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Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl
Senior Analyst
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Justin Dean
Real Estate Market Analyst
Justin.Dean@Yardi.com
(800) 866-1124 x2071

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Why Lenders Must Account For Mall Trends

The rise of smartphones and online retailers such as Amazon and Ebay has obvious implications for retailers because technology has changed the way people shop. However, changing trends in shopping also have significant implications for the institutions that finance retail properties.

As consumers increasingly shop online, malls and retail outlets have taken a major hit in revenue and traffic. That has not only led to the bankruptcy of retailers such as Sports Authority, RadioShack, and Aeropostale, it has reduced the impact of anchor stores such as Macy's and Sears on regional malls. The result, according to a study released last week by Moody's Investors Service, is that performance of malls that serve as collateral in CMBS pools is growing much more bifurcated. Malls have a tendency for steeper losses in the event of failure or default, therefore staying relevant and profitable is even more important than other real estate sectors.

In order to keep malls afloat, owners have to adapt to new demands of the consumer. Rather than going to a mall primarily to shop, consumers today seek experience based shopping. Fast casual and upscale restaurants have replaced chain style food courts as the main dining options at many malls. Movie theatres are becoming part of the mall landscape as landlords look to fill vacant space with entertainment and socialization as a way to attract visitors.

The Moody's study—"Separating Winners From Losers in the Emerging Mall Landscape"—found that the loss severity on malls within CMBS portfolios is often much higher than other