US retail bankruptcies and closures accelerate during COVID-19 pandemic

Trévon Austin
17 July 2020

The economic catastrophe spurred by the coronavirus pandemic continues to devastate the lives of millions of workers. A combination of falling consumer demand and mandated store closings presents retailers with challenges they may collapse under. The pandemic marks a bleak turn of events for the retail industry in the United States, which already faced severe troubles prior to the spread of COVID-19.

Analysts from Coresight Research, which collects data on retail closures, predicted that about a quarter of malls in the US would permanently close within the next three to five years. A report in June found that as many as 25,000 stores could shutter their doors in 2020 alone. Closures on this scale would be almost three times as many closures recorded in 2019.

Experts state that high-end malls with luxury retail tenants are in the best shape to withstand the downturn due to higher profit margins. However, malls with less affluent clientele and more vacancies are facing a high risk of closure.

According to CoStar Group, which tracks real estate, nearly 500 of the 1,793 enclosed shopping malls in the US are at risk because of their location or dependence on office workers or tourism for traffic. Even before the economic impact of the pandemic hit, the mall vacancy rates were at the highest level recorded in two decades, with 9.7 percent of storefronts empty in January, according to Reis Moody’s Analytics.

The uncontrolled spread of COVID-19 across the country leads experts to believe the damage could be more extensive. In an interview with *USA Today*, Coresight CEO Deborah Weinswig stated that the percentage of malls closing could rise to as much as 50 percent “if we can’t stop the bleeding.”

A small number of traditional brick-and-mortar retailers that offer essential services of some kind, including Walmart, Target, Kroger, and Home Depot, have flourished during the pandemic. However, department stores and apparel retailers, which are concentrated in malls, have been struggling. Major retailers such as J.C. Penney, Neiman Marcus, Brooks Brothers, and J. Crew have already filed for Chapter 11 bankruptcy this year. The companies have stated that they intend to restructure to cut debt and become more sustainable.

However, this process includes shuttering hundreds of stores, throwing thousands of workers out of their jobs in the middle of the pandemic. J.C. Penney alone plans to close 242 stores. Most of the retailers that have filed bankruptcy faced challenges before the pandemic, including J.C. Penney, Neiman Marcus, and J. Crew had already been loaded up with billions of dollars in debt.

The failure of larger retailers like J.C. Penney threatens to exacerbate the problems facing malls. Not only do the larger chains attract more customers, but also many malls have clauses in their leases which allow smaller stores to leave if an anchor disappears.

Retailers have already announced closures impacting more than 80 million square feet of real estate in 2020 so far, compared to 114 million in all of 2019. In 2019, 17 major retailers filed for bankruptcy—including Payless, Gymboree and Charming Charlie—but at least 21 have already filed for bankruptcy this year.

The companies that have announced closings and restructurings this year include:

• Modell's Sporting Goods: Founded in 1889, the company plans to liquidate its 134 stores.

• RTW Retailwinds: The owner of the women’s apparel chain New York & Co., along with Fashion to

Figure, and HappyxNature brands, plans to close many or all of its stores and sell its e-commerce unit.

• Lucky Brand: The company will close about a dozen stores and plans to sell itself for $140 million.

• Brooks Brothers: In business for over 200 years, the oldest men's clothing store in the United States plans to permanently close 51 locations and is actively searching for a buyer.

• Muji USA: The US subsidiary of the Japanese-based retailer that sells minimalist home goods and apparel will trim its physical footprint and promote online sales.

• J. Crew: The company filed for bankruptcy with more than $1.7 billion in debt.

• GNC: Operating since 1935, the health product retailer plans to close up to 1,200 stores and to reorganize under lender ownership or sell itself to its largest shareholder.

• Pier 1: The homeware retailer announced plans in May to liquidate all 450 of its remaining stores.

• Sur La Table: The kitchenware retailer announced plans to close 51 stores with an acquisition bid from a private equity firm.

• True Religion: The company closed 87 locations before the pandemic, and this year's bankruptcy is its second since 2017.

• Neiman Marcus: With $4 billion in debt, up to 29 of the company's 57 stores could close.

• Art Van Furniture: All of the company's stores were closed with liquidation sales announced in March, putting 3,000 workers suddenly out of a job.