

Retail in NWI rebounding after major culling

Joseph S. Pete joseph.pete@nwi.com, 219-933-3316 Mar 25, 2018 Updated Mar 27, 2018



Drive down U.S. 30, Indianapolis Boulevard or any of Northwest Indiana's major thoroughfares, and the carnage is apparent. For-sale and for-lease signs proliferate. Storefronts are dark. Big-box stores that once packed them in sit empty. 2017 was the year of the so-called retailpocalypse. The steady growth of e-commerce sites like Amazon, Jet, Zappos, Groupon and eBay finally chipped away enough at brick-and-mortar traffic that many traditional retailers filed for bankruptcy, shuttered stores nationwide, and laid off scads of employees.

Northwest Indiana lost some of its biggest sporting goods stores — MC Sports, Gander Mountain and Sports Authority — which folded and closed all their stores, leaving behind Dick's Sporting Goods as the largest purveyor of jerseys, balls and other sporting equipment remaining in the Region.

As retailers that have long been part of the Northwest Indiana landscape waned, upstart companies as diverse as Blue Apron and Netflix made it less likely that consumers would venture out of the house.

Mounting losses

Strack & Van Til's parent company, Joliet-based Central Grocers, went out of business under the weight of \$225 million in debt, after creditors like Coca-Cola Co., General Mills, Mars Financial Services and Post Consumer Brands forced it into bankruptcy. Strack & Van Til ended up shrinking to 20 stores from 38, and discontinuing the entire discount Ultra Foods brand it debuted in Highland in 1981.

Al's Supermarket closed the only grocery store in South Haven, and Patz's Market shuttered the only supermarket in Hebron.



NWI Business Ins and Outs: Cereal bar coming to Southlake Mall, tea room opens, Starbucks closes

Fagen Pharmacy, which grew to be Northwest Indiana's largest independent local pharmacy chain after first opening in Gary 45 years ago, was sold to CVS, which closed a dozen locations. Walgreens shuttered three stores in Gary.

Northwest Indiana and the south suburbs also have lost Hh Gregg, Best Buy, Big Lots, Tuesday Morning, Catherines, Kmart, Sears, Sears Appliance and Hardware Store, Carson's Clearance Center, Gordmans, Family Christian, Payless, Dollar Express, Wet Seal, Gymboree, Rue 21, Ashley Homestore, Say Cheese, Lynn's Furniture and Mattress and The Limited.

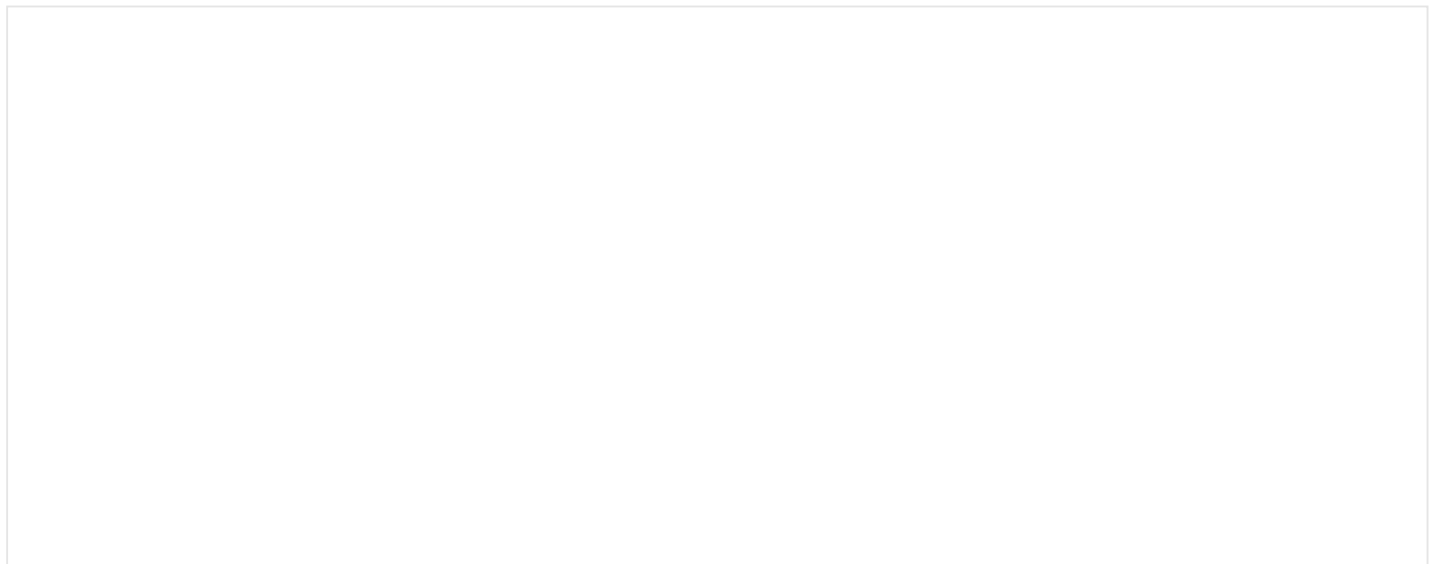
One could also stick a fork in the number of food-related businesses that have shuttered such as the century-old Piatak Meats and Spill the Beans Coffee Shop in Merrillville, Good to Go by Lucrezia's in downtown Valparaiso, Joe's Crab Shack by Southlake Mall in Hobart, and Lincoln's Carry Outs in Highland.

And in February, Carson's parent company Bon-Ton Stores filed for bankruptcy, raising questions about the future of its department stores in Hammond, Hobart and Michigan City. Carson's serve as anchors of the Southlake Mall and Marquette Mall.

New ways of doing business

Retailers are adjusting to a new reality and changing the way they do business, Latitude Commercial President Aaron McDermott said.

"I think most retailers if they are expanding, which some still are, are looking for much less space than they used to look for," he said.





Northwest Indiana's outlook is positive as businesses change the way they operate to be more nimble, strategic

“They are also a lot more prudent on the distance from their existing businesses. I don't think you are going to see the days when retailers like CVS and Walgreens were locating on every major corner and within close proximity of each other. They realize that their customers aren't driving as much and as often.”

Though the rapid rate of closures has slowed, the ripple effects of the retailpocalypse may continue to be felt, McDermott said.

“I think the next phase of turmoil is coming in the large REITs (real estate investment trusts) that own the larger malls,” he said.

“A lot of mortgages are going to mature in the next few years. Since the value of the centers has declined dramatically due to lower revenue from rents, their loan to value has gone up. When they go to refinance their loans, I can see a lot of retail centers and malls getting foreclosed upon.”

The stores shoppers know and love may not close as a result of the foreclosures, but such a wave will have a big impact on commercial landlords, he said.

“While that may or may not affect the retailers themselves it has a big impact on the value of the real estate around those malls that might get foreclosed,” he said.

“For instance if Mall A gets foreclosed and then repurchased for a discounted price they have a lower basis into the property. If Mall B is down the street they are at a disadvantage because now that mall’s lease rates could go down since they have less into it than Mall A.”

The strong will survive, but the foreclosures could dampen new development, McDermott said.

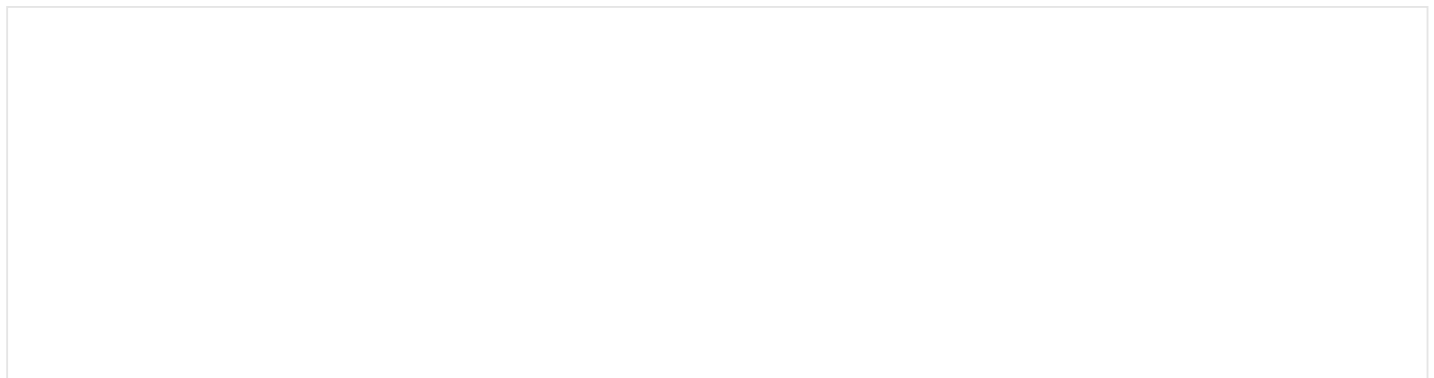
“I can’t see a mall like Southlake having issues because it lacks competition, but there are several projects in Illinois that I can see having issues refinancing,” he said. “People’s habits are still gravitating towards online shopping, and I do not see that stopping any time soon.”

Steep job losses

The overall Northwest Indiana marketplace is good, but retail will continue to see mergers, closings and adaptation, said David Lasser, president of Merrillville-based Commercial In-Sites.

"Significant large retail to open in 2018 are the new Meijer in Valparaiso and the relocation of the Dick’s Sporting Goods on 41 from Highland Grove to Shoppes on Main," he said.

"The next widely touted larger retail projects likely to break ground in 2018 are the Shoppes at Main Phase III in Schererville, the redevelopment of the Standard Lumber property in St. John and the Galleria along 109th Avenue at Delaware Street in Crown Point."





Northwest Indiana shows its flexibility, commitment to change, move with the times

Residential construction is booming, which bodes well for the retail section. "Retail will follow residential rooftops, and their demographics for their retail and restaurant service needs, many of which will likely never change much," Lasser said. "The global, national and local retail shift to online sales is stunning, and it remains to be seen what impact it will have; however changes, mergers and downsizing by the anchor stores will likely continue to occur, to find equilibrium with the massive population that still prefer to shop in stores."

Closed bank branches are likely to get repurposed, Lasser said. There's been a lot of consolidation in the banking industry, and banks tend to sit on prime locations that could be converted to retail, restaurants or offices. "Small-retail development in the form of freestanding single-tenant and multitenant buildings on sites of 1 to 2 acres at or near stoplights and on out-lots in anchored shopping centers is expected to remain a hot commodity for the foreseeable future," Lasser said.

"There is, however, a dwindling supply of prime stoplight corners and out-lots as anchors such as Meijer have nearly sold off all of their out-parcels."

Overall sales growth

Overall, the U.S. retail industry lost 66,500 jobs in 2017, according to the U.S. Department of Labor. That figure includes 90,300 layoffs at general merchandise stores like department stores, 28,600 jobs lost at clothing stores and 18,400 redundancies at drug stores.

But some signs are encouraging. Retail industry employment grew by 11,100 jobs in January as compared to December, when the segment lost 24,600 jobs, according to the U.S. Labor Department.

"These numbers reflect the strong holiday season and how retailers matched consumer demand for consumption by hiring additional staff," National Retail Federation Chief Economist Jack Kleinhenz said.

"There's always a loss of jobs after the holidays, but this year at least some of the extra staffing has carried over. We expect spending to continue to be strong this year, and that's good for retail jobs."

Retail sales grew 3.9 percent nationwide last year to \$3.53 trillion.

The National Retail Federation projects that retail sales will pick up by 3.8 percent to 4.4 percent year-over-year in 2018. Overall sales, including online, are expected to be strong because the economy is projected to gain 163,000 jobs per month, gross domestic product is expected to come in at around 2.5 percent to 3 percent, and unemployment is supposed to drop to 3.9 percent by the end of the year.

"A robust holiday season for retail sales is just one of many barometers that points to a consumer that is clearly feeling positive about their financial health," National Retail Federation President and CEO Matthew Shay said.

“Despite headlines to the contrary, the retail industry is strong, growing and meeting consumer demand with the products they want at the prices they expect and the shopping experience they want to have, online or in store. With consumer confidence high, unemployment low and wages growing, there is every reason to believe that retail sales will be robust throughout the year.”

The projected growth, however, includes a 10 percent to 12 percent boost in online sales, and doesn't mean retailers won't continue to close stores to "modernize" their operations, National Retail Federation officials cautioned.

“The underpinnings of the economy are very good, and consumer spending is at the center of our outlook,” National Retail Federation Chief Economist Jack Kleinhenz said.

“The push and pull of forces both external and internal to the U.S. economy will continue to provide challenges, but on balance we expect a good year. And as the retail industry continues to transform, retailers will leverage the new tax plan to invest in their employees, stores and new formats that engage with the ever-evolving and demanding consumer.”



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Health care in NWI thriving: More than \$400 million in new medical facilities, services in works throughout the Region

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Joseph S Pete

Business reporter

Joseph S. Pete is a Lisagor Award-winning business reporter who covers steel, industry, unions, the ports, retail, banking and more. The Indiana University grad has been with The Times since 2013 and blogs about craft beer, culture and the military.