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Thinking outside the box: What's in store for large LI retail spaces

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Google Maps image

The 26.4-acre former Sears department store property located in Hicksville.

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Amidst the evolving landscape of Long Island retail, empty big-box spaces have become a big problem. Aided by the ripple effects of Amazon's dominance and the bankruptcies of several major retailers, the exodus of department stores and other businesses that had occupied upwards of 20,000 square feet to as much as 200,000 square feet, resulted in vacancies that have been challenging to fill.

In the last several years, companies such as Sears, Kohl's, and Bed Bath & Beyond and others have considerably shrunk their retail footprint.

"The evolution of big-box retail spaces on Long Island has been shaped by a mix of tenant bankruptcies, strategic relocations, and the need to adapt to changing market dynamics," says Joshua Weinkranz, president of the northern region at Kimco Realty. Headquartered in Jericho, Kimco is North America's largest publicly traded real estate investment trust, with a large portfolio of shopping centers and mixed-use properties.

Changes in consumer spending habits, due in large part to the rise of online shopping, have significantly impacted the ways in which big-box retailers operate. "Many have chosen to 'right-size' their store format, reducing square footage while optimizing their spaces to align with consumer preferences for a more efficient, engaging and personalized shopping experience, balancing online and in-store interactions," Weinkranz says.

David Blumenfeld, principal at Blumenfeld Development Group in Syosset, also notes the connection between vacancies and changing consumer habits. Controlling about 4 million square feet of real estate, BDG's portfolio comprises entertainment-based retail spaces, office buildings, industrial properties and multifamily residential developments.

"The internet has profoundly changed the way we buy our goods, but it also has changed the way retailers sell their goods and services, requiring them to reconsider how and where they connect with the consumer," Blumenfeld says. "For Target to be convenient, their facility can't be 20 miles away. So, in their case, we may see five 50,000-square-foot stores in a 50-mile radius rather than one 140,000-square-foot store."

Major retailers have sometimes pursued this strategy at their own expense. "Some stores became very saturated," says Ken Breslin, principal at Breslin Realty Development Corp. in Garden City. The company manages a portfolio of about 30 commercial properties, totaling over 10 million square feet. "When they opened infill stores, they lost margins. When you combine that with online shopping, it all applies pressure, causing vacancy."

Breslin says occupancy costs are another major driver of big-box vacancies. "Real estate taxes, particularly on Long Island, are incredibly high," he says. "Originally, retailers came to Long Island because of high sales volumes, due to the population density. But now, with the increase in density throughout the southern United States, retailers have ample opportunities to move to places with comparable sales volumes and lower expenses."

Responding to the trend toward smaller stores, Weinkranz believes dividing big-box stores is often the best option, given the challenges of leasing large retail spaces. "Adapting big box layouts to suit multiple retailers is often the best answer," he says. "Although there are some complexities, this strategy opens up more possibilities to add new, dynamic retailers to our shopping centers."

It's an approach that has already delivered results for Kimco Realty. "In our own portfolio, we subdivided a former Linens 'N Things at Veterans Memorial Plaza in Commack for three new tenants that enhanced the mix and experience at the center—Harbor Freight, X Golf and Phenix Salon Suites," Weinkranz says. He points out the same shopping center has also divided a former Babies 'R' Us, adding two new tenants, Burlington and Five Below.

Breslin has also had success dividing vacant big-box spaces for leasing to retailers with smaller footprints. "In Bohemia, a former Big Kmart has been cut up into four smaller stores," he says. The space is now leased to Aldi, At Home, Floor & Décor and Joanne's Fabrics.

While retail subdivision is sometimes the highest and best use, the unique building characteristics of big-box spaces often make them a great fit for medical tenants. "There is considerable interest in former big-box retail spaces from medical property developers, because they are single-floor spaces with no elevators, making them compatible with the needs of medical offices," Breslin says.

One such example is the redevelopment of former Sears locations. The demise of the venerable department store chain left many empty big-box stores, but also created opportunity for healthy redevelopment. The Sears at the Smith Haven Mall that closed in May 2020 was bought by Bethpage-based developer Steel Equities and leased to Stony Brook Medicine. The hospital system opened a 60,000-square-foot outpatient facility last summer and plans to expand to 170,000 square feet at the former department store by 2027.

After walking away from a planned $200 million mixed-use redevelopment of the 26.4-acre former Sears property in Hicksville, Seritage Growth Properties, a REIT spun off by Sears Holdings in 2015, sold the site to Steel Equities, which might redevelop the property for yet another healthcare facility.

Other strategies for repurposing vacant big-box spaces, including residential redevelopment, have yet to be explored on Long Island. Blumenfeld notes that while housing scarcity is a pressing issue, there are obstacles to addressing the issue with big box spaces. "There is little debate that we have a housing crisis for the next generation on Long Island," he says. "Other regions are knocking down big boxes and building housing or, depending on the market, 21st century industrial space. Either direction would require changes in zoning which, on Long Island, is a serious commitment."