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The Rising Tide of Retail Tenant Bankruptcies: What lenders need to know to protect their collateral.

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The Rising Tide of Retail Tenant Bankruptcies

As retail tenant bankruptcies become commonplace, the bankruptcies themselves continue to challenge commercial landlords and their lenders with nuanced approaches. Knowing the trends amidst the retail tenant bankruptcy apocalypse will help lenders more efficiently preserve and protect collateral.

Reasons for the rising tide of retail tenant bankruptcies are mixed, but include a decrease in the demand for large-box or traditional retail space, increasing on-line sales, and leveraged buy outs that have resulted in low liquidity and high debt for household-name retailers. Toys "R" Us is a notable recent example of a leveraged buyout meeting changing market trends that pushed the company toward bankruptcy.

Lenders and landlords have been scrambling to keep up with the deluge of retail lease workouts and bankruptcy filings. These challenges are particularly acute in the instances of tenants in retail strip or shopping centers, where it is becoming more and more difficult to simply find a new tenant to fill the space and thereby replace that outgoing tenant's percentage of the taxes and common area expenses, not to mention replacing the income stream.

The following are key considerations for landlords and their lenders as they navigate the retail tenant bankruptcy apocalypse.

First: Where the case is filed. While Delaware has been the hub of the bankruptcy cycle over the last ten years, the trend has begun to change with the retail bankruptcy rise. By way of example are the following recent retail case filings:

- Toys "R" Us, Inc. in the Eastern District of Virginia, Richmond Division;

Title search: The Rising Tide of Retail Tenant Bankruptcies: What Lenders Need to Know to Protect Their Collateral

Also available as part of the eCourse
Commercial Real Estate Lending Hot Topics: Retail Tenant Bankruptcies, Unusual Collateral, Completion Guarantees, and Nonconsolidation Opinions

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