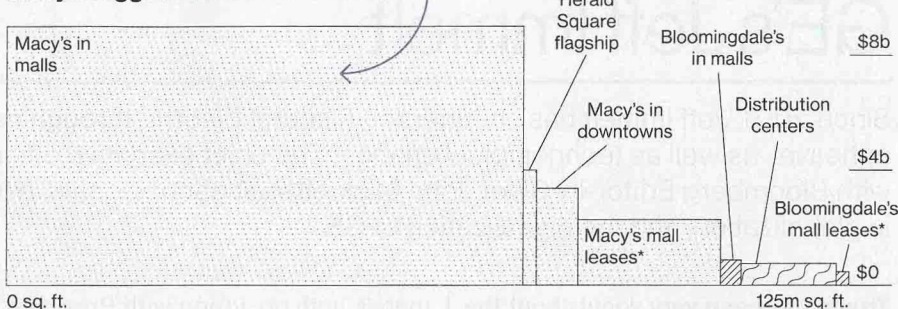


## Macy's Biggest Value: Real Estate?



plus its eponymous stores north of the border, is believed to have held early acquisition talks with the retailer, according to a person familiar with the matter.

HBC is borrowing from the Macy's playbook but with a twist. Chairman Richard Baker has focused on making money from the often prime real estate that merchants own. The idea is to sell the land and buildings to a real estate investment trust, which then collects rent from the stores. The REITs attract investors who want the stream of rents and potential property appreciation prime store locations and malls can provide.

HBC bought Saks in 2013 and later formed two joint ventures with **Simon Property Group** and **RioCan Real Estate Investment Trust** valued at about C\$2 billion (\$1.5 billion). Then in 2015 it agreed to buy the Galeria Kaufhof chain owned by Germany's **Metro** for €2.8 billion (\$3 billion).

If the two department-store companies strike a deal, HBC may fold Macy's assets, worth about C\$26 billion, into HBS Global Properties, its joint venture with Simon, says Steven Salz, an analyst at M Partners. Says Poonam Goyal, an analyst at Bloomberg Intelligence: "If you think of HBC, it's a retailer. But it's also an underlying REIT, and Macy's has plenty of real estate opportunities."

The REIT strategy has been tried repeatedly since activist investor Bill Ackman in 2008 unsuccessfully pushed **Target** to spin off properties he figured could fetch \$5.1 billion. Hedge fund manager Eddie Lampert, chief executive officer of **Sears**, put 235 Sears and Kmart stores into a REIT in 2015. The same year, activist Starboard Value pushed **Darden Restaurants**, which owns Olive Garden and other brands, to spin off 430 properties into a REIT. Then it encouraged Macy's to do the

same. Starboard estimated in 2015 that Macy's property accounts for about \$21 billion of the department-store chain's \$29 billion total value.

A deal could give HBC access to prime locations in the U.S. as well as exclusive brands it could introduce to Canada. Adding the stores to HBC's REIT would also give it a more diversified tenant base. Baker has said he's seeking to "fatten up" the REIT's store portfolio before taking it public.

Dirk Aulabaugh, a managing director of Green Street Advisors, says REITs can provide a chance for struggling merchants to take advantage of record real estate values. They can then use the cash they get from selling property to a REIT to invest in their core retail business. "I don't think that it is just a trend of the day," Aulabaugh says.

Such deals can pay off. The stock of **Seritage Growth Properties**, the REIT started by Sears in 2015, has gained 13 percent since its debut, while Sears shares have plunged 77 percent over the same period. But long-term bets on retail real estate could be risky. America has too many stores, and more than 10 percent of U.S. retail space—almost 1 billion square feet—may need to be closed, be converted to other uses, or charge less rent in coming years, according to real estate data provider CoStar Group. That could leave some REITs in trouble if they load up on losing properties or can't find tenants, or if real estate values plummet.

"It's an evolving picture," Aulabaugh says. "The larger retailers are shrinking their footprint. The question is, how far do they shrink it?" —*Lindsey Rupp*

**The bottom line** Macy's became the No. 1 department-store chain via acquisitions. Now Hudson's Bay may use Macy's real estate to thrive.

**B** Edited by James E. Ellis and Cristina Lindblad  
Bloomberg.com

### Chain Stores

## What Hudson's Bay Likes About Macy's

► Property may be the retailer's most valuable asset

► "Macy's has plenty of real estate opportunities"

**Macy's**, the largest U.S. department-store chain, got to its size by gobbling up rivals—regional chains such as Kaufmann's, Marshall Field's, Abraham & Straus, and Filene's. By 2005, after mergers with archrivals Federated Department Stores and May Department Stores, it slapped the Macy's name on its regional stores and got ready for the benefits that being the biggest kid on the block seemed sure to bring. It's still waiting. In January, Macy's reported disappointing holiday sales and announced a plan to cut 6,200 jobs. That news came months after it said it would shutter 100 of its 730 stores and jettison 4,000 workers—evidence that size helps only so much in an industry slammed by the internet and the falloff in mall traffic.

Now Macy's itself may be the target of a department-store consolidator. Canada's **Hudson's Bay** (HBC), owner of the Saks and Lord & Taylor chains,