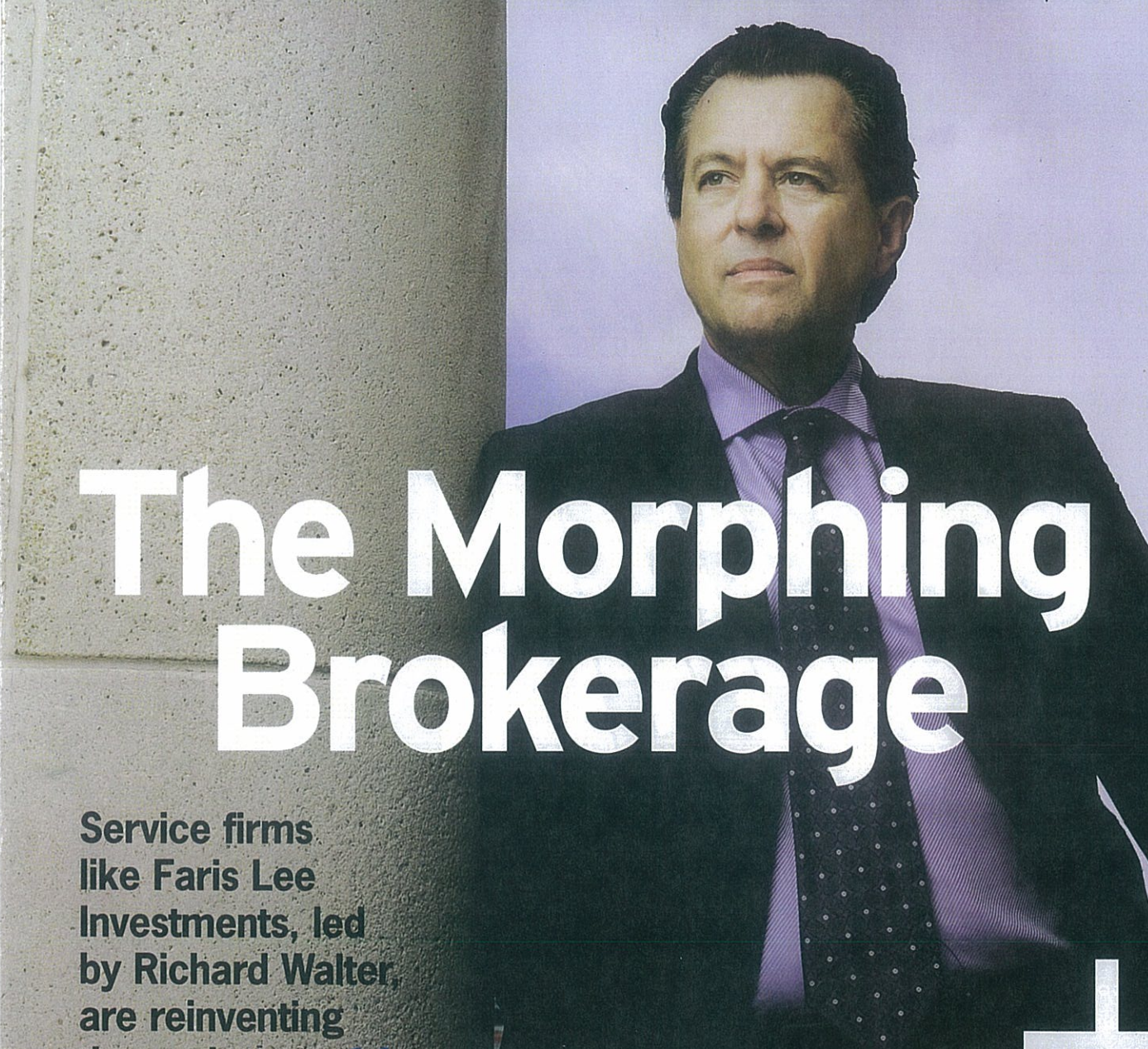


NATIONAL REAL ESTATE
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The Morphing Brokerage

Service firms like Faris Lee Investments, led by Richard Walter, are reinventing themselves. **p. 14**

Self-storage REIT returns stack up quite nicely **p. 82**

Dallas office developers have a flair for the dramatic **p. 86**

Alarm Bells for Sears?

Closings loom as iconic retailer continues to struggle amid declining sales.

While the retail industry's attention recently has been focused on Borders' Chapter 11 filing, another retail giant with a massive store portfolio may be raising alarm bells in the near future.

For years, Sears Holdings Corp. has reported declining sales at its Sears and Kmart stores. In fiscal 2010, same-store sales fell 1.6%, dropping 3.6% at Sears and rising 0.7% at Kmart. In 2009, same-store sales fell 5.1%. In 2008, sales fell 8%. Meanwhile, Sears Holdings' net sales dropped from \$53 billion in 2006 to \$43.3 billion last year.

The firm survived the recession while many others failed. But the two brands have struggled to find a niche in the retail sector and ceded market share for years.

Observers have questioned the tie-up of the two firms from the beginning and many still wonder if the brands can survive long-term. That might depend on what Sears Holdings decides to do with its real estate, according to retail and real estate consultants.

Despite its lackluster performance, the Sears chain has several things going for it: a well-known name and respected consumer brands including Craftsman tools and Kenmore appliances.

If Sears Holdings puts more emphasis on its hard goods and cuts down or improves its apparel offerings, it has a good chance of reinventing itself, says Craig Johnson, president of Customer Growth Partners, a New Canaan, Conn.-based retail consulting firm. But in order to do so, Johnson notes that Sears would have to shed about a third of its stores.

There appears to be less hope for the Kmart chain, which has failed to gain any market share in the discount game over the past decade against formidable competitors like Target and Walmart. Overall, Sears Holdings ranks as the ninth largest retailer in the U.S. by annual revenue—a steep drop after occupying the No. 1 slot for many years up to the 1990s.

As of January 2011, Sears Holdings operated about 3,500 stores in the U.S. The most valuable of these include 908 so-called "broadline" Sears stores based in some of the country's best malls. In addition, the company operates 1,287 specialty Sears stores, which are either freestanding or located in neighborhood shopping centers, and 60 Sears Essentials stores, also a freestanding concept.

Across the U.S., Guam, Puerto Rico and the U.S. Virgin Islands, there are also about 1,306 Kmart stores. Kmart stores are usually one-level freestanding buildings averaging 93,000 sq. ft. Unlike Sears stores, most of the Kmarts are positioned in weaker locations in secondary markets, notes Jeff Green, president of Jeff Green Partners, a Phoenix-based real estate consulting firm.

The consensus among experts is that



STAYING POWER? Sears Holdings operates 3,500 stores in the U.S., but retail consultants say the portfolio is too big and needs trimming.

this portfolio is too large to allow Sears Holdings to run a profitable retail operation going forward. The good news is that observers believe a sizable portion of the stores can be subleased. The firm occupies locations at some of the best malls in the country. Sears Holdings owns many of the sites outright and has long-term leases at below-market rents on others.

"They have very desirable real estate, there is no question about that," says George Whalin, founder of Retail Management Consultants, a Carlsbad, Calif.-based consulting firm. "When they started building those stores in the late 1950s and early 1960s, there were spaces available that aren't available today. That real estate will be very desirable for retailers that are looking to expand."

— Elaine Misonzhnik

In Progress: Redlands Industrial Building



DEVELOPER: Watson Land Co.

LOCATION: 26635 Pioneer Ave., Redlands, Calif.

BUZZ: This is the first speculative industrial building to break ground in the Inland Empire since 2009. The building will feature a cross-dock configuration with two spacious yards offering a 185-foot turning radius and up to 649 trailer storage spaces when combined with the adjacent land within Watson Commerce Center Redlands.

SIZE: 616,542 sq. ft.

PROJECTED COMPLETION: Fourth quarter 2011