

## As Sales Ebb, Department Stores Dialing Back Downtown Locations - Except in NYC

*With Long-Term Trend in Declining Sales, Department Stores are Resizing, Relocating and Re-Imagining Themselves*

By [Mark Heschmeyer](#) February 24, 2016



When Macy & Co. opened on 34th Street in New York City in 1878,

*The New York Times* called it the “Place Where Almost Anything May Be Bought,” a concept that helped define downtown department stores for 19th- and 20th century shoppers.

But facing a long-term trend in declining sales, department stores are closing in increasing numbers, or looking to resize or relocate in a desperate bid to attract shoppers. Department stores generally reported declining same store sales last year, with several blaming warmer weather in the Northern and Northeast markets for cutting into cold weather clothing sales.

However, department store sales have been on the decline for a long time, according to U.S. Census Bureau monthly data. Annual department store retail sales peaked in 1999 at \$230.3 billion and have declined every year but one since then finishing 2015 with a total of \$165.5 billion. That is a 28% slide. And that trend has continued this year with January department sales of down 4.5% compared to January 2015.

That trend shows that department stores have a tough fight ahead of them to grow sales. The prime example of which is Macy’s, which last year stepped up its real estate strategy of shrinking or exiting downtown markets.

“Macy’s is taking all the right steps to right-size its store base and to become more nimble,” Morningstar Inc. analyst Bridget Weishaar said in a report after Macy’s identified additional store closings this winter. Department stores are in a secular decline amid competition for both online and bricks-and-mortar retailers, putting pressure on sales and margins, Weishaar said.

Macy’s and other department stores not only have to grow their market share to achieve accelerated growth, they would have to do so in a shrinking market, which is difficult to do and sustain, Weishaar wrote.

It’s not just the department stores experiencing sales declines. Brands within the store are also experiencing sales declines but with different results among different types of channels and department stores.

“Our brands continue to perform well in higher-end department stores,” said Fabrizio Freda, president and CEO of Estee Lauder Cos., an American manufacturer and marketer of prestige skincare, makeup, fragrance and hair care products. “However, in mid-tier North America department stores, some of our brands are experiencing softness, although they showed solid increases online.”

Specifically, the company said sales were strongest in the U.S. in specialty multi-centers, online and high-end department store channels. However, sales in mid-tier department stores continue to be soft while related retailer online business was up sharply.

Stefan Larsson, CEO of clothing designer and manufacturer Polo Ralph Lauren Corp., said, "When it comes to department stores, they have been very important to what has made us great from a business performance historically. And they will continue to be important to us."

But, Larsson added, department store channels increasingly are taking a backseat to technology. "There is also an expansion strategy, which is to say how do we grow with quality in all the different channels we have," he said.

With the shift in shopping activity away from enclosed malls, department stores seem to be having an identity crisis, said Soozan Baxter, principal of Soozan Baxter Consulting, a landlord-focused retail advisory firm in New York.

In a recent high-profile example, Taubman Centers Inc. decided not to move forward with an enclosed regional mall that was slated to be part of the Miami Worldcenter mixed-use development. Instead, Taubman, in conjunction with The Forbes Co. and Miami Worldcenter's master developer, Miami Worldcenter Associates, is now pursuing a "high street" retail plan it believes will better utilize the urban characteristics of the site and the market.

Macy's and Bloomingdale's department stores were planned as part of that enclosed mall and will not be part of the high street retail plan.

"The enclosed mall program became uneconomic in the context of this massive mixed-use project that's being built," Robert Taubman, Taubman Centers' chairman, president and CEO, told investors. "So, yes, the department stores were very important to a large regional draw and the idea that we were trying to create in that enclosed mall."

Street-level retail is a lot more flexible in terms of the space and is less dependent on an anchor department store for a draw, Taubman said.

Despite the loss of Macy's and Bloomingdale's, Saks Fifth Avenue is planning to anchor Brickell City Centre - the first retailer to sign onto the massive, \$1.05 billion mixed-use project, now under construction.

### **Big Apple is Big Exception for Dept. Stores.**

While department stores appear to be in retreat throughout suburban mid-America retail venues, the one exception appears to be urban cores -- especially in New York City, where more than 690,000 square feet of luxury department store expansion is underway.

"I think New Yorkers love one-stop shopping, and it is really easy to go into a department store and have everything at your disposal," said Baxter, who is retail consultant to The Related Cos. on the retail portion of their massive Hudson Yards project.

Neiman Marcus Group is planning to open a flagship store in Manhattan's flourishing west side at Hudson Yards. The 250,000-square-foot, multi-level store is scheduled to open in 2018 and will be the first for the brand in New York City. The three-level Neiman Marcus will anchor the 1 million-square-foot Shops at Hudson Yards.

Neiman Marcus Group also has initiated a five-year plan to modernize its Bergdorf Goodman brand. The luxury department store signed a 40,000-square-foot office expansion at 4 W. 58th St. this past fall.

Also this month, Nordstrom unveiled the exterior design for its first store in New York City. It will encompass four properties in the Columbus Circle neighborhood of Manhattan along Broadway between West 57th and West 58th streets as well as new construction at the base of Central Park Tower, an Extell Development Co. project. The approximately 363,000-square-foot store is expected to open in 2019.

Barneys New York kicked off the department store expansion push this month, opening a new downtown store. The specialty retailer's opening in Chelsea on 7th Avenue between 16th and 17th streets marks the return of the store to the same block that the company was founded on in 1923. The 55,000-square-foot store spanning five floors is the retailer's largest New York store.

While New York city is a unique example, the new appeal of major urban centers for residents may offer something of a refuge to department stores in an increasingly fragmented retail market.

Large urban centers have benefited from the inflow of young professionals and baby boomers who have been returning back to the cities they left after starting families. City centers are rapidly increasing in terms of both density and affluence and these areas are arguably under-retailed today, said Ryan McCullough, senior real estate economist for CoStar Group.