

Metro Detroit Toys R Us stores may not be vacant long

Candice Williams, The Detroit News March 16, 2018



(Photo: Sarah Rahal / The Detroit News)

As 14 Toys R Us and Babies R Us locations close in Metro Detroit amid the company's collapse, local retail and commercial real estate experts say landlords should not have much trouble repurposing the buildings.

"It will be a temporary setback for people who own these spots, but they will weather it as they did with Borders and others," said Ken Dalto, a Bingham Farms-based retail industry analyst. "It is a smaller anchor and it will affect local real estate, but it will not be devastating."

The debt-laden toy chain, with more than 700 stores across the U.S., became the latest victim of the decline in retail when it announced this week it would go out of business after a failed rescue effort.

National chains looking to move into or expand in Metro Detroit could eye many of these locations in cities including Madison Heights, Roseville, Novi, Westland and Livonia.

“Real estate people are pretty resourceful and they think of these things in advance and they have backlogs of people who are looking for space,” Dalto said. “Restaurants, other kinds of shops, women’s, men’s stores.”

Dalto said buildings often can be reconditioned and broken up to add new entrances to accommodate two or three retailers.

“One thing I never underestimate is the resourcefulness of real estate companies, brokers and the pipeline they have to fill these stores,” he said. “The economy is good. It was not good in ’09 and they had a real problem then. The rate of vacancies far exceeded the people who were looking. Now people who are looking exceed vacancies.”

As an example, a fitness center submitted a letter of interest for the former Toys R Us at the Arborland shopping center in Ann Arbor, said Alan Stern, vice president of brokerage services for Farmington Hills-based Friedman Integrated Real Estate Solutions. Stern, who represents the fitness center, said it is among eight businesses interested in the space.



The debt-laden Toys R Us chain has more than 700 stores across the U.S., including 14 in Metro Detroit, such as this one in Novi. (Photo: Todd McInturf / The Detroit News)

There’s demand for good quality “junior box-sized stores,” which range from 15,000 to 25,000 square feet, Stern said.

“There’s not a lot of inventory on the market today,” Stern said. “... It’s a good opportunity for other tenants, and on a positive note it’s not going to be another vacant box on the market. It will be absorbed.”

The fate of Toys R Us properties in Metro Detroit appears to look better than the outlook nationally. The failed retail chain has stores in all types of shopping properties — from standalone locations to community strip centers to large regional malls. Many centers are in the hands of publicly traded real estate investment trusts that lease space to the chain and may struggle with declining values for the properties. Some stores are owned by Toys R Us itself.

“It’s really tough right now to find a solution for something that’s that big and with that many locations,” Jan Kniffen, a retail consultant and founder of J. Rogers Kniffen Worldwide Enterprises, said in an interview with Bloomberg. “How many people need more stores right now? How many people need more square footage? Not very many.”

How successful landlords will be in filling empty stores will depend on the quality of the properties and their locations, according to research by CoStar Group Inc. Toys R Us owns many of the stores in weaker areas, while GGP Inc., the second-biggest U.S. mall real estate investment trust, tends to have some of the best locations and would have the easiest time finding new tenants, according to CoStar. Somewhere in the middle are companies such as Simon Property Group Inc., GGP’s larger rival, and Kimco Realty Corp., the research firm said.

Representatives for GGP and Simon declined to comment. A Kimco representative didn’t return a call.

Even with vacancies, some properties are still “viable commercial real estate,” Ed Reardon, an analyst at Deutsche Bank AG, wrote in a note to clients. Locations at power centers — properties anchored by discount department stores or warehouse clubs — would be easier to fill than standalone locations, with expanding retailers such as Michaels, Dick’s Sporting Goods, TJX Cos. and Ross Stores Inc. among the likeliest contenders for the space, he said.

Other chains with locations of roughly the same size as Toys R Us stores, including Best Buy and Bed Bath & Beyond are focusing on expanding their online businesses and remodeling existing stores rather than adding new locations. Target Corp. has said it plans to open dozens of smaller stores over the next two years, but they’ll be in cities and near college campuses.

With other big-box retailers, such as office-supply chain Staples Inc., potentially closing stores of a similar size, “the potential replacement tenants have a lot of negotiating power” with landlords, Deutsche Bank’s Reardon said in an interview. “The competition is not that intense.”

Bloomberg News contributed.