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By Ian Ritter
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RCS' Friedman on Retail Leases

When retailers have problems, firms like New York City-based RCS Real Estate Advisors usually get a lot of business. The firm, which markets closed chains' leases, got the contract to market Steve & Barry's 173 units earlier this year when that sportswear chain went into Chapter 11. It has also worked with Tweeter and BTWW Retail in helping those companies market their stores. But Ivan Friedman, the firm's CEO, isn't sounding too bullish on retail right now. It seems as though when everyone is having tough times, it's not good for anybody.

GlobeSt.com: *Are the liquidations in the industry actually good for your business?*

Friedman: I use an expression: 'It's so bad that it's too bad.' It's not good for anybody. Bankruptcies now are causing all companies to liquidate. Very few companies reorganize. That's not good for the company, and that's not good for selling leases because nobody is buying leases, or at least very few people are buying leases. Much of our business is renegotiating leases. In bankruptcies past, we had a year or so to renegotiate the lease because the landlord thought that they would have a tenant if they reduced the rent. Now there's not going to be a tenant, so there's no rent relief to be gotten in bankruptcy cases. It's not good for me because we derive a lot of fees from rent relief. Bankruptcies are so short that it's not good for the bankruptcy attorneys because they bill by the hour. Need I go on? It's terrible.

GlobeSt.com: *And I thought your business might be a bright spot...*

Friedman: There are other opportunities. The opportunities in this environment are companies that do have other pressure points on landlords, such as renewals of leases, and they're getting better deals from landlords because they can leave as well. We are refocusing on where you can help the retailers, but it's not the old model of what was there five years ago.

GlobeSt.com: *Was there a lot of competition to obtain the Steve & Barry's contract?*

Friedman: There are only one or two similar firms that do the marketing of these bankruptcy leases. So I assume that there is a put out to the two or three companies that are the leaders in the field and the company and creditors committee select the one that they think will do the best job. It's a very specialized practice.

GlobeSt.com: *Are you seeing any kinds of chains out there looking for space?*

Friedman: No, people that are looking at these leases from bankruptcy sales are doing it very opportunistically. Any company that did have some growth plans—even though they've cut back their growth plans—do look at these things, cherry pick and bid on leases that have extraordinary value and fit into the company's expansion model.

GlobeSt.com: *Do the various sizes of Steve & Barry's stores create a challenge?*

Friedman: With Steve & Barry's, you have stores that range from 15,000 square feet to a high of 131,000 square feet. Most of them are malls, with some open air and some stand-alones. The more moderate sizes, the 15,000-square-foot to 30,000-square-foot stores, there are more users for that space. So when we market these things, we generally focus them on retailers that use that size space. The rents are very attractive. Most of the leases are under \$10 [per] square foot, and many of them are under \$5 [per] square foot.

GlobeSt.com: *Did you find many opportunities with Tweeter since they were in a few high-profile locations?*

Friedman: The problem with the Tweeter case is that it converted to a Chapter 7 liquidation, and they closed up all the stores. There was no sale of the leases, they are all going to be rejected. The owners of that company, converted into a Chapter 7 and stopped the going-out-of-business sales. We market the leases during the sales, and since there are no going-out-of-business sales, there is no time to market these because they were closed in the middle of the night. All of the leases will just be going back to the landlords.

I want to make a note about two companies. Steve & Barry's and Tweeter were both in Chapter 11 the year prior. They're part of the few companies that did come out of Chapter 11 because a strategic buyer bought them. Within a year they failed again, and now they've liquidated. There's a company called Goody's that reorganized and there's a lot of rumors that they are going to go back under again. What we're seeing is nobody's reorganizing to speak of. On top of that ICSC is saying there could be 8,000 to 9,000 empty stores this year from companies going out or not renewing leases. There is definitely a glut on the market of space available and the only way somebody's going to buy a lease in bankruptcy if they see an extraordinary value they couldn't get with a landlord.

GlobeSt.com: *Do you see this getting worse after the holiday season?*

Friedman: Absolutely, once these figures come out. Everybody's sitting on cash and everybody's frightened. Those who controlled their inventories will do better than those that didn't, however, sales are abysmal. I was in a Toys "R" Us on Sunday in New Jersey purchasing some gifts at 12:30, and there were only seven cars in the parking lot.

GlobeSt.com: *Will any sectors get hit worse than others?*

Friedman: Anybody related to the home industry. People like Pier 1 have been severely affected and will not get better. And all the furniture brands are doing very, very poorly. You have Circuit City in bankruptcy. Will they reorganize? That story will be told very shortly, by the middle of January there could be a determination whether that company is going to liquidate or reorganize. Best Buy will be the remaining category killer. With Linens liquidating, Bed Bath & Beyond will be the category killer. One will survive because they have the money. But they're pulling back, their numbers aren't good and they're sitting on their cash. Everybody is looking to 2010. Nobody thinks anything is getting that much better in 2009. ■