Plagued by seven straight years of unprofitability, Sears filed for bankruptcy at the urging of banks that hold the retailers' debt this October. Near the end of the year, Sears will close 142 unprofitable stores in addition to the previously announced closure of 46 stores.

Sears joins a long list of retailers shuttering storefronts this year. In the first six months of 2018 alone, more than a dozen retailers with 20 stores or more filed for bankruptcy and closed a total of 3,838 stores according to Retail in the Red, BDO’s biannual bankruptcy update.

Despite strong underlying economic fundamentals and high consumer confidence, brick-and-mortar retailers have continued to suffer. A confluence of factors are to blame for retail’s decline, including: burdensome levels of debt, the rise of e-commerce and rapid delivery, shifting consumer preferences, and younger generations spending more on experiences rather than on physical goods.
new uses, including apartments, hotels, fitness centers, wellness, office buildings, distribution space, and even supermarkets like Whole Foods.

While redeveloping and repositioning sounds like a winning strategy on paper, there are significant hurdles to execution. The largest stumbling block to launch such projects is access to adequate investment capital and prior expertise executing similar initiatives. Retail REITs and property owners may not be able to undertake such an initiative on their own, and consequently, may pursue a sale or become an acquisition target for a buyer that has the resources. For instance, following Brookfield Property Partners’ acquisition of retail REIT GGP, Brookfield plans to expand GGP’s top-tier properties, while adding office and other mixed-use spaces to less successful malls.

Developers constructing new retail properties are factoring in the future of retail into their blueprints. In Florida, a proposed project for what would be the largest mall in the country plans to include an indoor ski slope, submarine pool, and other unconventional attractions. The cost implications for such a project, however, are potentially enormous. The American Dream Meadowlands, a similar project first proposed in 2003, faced numerous legal and financial setbacks that have delayed its opening to Spring 2019.

**BDO’S TAKE: WHAT TO EXPECT THROUGH 2019**

Even if retailers finish the year with strong sales, BDO projects more bankruptcy announcements and store closings before the new year. The future of retail is changing, and real estate owners and operators that embrace multiuse space will be best positioned to attract the next generation of consumers.

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