% drop in profitability due to bankruptcies and liquidations in the last seven years. Ninety-five percent of respondents had a 10% or less drop in profitability.

Owners and managers were given a list of 77 retailers who had declared Chapter 11 or Chapter 7 in the years 1990 to September 1997. They were asked to indicate which retail bankruptcies or liquidations resulted in a loss of the tenant. This list included retailers from the three segments under study (discount department stores, department stores and large specialty stores) as well as supermarkets, warehouse stores and office supply stores. Table 9 presents the top 10 anchors stores mentioned that resulted in lost tenants for their shopping centers. Variety stores dominate the top 10 and Woolworth's and McCrory's had the biggest impact. Each of these variety stores had a large number of stores that were liquidated. The only department store in the top 10 is Montgomery Ward and major discount department stores come in at eight, nine and 10.

While variety stores dominate the top 10 individual retail tenants mentioned, discount department stores are the most prevalent type of anchor lost at 28%, followed by variety at 22%, department stores at 18% and catalog stores at 8%. (See Table 10) These three segments (under study in this paper), discount department stores, department stores and large specialty stores account for 89% of total anchor tenants lost.

TABLE 9. TOP 10 ANCHORS LOST FROM BANKRUPTCIES/LIQUIDATIONS 1990–1997

Retailer	Type	Count	Percent
Woolworth's	Variety	23	9%
McCrory's	Variety	21	8%
Stuart's	Discount	18	7%
House Of Fabrics	Spec-Fabrics	17	7%
Best Products	Catalog	15	6%
Montgomery Ward	Department	14	5%
Ben Franklin	Variety	12	5%
Bradlees	Discount	9	4%
Ames	Discount	8	3%
Caldor	Discount	7	3%
Other		111	43%
Total		255	100%

TABLE 10. TYPE OF ANCHOR LOST TO BANKRUPTCY/LIQUIDATION 90–97

Anchor Type	% Lost	Count
Discount	28	72
Variety	22	56
Department	18	46
Catalog	8	21
Craft-Fabrics	7	17
Toys	4	9
Supermarket	2	6
Electronics	2	5
Warehouse	1	3
Other	8	20
Total	100	255

Merger/Acquisition Profile

Table 11 highlights the results of the survey with regard to merger and acquisition activity and its effect on shopping centers. About half (52%) have lost anchor tenants due to mergers/acquisitions in the last seven years.

Fifty-two percent have lost one or two anchors and another 37% have lost between three and five anchors due to mergers/acquisitions. The GLA lost due to mergers and acquisitions is much lower than with bankruptcies and liquidations with 83% of respondents losing 200,000 square feet or less of GLA. Average GLA lost was 152,958 square feet, with a range of 16,000 to 600,000 square feet GLA lost. If it is assumed that 52% of the 143 owners/managers (75) lost 152,958 square feet of GLA due to mergers and acquisitions and this is multiplied by $6.40 (average net operating income per square foot according to *Score Report,* 1997) that represents a loss in excess of $73 million (1996 dollars). Add this $73 million of net operating income lost to mergers and acquisitions to the $285 million of net operating income lost to bankruptcies and liquidations and the total loss is $358 million (1996 dollars).

As with bankruptcies and liquidations, the heaviest losses were sustained in suburban community shopping centers in New England, the Mid-Atlantic states, the Southeast and Midwest. Even the Western states (AK, CA, CO, HA, ID, NM, NV, OR, UT and WA) were hit with heavy merger and acquisition activity.

Sixty-three percent of the owners/managers felt that it was difficult or moderately difficult to replace these lost anchors. Thirty percent felt it

TABLE 11. PROFILE OF MERGERS AND ACQUISITIONS 1990–1997

Question	Response
Have you lost anchor tenants due to retail mergers/acquisitions in the last seven years?	Yes 52% No 48%
What is the approximate number of anchor stores lost due to mergers/acquisitions in the last seven years?	
1–2 anchor(s)	52%
3–5 anchors	37%
6–10 anchors	7%
11 or more anchors	4%
What is the approximate GLA of lost anchors due to mergers/ acquisitions in the last seven years?	
<100,000 sf	50%
100,001–200,000 sf	33%
200,001–300,000 sf	8%
300,001–400,000 sf	8%
400,001–500,000 sf	0%
500,001–600,000 sf	0%
600,001–700,000 sf	0%
>700,001 sf	0%
Mean (sf)	152,958
Range (sf)	16,000 to 600,000
Please estimate the percentage of lost tenants due to mergers/ acquisitions in the last seven years by shopping center type:	
Community Shopping Centers	27%
Regional Shopping Centers	16%
Superregional Shopping Centers	6%
Are these centers with lost tenants due to mergers/acquisitions in locations that are predominantly urban, suburban or mixed urban-suburban?	
Predominantly urban	4%
Predominantly suburban	71%
Mixed urban-suburban	8%
Please indicate which geographic region(s) of the US had the highest concentration of vacancies due to mergers/ acquisitions?	
New England (CT MA ME NH RI VT)	26%
Mid-Atlantic (DC DE MD NJ NY VA WV)	35%
Southeast (AL FL GA KY LA MS NC SC TN)	26%
Midwest (IL IN OH PA MI MN WI)	30%
Great Plains (AR IA KS MO MT ND NE OK SD TX WY)	4%
West (AK AZ CA CO HI ID NM NV OR UT WA)	22%
How difficult has it been to replace these tenants lost to mergers/ acquisitions?	
Extremely difficult to replace tenants	8%
Moderately difficult to replace tenants	25%
Difficult to replace tenants	38%

TABLE 11. (CONTINUED)

Question	Response
Easy to replace tenants	17%
Moderately easy to replace tenants	13%
Extremely easy to replace tenants	0%
What is the overall drop in profitability of your managed properties since 1990 due to retail bankruptcies/ liquidations?	
No drop in profitability	21%
Less than or equal to a 5% drop in profitability	71%
A 6 to 10% drop in profitability	8%
An 11 to 20% drop in profitability	0%
A 21 to 40% drop in profitability	0%
A greater than 40% drop in profitability	0%

was easy or moderately easy to replace these anchors. Seventy-one percent of the owners/managers felt they had a 5% or less drop in profitability due to lost anchor tenants that have merged or been acquired.

Shopping center owners/managers were given a list of 102 retail anchor stores that had been involved in merger or acquisition activity in the time period 1990 to September 1997. They included department, discount department, large specialty, off-price, supermarkets, and warehouse stores. Table 12 shows the top 10 retail anchors mentioned most

TABLE 12. ANCHOR STORES LOST DUE TO MERGERS/ACQUISITIONS 1990–1997

Retailer	Type	Survey Responses	Percent
Marshall's	Off-price	10	10%
Hit or Miss	Off-price	10	10%
Kay-Bee	Toys	6	6%
Best Products	Catalog	5	5%
K & K Toys	Toys	4	4%
OfficeMax	Office	4	4%
Sports Authority	Sporting Goods	4	4%
Lechmere	Electronics	4	4%
Jamesway	Discount	3	2%
Ralph's Grocery	Supermarket	3	2%
Other		51	49%
Total		104	100%

often that were lost due to mergers and acquisitions. The merger and subsequent downsizing of the combined Marshall's and Hit or Miss tops the list of lost anchors. The consolidation in the toy industry finds two toy retailers on the top 10 list—Kay-Bee (acquired by Consolidated Stores) and K&K Toys (acquired by Melville). Best Products' acquisition by Schottenstein (later liquidated) is number four.

Table 13 combines all the individual stores into categories of store types. Off-price once again dominates this cut of the data with 19% of total anchor stores lost. Supermarkets were next at 11%, department stores at 10%, and toys at 10%.

TABLE 13. TYPE OF ANCHOR LOST TO MERGERS/ACQUISITIONS 1990–1997

Anchor Type	% Lost	Count
Off-price	19	20
Supermarket	10	11
Department	10	10
Toys	10	10
Discount	5	5
Catalog	5	5
Electronics	4	4
Office	4	4
Sporting Goods	4	4
Spec - Fabrics	1	2
Other	28	29
Total	100%	104

V. Creative Use of Vacated Space

Bankruptcies, liquidations, mergers and acquisitions have presented some challenging leasing problems for shopping center owners. Anchor tenants usually vacate unproductive spaces first, which poses a problem in replacement. If a replacement anchor cannot be secured quickly, the remainder of the tenants in the center will also leave (or go out of business), unable to survive without an anchor draw. The shopping center would have to be repositioned or sold.

Older suburban strip centers and regional malls are the most vulnerable. For many of these strip centers and regional malls demographics have changed, physical layout and condition is not optimal and/or new competition in the trade area increases the problem of securing anchor tenants. Shopping center owners have come up with some different methods of dealing with the vacancy problem. These methods generally fall within four categories (see Figure 5): 1) replace tenants; 2) reposition mall or strip center; 3) convert the space to another use; or 4) redevelop the site.

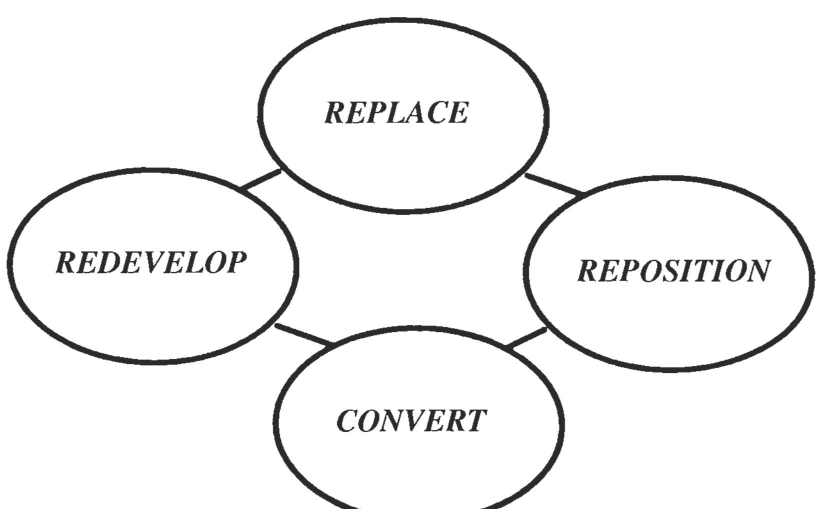
A) Replace. The first option is to replace the anchor tenant with a "like" tenant; for example, to place a discount anchor store in a space just vacated by a discount anchor store. Many retailers are expanding and opening new stores. In Salem, MA, a Wal-Mart just replaced a site vacated by Rich's and is breathing new life and activity into a forgotten strip mall.

Another option is to offer space to current mall tenants for larger retailing formats. For example, TrizecHahn has retailers like Banana Republic, Eddie Bauer, Gap/Gap Kids, Finish Line and Williams-Sonoma operating in stores at least twice the size of their usual mall stores at Park Meadows in Denver (Mander, 1997).

For regional malls, another replacement option is to bring "nontraditional" mall tenants into the mall. Wilmorite has brought TJ Maxx into two of its malls—Greece Ridge Mall in Rochester, NY and Fayetteville Mall in Fayetteville, NY (Jay, 1996). Essex Capital Partners found that lowering the rent in several of their malls allowed "nontraditional" and newer chains to fill up vacated mall spaces (Jay, 1996).

Temporary tenants are another option. As part of a specialty leasing strategy, General Growth Properties finds new specialty leasing concepts, develops and incubates them into successful mall businesses. They encourage budding retailers to take a temporary location and convert into a permanent arrangement when they are ready (Kenyon, 1997).

FIGURE 5. TENANT REPLACEMENT OPTIONS



2) Reposition. Several strategies have worked for repositioning centers after anchor tenants have vacated their sites. White Flint Mall in N. Bethesda, MD found success repositioning themselves as a trendy restaurant and entertainment center. The Lerner Corp. of Bethesda worked for four years to transform this former fashion center into an entertainment center. Tenants such as Borders Books, Discovery Zone, The Cheesecake Factory and a local theater troupe have made the transformation a success (Lundegaard, 1997). The Newington Mall (Newington, NH) was repositioned by Retail Compass into a power center, the Crossings at Fox Run, where it includes such tenants as Hoyt's Cinemas, Bed & Bath, Bugaboo Steakhouse, MVP Sports as well as Bradlees and Montgomery Ward (original tenants) (McLaughlin, 1996).

Bringing power retailers into regional malls has also proven successful for other mall developers. Mervyn's and Target are both in a one million square foot Mesa Mall managed by General Growth Properties and owned by Equitable Real Estate Investment Management in Grand Junction, CO General Growth has also brought Best Buy and HomeBase into other malls it manages (Mander, 1997).

3) Convert. Converting the retail space to another use is also an option. In St. Louis, Charter Commons, once the Town and Country Commons retail center, is being converted to office space. It will house an operations center for Charter Communications and the Unity Health System corporate office (*Building Design & Construction*, 1996).

Gould Evans Goodman Associates of Kansas City specialize in the conversion of obsolete retail centers. They find the best uses for recycled retail properties are libraries, community centers or high-tech office buildings. For example, a recent project was to take a store formerly occupied by Best Products and convert it to a large, modern library replacing a small, undersized branch library. Gould Evans Goodman Associates have also been asked to recycle a retail strip mall in Kansas City. They have begun building and renovating the space which will become the Jazz Museum, the Negro League Baseball Museum and a Visitors' Center (*Building Design & Construction*, 1996).

4) Redevelop. The final option is to redevelop the site completely. The St. Charles Mall in St. Charles, IL, was once the community shopping focal point. Last year, in response to declining occupancy, the mall owner was forced to shut down the mall completely. Fox Realty from Chicago bought the site and will probably redevelop it to become an entertainment center or an outlet center (Conty, 1997).

The New Rochelle Mall in downtown New Rochelle, NY, is a 500,000 square foot enclosed regional center that lost its only anchor (Macy's) in 1992 and closed three years later. NewRoc Associates will raze the property and build an entertainment center including a new Stop & Shop Superstore, two ice-skating rinks, a 20-screen movie theater and about 80,000 square feet of retail space (Conty, 1997).

The important point to note here is that while there have been heavy losses from bankruptcies, liquidations, mergers and acquisitions, each shopping center owner must objectively assess the location and trade area before determining the solution. The shopping center must be viewed as real estate and the optimal use of that piece of property determined. One cannot simply reposition every shopping center or convert every shopping center into an entertainment center.

■ Summary and Conclusions

Whatever method is used to measure the loss of profitability to shopping center owners from bankruptcies, liquidations, mergers and acquisitions, the figure is staggering. This paper has examined one small part of the problem. A conservative estimate of the total leasable area lost over the last seven years due to liquidations of department, discount department and large specialty stores is 90 million square feet for a loss estimated at $576 million in operating income. Another 1.6 billion square feet was also put at risk during this time period by the act of filing Chapter 11. If retailers downsized just 10% during their Chapter 11 bankruptcy period, this would add an additional loss in operating income of $158 million for a total of $734 million in lost operating income.

In the financial analysis of sales, earnings and store count for discount department stores, patterns emerged which would help shopping center owners/managers keep a watchful eye on anchor tenants who are at risk of filing Chapter 11. Negative sales growth, negative earnings and a decline in the number of stores were present one and two years prior to filing Chapter 11 or Chapter 7.

In the survey of major shopping center owners/managers, 87% of the survey respondents had lost anchor tenants during the time period from 1990 to 1997. Sixty percent said they lost one to five anchors. What is most telling is that 21% of the respondents that had lost anchor tenants had lost 11 or more tenants over the last seven years. While it appears that most shopping center owners had a moderate loss, many shopping center owners appear to be taking heavy losses due to bankruptcies and liquidations.

According to the survey, the average GLA lost to bankruptcy and liquidation during this seven-year period was 356,780. The range was from 25,335 square feet to 2,000,000 square feet lost. This also reinforces the notion that some shopping center owners are taking moderate losses while others are struggling with replacing 2,000,000 square feet of anchor tenants.

The geographic areas hit the hardest with bankruptcies and liquidations were the Mid-Atlantic area, New England, the Southeast and the Midwest. Discount department stores and variety stores in community shopping centers in suburban locations have had the most casualties. Most shopping center owners found it difficult to moderately difficult to replace these lost anchor tenants.

There were also losses due to mergers and acquisitions. Approximately half of the survey respondents lost anchor tenants due to mergers and acquisitions in the last seven years. Fifty-two percent lost one or two anchors and another 37% have lost between three and five anchors due to mergers/acquisitions. The average GLA lost by survey respondents was 152,958 square feet of GLA. This amounts to a loss of $73 million of net operating income lost to mergers and acquisitions.

Like the anchor tenants lost due to bankruptcy and liquidation, most anchors lost due to mergers and acquisitions were in suburban community shopping centers in the Mid-Atlantic area. The Midwest, New England and the Southeast were also hit heavily. Off-price stores were the greatest casualties. Most shopping center owners found it difficult to moderately difficult to replace these tenants once lost.

Most survey respondents felt they had a 1–5% drop in profitability due to loss of anchor tenants during mergers and acquisitions. Combining losses in both bankruptcies and liquidations, and mergers and acquisitions, this represents a total drop in profitability for most shopping center owners of 10% or less.

Another pattern emerged with regard to merger and acquisition activity that showed that heavy merger and acquisition activity immediately follows a heavy bankruptcy and liquidation year. This makes logical sense, as locations are opened up during bankruptcy and liquidation, they are being examined and acquired the following year.

Finally, it was clear in the last section of the analysis that some creative ways of dealing with the loss in anchor tenants is taking place. Shopping center owners have the option of replacing the tenant, repositioning the shopping center, converting the shopping center to another use or completely redeveloping the site. Regardless of the solution they choose, shopping center developers appear to be rising to the challenge.

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