

# Circuit City closings ripple through local economies

Bus-c  
Staff and wire report

THE ECONOMY

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Newspapers already struggling with falling ad revenues will have one less glossy insert in their Sunday editions.

Circuit City is bigger by far than any other retailer that has gone under in the current recession. The job

SEE CLOSING ON A10



SHMUEL THALER/SENTINEL

A customer leaves the Commercial Way Circuit City on Thursday.

Circuit City will finally flicker out when its last 567 stores close this year, but the bankruptcy of the nation's second-largest electronics retailer will ripple across the U.S. economy for

million square feet of vacant space in a faltering real estate market. More than 40,000 workers will be jobless, including 7,000 laid off last year.

Shopping centers will lose rental income. Suppliers will lose display space.

## CLOSING

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outlook for its workers is far worse. The prospects for suppliers finding other customers is grim, and a larger pool of creditors are likely to go unpaid.

"The situation today is so different than" during other downturns, said Jerry Mozian, a restructuring expert at Tatum LLC. "It wasn't the whole economy. Here, we've got a worldwide recession."

In Santa Cruz, Circuit City is in a complex with Toys R Us and Babies R Us. The big-box shopping center near Dominican Hospital was orchestrated by the county Redevelopment Agency, which promoted it as a way to bring in more sales tax revenue to support needed services.

"It's definitely a loss of sales tax revenue in excess of \$200,000 a year," said Betsey Lynberg, the Santa Cruz County Redevelopment Agency chief.

The only Circuit City location in the county, the store has 56 employees who will be out of a job.

With chain retailers like Mervyns closing, it's not clear what kind of business might fill the empty building. The space was designed for a big-box store, a free-standing retailer that draws lots of traffic.

In other cities, competitor Best Buy might covet the space. But here, Best Buy has a new store on nearby 41st Avenue in Soquel.

Capitola real estate broker Ron Hirsch suggested Smart and Final Extra, a discount looking for sites of 30,000 square feet.

Theoretically, the space could work for a bookstore, sporting goods, office supplies, housewares, computers, manufacturer clothing, and, perhaps a grocery or drugstore, said William Tyseling, executive director of the Santa Cruz Chamber of Commerce.

"The space is small for a 'superstore' ... Lowe's, IKEA, Target, Wal-mart," he said. "The key is to get beyond 'theoretical' candidates to matching consumer needs to real tenants. This is a most difficult time to do that. We really don't know how and when retail markets will emerge after the recession and what retailers will be interested in expanding."

Other big retail bankruptcies, like Macy's in 1992 and



SHMUEL THALER/SENTINEL

The Circuit City on Commercial Way in Santa Cruz County will soon close for good.

Kmart's in 2002, ended in reorganizations or buyouts rather than liquidation.

Circuit City initially hoped to reorganize when it filed for Chapter 11 protection in November. It was sagging under the weight of \$2.32 billion in debt and dismal sales as consumers cut back. But the 60-year-old company couldn't work out a sale or secure new financing, and on Jan. 16 announced it would close for good.

The chain owes nearly \$625 million to its 30 largest unsecured creditors — mostly vendors who supply the DVDs, flat-screen TVs and headphones on Circuit City shelves. They must wait to be paid until secured creditors such as bank lenders are satisfied.

That's hitting electronics makers when they can least afford it. Hewlett-Packard, which is shedding 8 percent of its work force after a big acquisition, is owed nearly \$120 million. Samsung, which posted its first ever quarterly loss Friday, is owed roughly \$115 million. And Sony, which saw its net profit fall 95 percent in the October to December quarter, is owed \$60 million.

Smaller businesses also got burned. Freelance photographer Scott Brown had worked for Circuit City's corporate office in Richmond, Va., for two years, shooting photos of people and products for the company's advertisements. The account grew to represent a quarter of his business.

The 41-year-old delivered his last project just four days before the company filed for Chapter 11. At the

time, Circuit City owed him nearly \$30,000. Brown listed himself as a creditor with the courts and hired an attorney. But the lawyer advised him he would probably never get paid.

"It was huge," Brown said of the loss. "It added to the stress of the daily business like you wouldn't believe."

The vacant stores leave a huge hole for shopping center owners to plug. The 18.71 million square feet of space is like the Raymond James Stadium in Tampa, Fla., where the Super Bowl was played — multiplied by 11.

Finding new tenants is increasingly difficult, as chains like Linens 'N Things, Mervyns and Steve & Barry's also go out of business. Other companies such as Starbucks and Ann Taylor are retrenching from an era of swift expansion.

Making matters more difficult is the size of most Circuit City stores, which range from nearly 17,000 square feet in Steubenville, Ohio, to more than 66,000 square feet in El Paso, Texas. Very few retail tenants require such large spaces, said Green Street Advisors analyst Nick Vedder.

"The anchors are really one of the most important pieces of the center," Vedder said. "They bring in the traffic, they are the lifeblood that (other) tenants rely on to bring customers to the

stores."

Analysts say most landlords can expect to see weak to no rent growth this year and higher retail vacancy rates. Those factors could push many owners of shopping malls, office towers, apartment buildings and industrial buildings into foreclosure or bankruptcy.

The shuttered stores also put pressure on businesses that remain.

Cafe 56 in the Cleveland suburb of Mayfield Heights counted on business from customers and workers at a nearby Circuit City store that closed last month. The cafe even had a wrap sandwich on the menu named after a store manager who came in almost every day.

"A lot of their staff would come in here because we'd give them 15 percent off," said manager Ben Taylor. "Our business is definitely down."

Cell phone provider Verizon and cable company Comcast, both of which operated hundreds of mini-stores inside Circuit City locations, will have to pay to shut them down and decide what will happen to the employees who worked there.

Even local newspapers will feel the effects as revenue from a weekly Sunday

insert disappears. Industry analyst Ken Doctor of Outsell Inc. said Sunday circulars have been one of the only remaining reliable sources of ad revenue for newspapers as classified ads have dried up. With Circuit City's gone, he said roughly 5 percent to 10 percent of the market could disappear.

To be sure, some companies stand to gain from Circuit City's dissolution, including the competitor that has dogged it for years: Best Buy Co. Inc.

The retailer, which has about twice as many stores as Circuit City, has been winning over customers to its brighter, more vibrant stores, outselling Circuit City \$40 billion to \$12.4 billion in 2007.

Analysts have said they think Best Buy can easily capture up to 30 percent of Circuit City's revenue, especially since two-thirds of its stores are within 10 miles of soon-to-be vacant Circuit City sites.

Liquidators also could benefit. Four liquidators will sell off all of Circuit City's remaining merchandise, which they value at as much as \$2 billion, minus the operating fees and a roughly 70 percent return they are paying to Circuit City.

Shareholders likely will get nothing, as is typical in many bankruptcies, and the thousands of creditors who may get something will likely receive far less than what they are owed.

Employees, thrown into a worsening job market, will likely cut their own spending in ways that reverberate.

Chris Hagquist was laid off from a Circuit City store in Vestal, N.Y., in 2007, during the company's bid to replace 3,400 higher-paid employees with less expensive ones. He found a job at a marketing company, but has since been laid off from there. His family of four is scraping by on income from a pony farm his wife runs.

"We've been struggling since Circuit City laid me off," said Hagquist, 42. "We've been trying to play catch-up ever since."

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