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Kohl's Moving in Where Mervyns Failed to Succeed

Retail: Fifth Largest U.S. Chain Adding Stores in County

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Kohl's Department Stores, which announced plans to open three San Diego locations in space formerly occupied by Mervyns, likely got a honey of a deal on the leases.

The Wisconsin-based discount retailer declined to comment on the lease rates.

However, CoStar Group, an online real estate information service, said Kohl's succeeded in a joint bid with a Los Angeles-based trendy fashion chain, Forever 21, to take over leases of 46 Mervyns stores for \$6.25 million at a bankruptcy auction in December.

Early in 2008, Santa Monica-based shopping mall owner and operator Macerich paid \$430 million to acquire 43 Mervyns stores in a sale-leaseback transaction. A sale-leaseback occurs when a seller turns around and leases the property back from the party that bought it. These types of deals are frequent in hardship situations or when companies are trying to raise cash.

Hayward-based Mervyns filed for Chapter 11 bankruptcy protection in July 2008. By the end of that year, it shuttered all 175 stores in seven states. It had 10 in San Diego. Analysts said the chain had lost ground to Target Corp., Wal-Mart Stores and Kohl's.

Within the last couple of years, other retail chains such as Circuit City, Linens 'n Things and Shoe Pavilion have also gone belly up.

In the first half of 2009, the county's retail market had a vacancy rate of 5.6 percent and 974,386 square feet of negative absorption, according to the most recent report from the retail division of Grubb & Ellis/BRE Commercial real estate brokers.

Negative absorption means the amount of square feet that went back on the market during a specific period.

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According to Kohl's Aug. 3 announcement, store openings are slated for September at College Grove, Mira Mesa and on Balboa Avenue in Clairemont and will add 450 jobs. The new openings are part of a 30-store push this fall that will bring the number of outlets in the state to 121 and add 4,200 jobs.

Currently, Kohl's, which sells apparel, shoes, jewelry and home products, has seven stores in the county, according to its Web site.

Not Surprising

Retail analyst George Whalin of Carlsbad said that Kohl's plan to open more California stores is not surprising, despite the recession.

"They've had these plans for a while," he said. "Retailers that have suffered badly through this economy wouldn't go through with it. But some retailers are doing perfectly well in this economy. Their growth has been pretty logical and systematic over the years."

The company's first California rollout was in 2003.

With more than 1,000 stores nationwide, Kohl's is the fifth largest discount retailer behind Wal-Mart, Target, Kmart and Big Lots and ranks 155th on the Fortune 500.

The retailer reported net income for the quarter ended May 2 of \$137 million, compared with \$151 million in the same period of 2008. Net sales were \$3.6 billion, an increase of 0.4 percent for the quarter. Comparable store sales for the quarter decreased 4.2 percent.

Kohl's push to open new stores comes on the heels of Wal-Mart expanding in Oceanside, marking the mega-retailer's first full-service grocery division within the county. A grand reopening was celebrated July 29.

Altogether, the Oceanside store has a staff count of 450 and 160 new positions were created by the expansion. Construction is also expected to start soon to expand Wal-Mart's Eastlake store with a new grocery division, which is anticipated to add 100 new positions, a company executive said.