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Focus on: Site Selection

Experts weigh in on optimizing existing sites

By Katherine Field

As store expansion slows, retail site selection activities have decelerated in kind. To keep sales from stalling, most real estate departments have turned their attentions to optimizing the sites they have.

Chain Store Age talked with four retail real estate experts and asked them to provide a watch list of sorts—trends and activities to keep an eye on throughout 2010.

What retail real estate trends, with regard to site-selection/optimization, should we expect to see play out in 2010?

Ivan Friedman, president and CEO, RCS Real Estate Advisors, New York City: Similar to 2009, we're going to see a number of retailers optimizing their real estate assets in 2010. The result will be more negotiating of existing leases and, in some cases, more vacant spaces at low prices on the market. What this means is that the healthier, growing retailers will continue to take advantage of leasing these vacant spaces at a fraction of the price they would have previously.

In 2009, Bed Bath & Beyond and Best Buy were able to lease the best spaces left behind by Linens 'n Things and Circuit City for pennies on the dollar. Kohl's and Forever 21 purchased a number of Mervyn's leases out of bankruptcy at bargain prices. Big Lots has been signing leases in shopping centers that would not consider them before the downturn.

I think everyone was hoping we'd start to see some stabilization in 2010 and be back to 'normal;' instead I think we'll see more of the same activity we experienced in 2009.

Will any new markets come into play for retailers in 2010, or will stores for the most part maintain the markets they're currently in?

Charles Wetzel, president, Buxton Co., Fort Worth, Texas: There is no question that, for 2010, the majority of retailers have finalized their tepid plans for growth. 2010 will be the year of optimization for retailers within their existing markets. While some will look to new markets (rural or urban), the majority of focus will be on what a retailer can get out of its existing markets.

Fantastic Sams is a great example. The chain of salons has looked at its existing markets (and new markets) and identified how many stores each market can support. From that point, they started aggressively looking for potential franchisees, having already done the real estate homework for the market.

From a shopping-center owner standpoint, what are you seeing for 2010 from your retailer clients?

Robert Spratt, president, Hill Partners Inc., Charlotte, N.C.: Those retailers that can expand are now shifting out of renewals and restructure and closure mode, and are starting to look at new site selection. However, as you roll into 2010, what retailers are focused on is existing product. Publicly traded retailers, such as White House Black Market, have promised Wall Street that they will open a certain number of stores in the next year and will look to existing centers to open those in.

We're seeing in our existing centers an opportunity to lease space, with high-quality tenants that are repositioning or entering the market or adding in the market. But, progress is slow—evolving rather than a sudden spurt of new activity.

GNC reported to us that the limiting factor for their growth next year is that there aren't enough sites to open the planned 100 stores. Instead, the chain will open 60 to 70 stores rather than the originally planned 100.

How do you predict the climate between landlords and tenants will be in 2010?

Andy Graiser, co-president, DJM Realty, Melville, N.Y.: Just as in 2009, landlords will continue to be more flexible than they have been in years past. However, 2010 will bring about bigger challenges for landlords, in that lenders may become increasingly aggressive about landlord net operating income requirements.

From a retailer perspective, we will see some growth in 2010, particularly from chains like Big Lots, which is expanding, and of course the dollar guys.

In 2010 we will see more stores open than last year, but it won't come close to the magnitude of years past. ■