



AMERICAN
BANKRUPTCY
INSTITUTE

2017 Winter Leadership Conference

Dead Malls Walking

James E. Van Horn, Moderator

McGuireWoods LLP; Washington, D.C.

Robert J. Feinstein

Pachulski Stang Ziehl & Jones; Wilmington, Del.

J. Eric Ivester

Skadden, Arps, Slate, Meagher & Flom LLP; New York

Cory Lipoff

Hilco Merchant Resources; Northbrook, Ill.

Matthew Niemann

Houlihan Lokey Capital; Los Angeles



DEAD MALLS WALKING

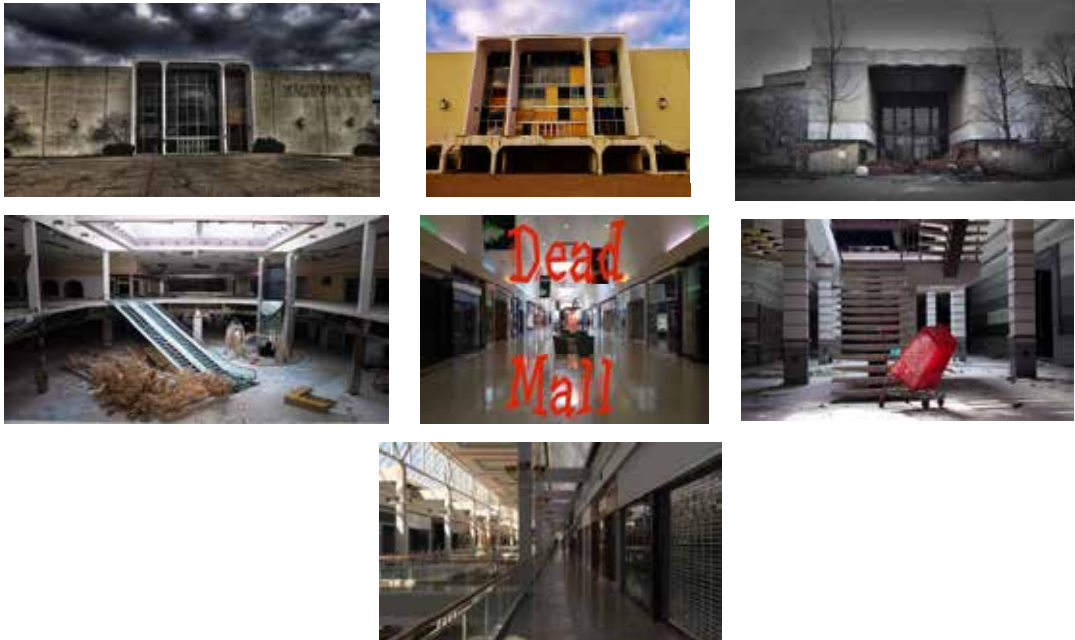
December 1



Dead Malls Walking Panelists

- | | |
|--------------------|--------------------------------------|
| • Robert Feinstein | Pachulski, Stang, Ziehl, & Jones |
| • J. Eric Ivester | Skadden, Arps, Slate, Meagher & Flom |
| • Cory Lipoff | Hilco Merchant Resources |
| • Matthew Niemann | Houlihan Lokey Capital |
| • James Van Horn | McGuireWoods |

Dead Malls Walking



2

Mall Space Reinvented

Former Columbus City Center Mall... Now Columbus Commons



3

The Retail Evolution

Shifts in Population, SES & Technology



4

Retail Evolution

The Rise of the Mega-Mall Complex

- Malls built by developers in 60s, 70s and 80s
- Anchor tenants given extraordinarily favorable deals to open in shopping malls to draw foot traffic
- Slot tenants pay high rents because department stores draw foot traffic and they could limit spending on marketing

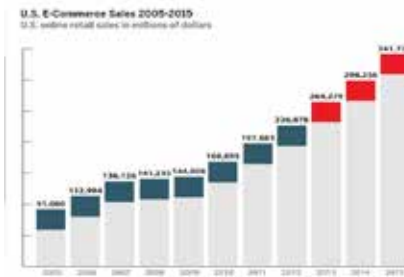


5

Retail Disruption

Impact of Retail Shift to E-Commerce & Mobile

- \$400+ billion of online & mobile sales globally in 2017
- Lower expense / higher margins
- Diminishing importance of physical brick and mortar
- In-store sales trending negative
- Online sales double digit growth
- Amazon accounting for one of every three dollars spent online



6

Retail Disruption

Digital Age – Increased Cost and Reduced Revenue for Brick & Mortar Retail

- E-Commerce operates less expensively and can sell goods cheaper than slot stores
 - Does not have to subsidize rent of the “anchors” - department stores
 - Operates higher overall expense structure per square foot
- Adoption of internet usage for entertainment and online retail sales has reduced foot traffic in malls and margins at the slot stores.



"It's not that the mall is dead. It's that the mall's rent is too expensive for all but the most exclusive specialty retailers that can make money selling goods at nosebleed price points." - Jim Cramer

7

Retail Revolution

Amazon's Dominance Impacts Growth of Retail Sales & Jobs

\$58.2 Billion in Amazon Sales in 2016

- Amazon sales has produced a net loss of **222,000 retail jobs** in the US over past 18 years
 - Main Street retailers employ 49 people for every \$10 million in sales
 - Amazon employs just 23 people per \$10 million in sales

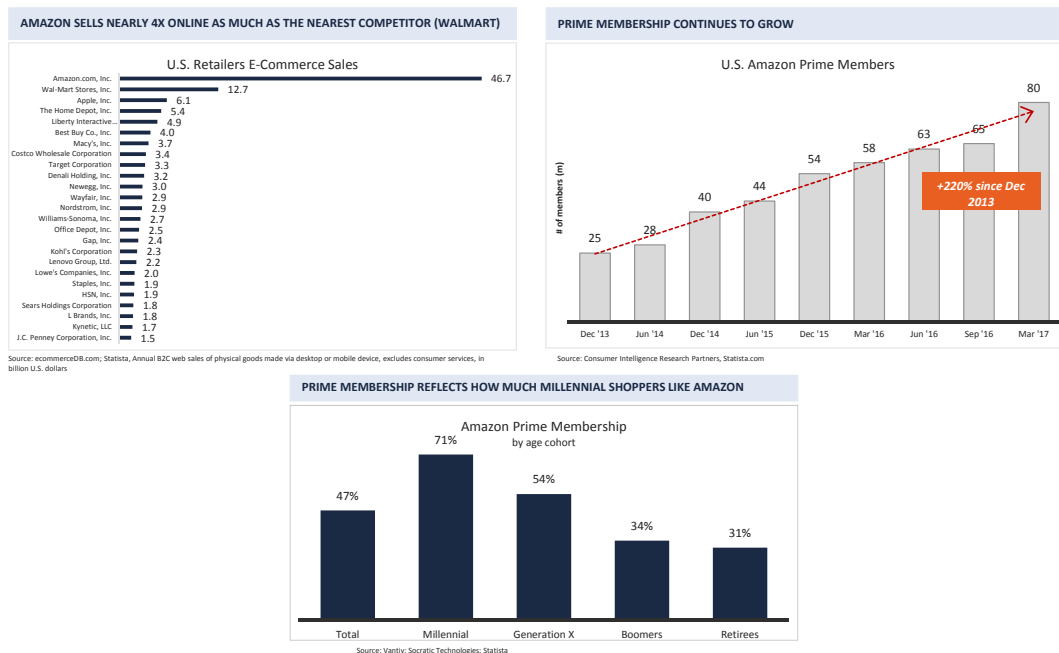
Amazon = 38% of 2016 Total Holiday Sales



8

Retail Revolution

Amazon's Dominance Over Competition and Membership



9

Retail Revolution

Mobile Devices Have Become Integral Part of Shopping

Consumers research, price check, compare purchase, review, and contact customer service all from mobile devices.

Top 5 ways consumers are using mobile phones while not in a store location

- 30% – Locate a store or check store hours
- 30% – Compare prices
- 29% – Look up product information
- 24% – Purchase a product
- 24% – Read customer reviews

Top 5 ways shoppers used their mobile devices in-store

- 21% – Compare prices
- 20% – Redeem a coupon
- 17% – Look up product information
- 16% – Search for a coupon
- 15% – Locate a nearby store or check store hours



10

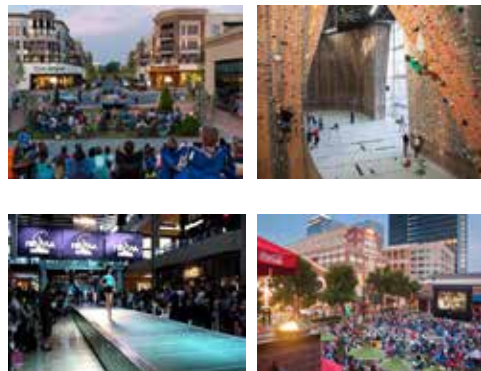
Retail Disruption

Mall Developers Strive to Remain Relevant to Consumer

Retail developers seeking innovation, new uses for space new business models

Make real world shopping more personalized and appealing

- Free WiFi Everywhere
- Fashion Shows and Live Music; Comedy Shows, Lectures & More
- Personal services such as nail and beauty salons
- Health and fitness facilities such as yoga, massage and meditation studios, as well as traditional gyms
- Wine tastings
- Dog parks
- Bocce courts
- Skating rinks
- Storytelling events



11

Retail Revolution

Mall Developers Have to Adapt to Drive Foot Traffic

Adapting Stores to deliver new experiences and drive traffic

- Outdoor apparel offering travel services and seminars
- Arts and crafts and hobby shop classes & seminars
- Hardware stores “do-it-yourself” classes
- Cooking classes
- Grocery incorporating food, restaurant and wine bars
- Sporting goods stores incorporate simulators, climbing walls, “test drives”
- Yoga classes before Lululemon opens
- Fly fishing demos at Orvis
- Personalizing jewelry at Kendra Scott
- Shoe shines at shoe stores
- In-store tailoring

NIKE Stores



Home Depot - DIY



Sur La Table



North Face Stores



12

Retail Disruption

United States Retail per Capita Dwarfs Other Economies

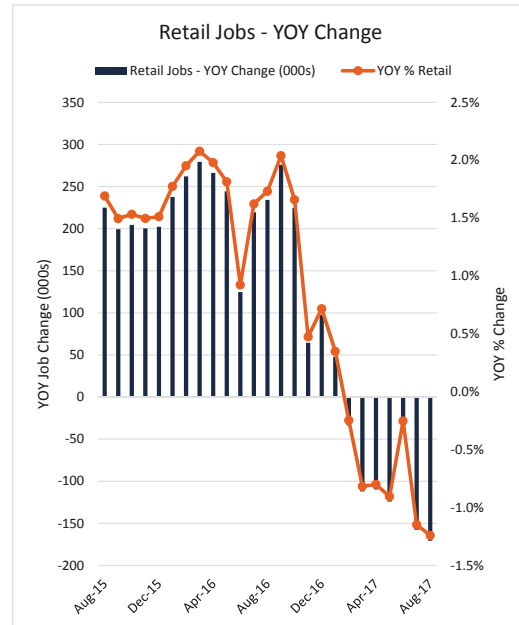
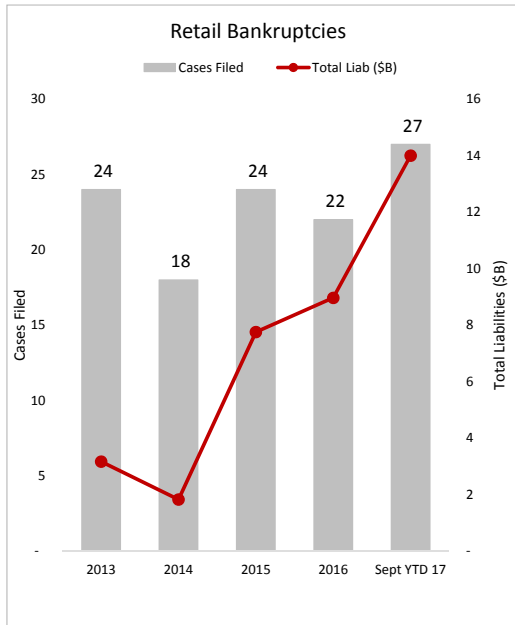
- The United States has far more retail per capita than other developed economies



13

Retail Disruption

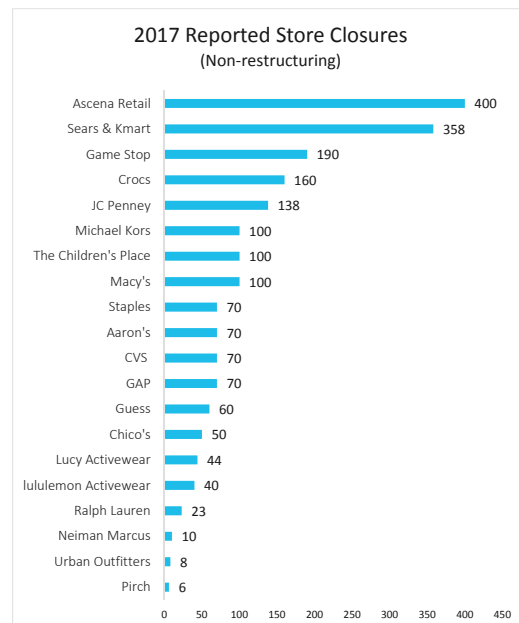
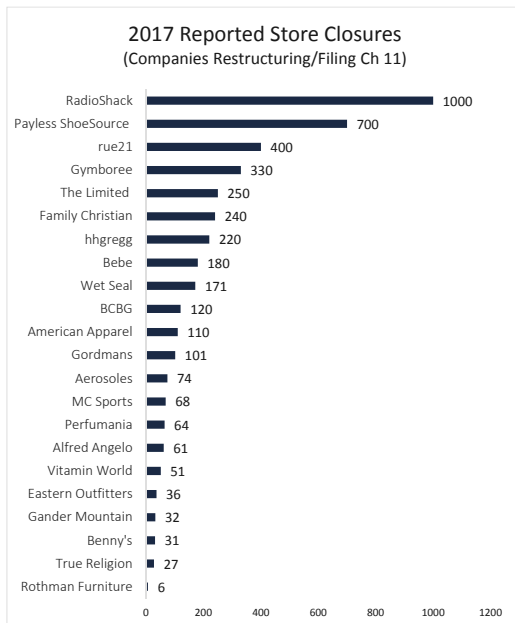
Retailer Chapter 11 Filings and YOY Retail Job Change



14

Retail Disruption

Retailer Chapter 11 Filings and Store Closures



15

MOSTLY Dead Mall Walking?



Goldman, William. The Princess Bride. DVD. Directed by Rob Reiner. Twentieth Century Fox, 1987.

16

Retail Expansion / Contraction – Tale of Two Cities

- Malls have been disproportionately affected by department store and specialty retail store closures
 - Mall owners need to think more creatively about alternative tenant options:
 - Auto (e.g., Tesla retail stores)
 - Storage (e.g., conversion of anchors to commercial or data storage sites)
 - Postage (e.g., FedEx, UPS, USPS)
 - Healthcare (e.g., outpatient and urgent care centers, MOB)
 - If you expand the retail sector beyond department store and specialty retailers, retail is experiencing net growth:
 - Many of these retailers are not traditional regional mall tenants
 - Well-positioned strip mall landlords should benefit



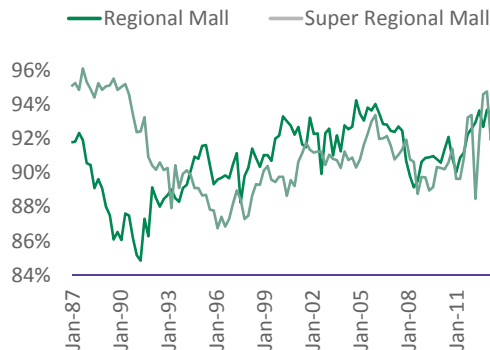
17

Mall REITS – Good News / Bad News

- Mall REIT performance has been robust over the last five years; however, the party appears to be entering its final hours:
 - Mall occupancy rates have trended back toward historical highs (~94%) and base rent growth has accelerated, particularly for super regional malls (~7-8%) – both these value drivers are due to adjust downward
 - When occupancy and rent growth reverses, rising interest rates and tightening lending standards will serve to drive Mall REIT performance down – shifting from bull to bear cycle
 - Nordstrom's recent failed go-private was due to lack of debt funding availability
 - Class-B and Class-C malls are most at risk and may have to consider alternative non-retail uses

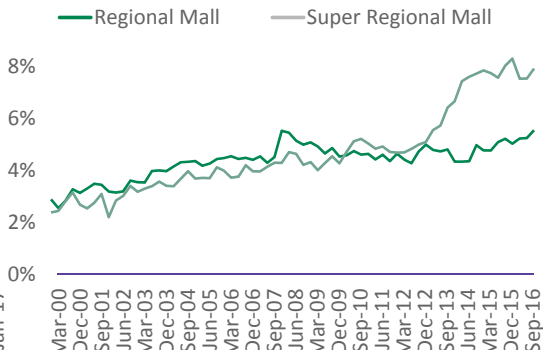
Mall Occupancy Rates

Mall occupancy has increased towards historical highs...



Base Minimum Rent Growth Rates

...but base minimum rent growth has accelerated for super regional malls

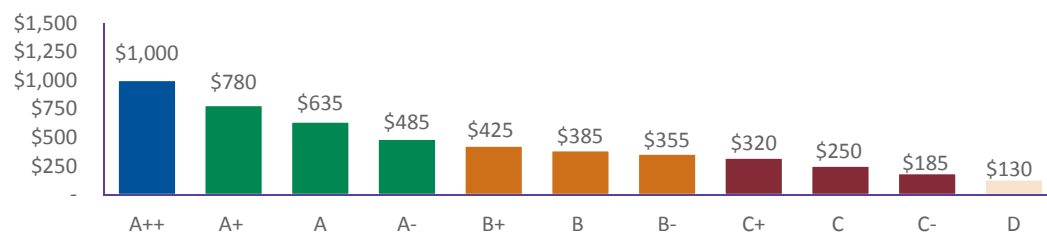


18 Source: ICSC, Morgan Stanley Research

Mall Tiers – Survival of the Fittest

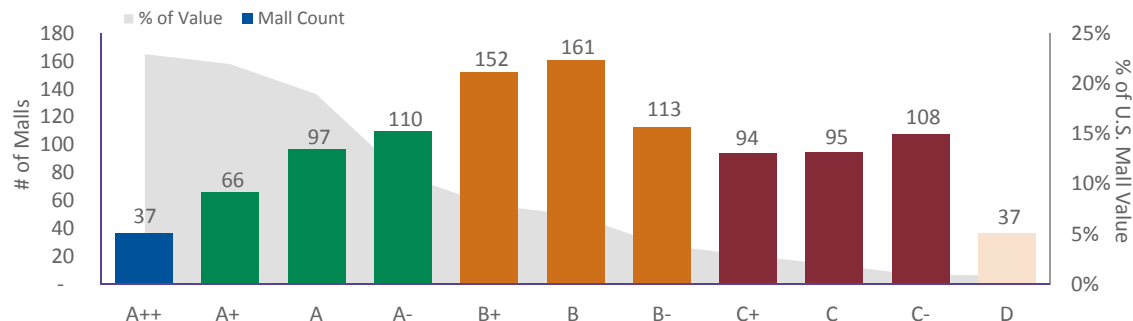
- Class A Malls are the most financeable and populate most REIT portfolios
- Class B and Class C Malls most at risk of extinction

Estimated Sales Productivity by Mall Grade ⁽¹⁾ (Sales per Square Foot)



U.S. Mall Distribution by Grade ⁽¹⁾

There are over 300 malls in the U.S. that are considered 'C' quality. These malls are the most at risk to close over the next several years. However, these malls only account for roughly 5% of mall value in the U.S., as the majority of value is concentrated in the "A" malls.

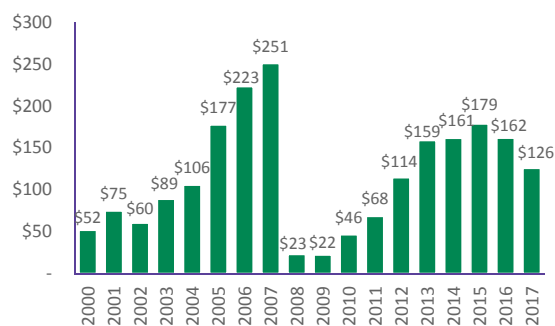


19 (1) Green Street Advisors and US Census Bureau

CMBS Maturities – Large and Looming

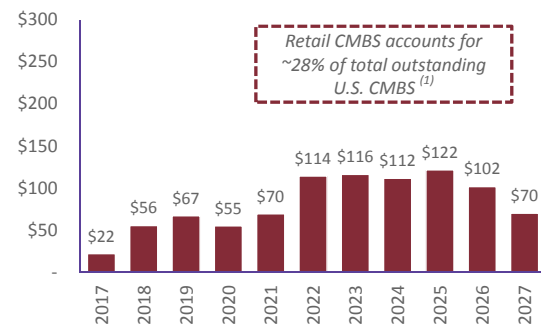
- Significant CMBS maturities loom over the next four years (2018 – 2021, averaging ~\$62 billion per annum), with peak maturities in 2025 of ~\$122 billion
 - CMBS issuance is down relative to prior years and many of the maturing CMBS loans are being refinanced through alternative means
 - CMBS delinquency rates are hovering around 5.75%, which, while high relative to other sectors, is low versus July 2012 peak of 10.34%
 - Delinquency rates should edge higher in the coming months – over \$56 billion of CMBS loans are set to mature in 2018
 - Successfully refinancing many of these loans will be difficult without sharp improvement in cash flow or an equity infusion – substantial percentage have LTVs above 80% (across the five major property types, retail represents the largest property type by balance)

U.S. CMBS Issuances (2000-2017) (\$bn)



Source: Bloomberg
20 (1) Retail CMBS as % of total outstanding U.S. CMBS per CRE Finance Council

Outstanding U.S. CMBS Maturities (2017-2027) (\$bn)



Retail Restructurings – Legal Lessons Learned

- Legal issues in retailer specific cases:
 - Merchandise received within 20 days of a Chapter 11 filing must be paid in full, in cash, prior to emerging from bankruptcy
 - Retailers have 120 days post-bankruptcy to accept / reject leases, which becomes even shorter given 90 days required for liquidation
 - Lenders today frequently require retail debtors to find a strategic buyer or propose a reorganization plan within 90 to 120 days after filing for bankruptcy or else commit to a GOB sale and face liquidation
 - Liquidation value of inventory and IP may often exceed the value of going concern bids

CMBS / REIT Restructurings – Legal Lessons Learned

- Legal issues in restructuring CMBS / REIT issuers, lessons learned from last cycle:
 - Special Servicer process
 - “Tranche Warfare” among various slices of CMBS stack
 - “Bad Boy” guarantees
 - “Bankruptcy Remote” vs. “Bankruptcy Proof”
 - Recourse vs. Non-recourse

22

Mall Developers Make a Bold Move to Save Retail Brand

Aeropostale Chapter 11 Case Study



23

Aéropostale

Background – Iconic American retailer, Aeropostale, founded in 1973, built a robust business for decades catering to the teen apparel and accessories demographic. At its peak, the retailer had over 800+ mall based stores in all 50 states, Puerto Rico and Canada, and licensed approximately 250 stores in other jurisdictions.

Challenge – Over the last 10 years, Aeropostale, like so many other shopping mall retailers, began to decline significantly as Millennial shoppers rejected overtly branded fashion labels, shifted their spending patterns and focused more on technology and less on apparel with their disposable income. In May of 2016, Aeropostale filed for Chapter 11 Bankruptcy Protection, with the goal of finding a buyer. No strategic buyer emerged and it appeared the chain would close and hold an inventory liquidation process.

In August of 2017, Authentic Brands, the owner of Juicy Couture and other IP, and backed by PE firm Leonard Green, sought to purchase the brand with plans restructure the business using a licensing model. An extensive plan for store closing sales and inventory disposition was being developed and the process.

The Solution – General Growth Properties and Simon Property Group, two of the largest shopping mall owners in the US, each held hundreds of Aeropostale leases and became deeply concerned about losing the retailer, leaving them with significant vacancies that would impact their business and mall image. In a bold move, unusual for American shopping mall developers, General Growth and Simon struck a deal, together with Authentic Brands, Hilco Merchant Resources and Gordon Brothers, to buy all of the assets out of bankruptcy.

A new OpCo was formed allowing all four entities to operate a reduced number of stores and maintain a solid retail presence in key General Growth and Simon shopping malls. Hilco and Gordon Brothers would liquidate the inventory at all but a minimum of 230 stores (approximately 500 stores with \$330 million of cost inventory). Authentic brands would own the intellectual property and trademark for licensing and other expansion opportunities.