

RETAILTRAFFIC

Where real estate, retail and development meet

May 1, 2009 12:00 PM, By Jennifer Popovc

Bright Spots

Amid retailer closings and bankruptcies, value-oriented chains shine.

On July 1, fashion retailer DownEast Basics, a seller of value-priced apparel, will open its first location in California. Located in the Central Valley, the new 1,400-square-foot store is one of five new stores the apparel retailer will open this year. In total, Salt Lake City-based DownEast Basics plans to grow its store footprint by more than 10 percent in 2009 and 15 percent in 2010 — a challenge few retailers are taking on in the midst of such miserable economic conditions.

A retailer opening that many stores 18 months ago would barely warrant a mention. But in a climate where expanding retailers have become a rarity, firms like DownEast Basics are hot commodities. They aren't alone. There are a handful of firms looking to expand modestly in 2009. The retailers run the gamut of selling categories. What they have in common is one major factor: They offer value to their customers.

"Any retailer with a value proposition that resonates with the shopper today is banking on winning market share," says Keith Anderson, a senior analyst with RetailNet Group, a Waltham, Mass.-based retail advisory firm.

DownEast Basics, for example, is experiencing same-store sales growth of 10 percent or more, according to Jonathan Freedman, vice president of apparel. The chain's strong performance has not only encouraged it to open more stores, but also to expand its merchandise offerings to include clothing lines for young girls and men.

From heavy discounters like Dollar General and Big Lots to value-apparel chains such as DownEast Basics and H&M, retailers that stock merchandise at discounted prices are thriving in today's tough retail market and are taking advantage of expansion opportunities.

The real estate market is very favorable today for retailers that are expanding," says Charles Freedman, vice president of DownEast Basics. "Leases are very affordable, and landlords are offering fantastic incentives such as free rent. It's a fantastic time to exploit favorable terms and find prime locations."

Measured growth

Even though retail sales and consumer confidence showed signs of strengthening in early spring, year-over-year retail sales continue to be anemic. In February, for example, total retail sales (which include non-general merchandise categories such as cars, gasoline stations and restaurants) decreased 12.3 percent over 2008, according to the U.S. Commerce Department.

As retailers struggle with slumping sales, they are being forced to shutter stores. In fact, estimates for store closings range from 10,000 to 20,000. Many retailers that rapidly expanded over the past several years are now letting their stores go dark. Other chains have already filed for bankruptcy and vacated stores.

However, nearly 65,000 new stores are projected to open across the U.S. during the next 24 months, according

to the March issue of RBC Capital Markets' National Retailer Demand report, which tracks 2,000 retailers and their planned store openings. Typical mall store tenants expect to open 21,077 stores, while big-box retailers plan to open 4,324 stores (not including big-box chains such as Wal-Mart and Target). Over the next 24 months, food-related retailers will open the most stores, followed by salons/health, banking, and family apparel.

Food for less

Dollar stores, which have added more food offerings to their merchandise mix over the past few years, are expanding rapidly, Anderson says. "The store growth in that channel has only recently re-accelerated...three years ago it had stagnated," he notes, adding that there are roughly 14,000 of those value-oriented stores across the U.S.

Dollar General Corp., for example, is experiencing strong sales and heavy traffic: fourth quarter 2008 sales increased 11.2 percent to \$2.9 billion, while same-store sales increased 9.4 percent. For fiscal 2008, total sales increased 10.1 percent, including a 9 percent increase in same-store sales.

Last year, the Goodlettsville, Tenn.-based chain opened 207 new stores, relocated or remodeled 404 stores and closed 39 stores, and ended the year with 8,362 neighborhood stores. This year, it plans to open 450 new stores, along with the remodel or relocation of about 400 stores.

In fact, Dollar General ranks as one of the fastest growing retailers in terms of new store openings in 2009 through 2011, second only to Walgreens, according to RetailNet Group. The chain's top competitors, Family Dollar and Dollar Tree, also rank in the top 10. This year, Family Dollar plans to open about 125 new stores, while Dollar Tree plans to open 210 namesake stores and 25 of its newer-concept Deal\$ stores, according to the companies' financial reports.

Dollar stores are competing with Wal-Mart, as well as discount grocery chains like German-based ALDI. Like Wal-Mart, ALDI has scaled back its expansion plans, but continues its U.S. expansion under its own flag and the Trader Joe's flag. "ALDI sees a big opportunity to fill a lot of markets and to try to steal some of the shopping trips and smaller baskets," says Aaron Chio, a senior analyst with RetailNet Group.

Traditionally, ALDI has opened 50 U.S. stores annually. However, in 2008, ALDI opened 100 stores, entering Rhode Island with four stores and Florida with 25 stores. This year it expects to enter Massachusetts and New York and plans to open 80 stores including 10 in Florida, according to a spokeswoman in the chain's Chicago office.

ALDI stores typically measure just 17,000 square feet. ALDI has not yet determined how many stores it will open in 2010, although it has identified Dallas-Fort Worth as an expansion market. A new \$50 million, 500,000-square-foot distribution center located in Denton, Texas, is set to open in January 2010 and will support about 55 stores including several in Oklahoma.

Frugal fashion

Although apparel is one retail category that has been hit hard by the current recession, there are at least a few apparel retailers that are expanding this year and into 2010. Apparel retailers that focus on value and "fast fashion" are still experiencing relatively strong sales – strong enough to continue rolling out new stores, at least.

In addition to its new California store, DownEast Basics recently opened stores in Utah and entered the Arizona market with a store in Superstition Mall in Mesa. Assuming its first stores in Arizona and California are successful, the chain plans to open additional stores in these markets, according to Charles Freedman. He says he'd like to open 10 to 12 stores in 2010.

Swedish “fast fashion” chain H&M also is continuing its U.S. expansion, according to Claudia Sagan, president of Claudia Sagan Inc., a retail real estate consulting firm that works with developers and retailers. Today, H&M has 169 stores in the U.S., and the chain will grow by 20 percent in both 2009 and 2010 – a total of nearly 80 stores in the next two years. In particular, H&M is developing its expansion strategy for Texas and is looking seriously at Houston. H&M also recently inked its first deal in Florida. Additional stores will open this year in Phoenix, Los Angeles, Rancho Cucamonga, Calif., New York City, and Yonkers, N.Y.

A few brave apparel retailers are even launching new concepts. Teen-oriented chain Aeropostale, for example, plans to roll out a new store concept, P.S., that offers clothes and accessories for kids ages 7 to 12. Meanwhile, British firm Topshop opened its first U.S. store in Manhattan in April. The retailer, which also focuses on value-oriented fashion, is looking to follow H&M’s growth trajectory.

Bargain hunters

Beyond food and fashion, shoppers are looking for bargains for their homes. This year, A.J. Wright, the bargain basement chain of TJX Cos., will enter Atlanta for the first time, rolling out six new stores. Similarly, Columbus-based Big Lots is expanding its footprint, opening 45 new stores this year, which is more than it has opened in the last three years combined, according to financial statements.

Another publicly traded retailer, Lumber Liquidators, is also growing its national footprint by appealing to shoppers’ desire to save money. The Toano, Va.-based company is the nation’s largest hardwood flooring retailer, with more than 150 stores in 50 states.

Last year, Lumber Liquidators opened 34 new stores, and the goal for this year is to open 30 to 40 stores, according to Asif Hussain, a vice president with the Greenberg Group. The Haslett, N.Y.-based firm is handling Lumber Liquidators’ national expansion. During the first quarter alone, the chain opened nine new stores.

And even though Americans are cash-strapped and making fewer home improvements, Hussain says the chain has not yet reached a saturation point. In fact, Lumber Liquidators expect to reach 500 stores.

Roughly half of Lumber Liquidators’ future expansion is geared toward new markets, Hussain says. For example, the chain is aggressively looking to expand in the New York City metro market, along with Northern and Southern California.