

WWD TUESDAY

Retail Leases Under Pressure

By SHARON EDELSON

NEW YORK—Retail lease disposition is showing signs of distress in this downtrodden economy. A record 8,000 to 9,000 leases have become available for distribution as a result of bankruptcies, liquidations and downsizings.

With more retail bankruptcies anticipated in the new year, available square footage is expected to grow exponentially. And with few retailers in expansion mode, there may be lots of dark spaces in shopping malls, strip centers and power centers.

Circuit City, which was to hold an auction of 154 leases this week, canceled the auction due to a lack of bidders. The retailer, which filed Chapter 11, hopes to reject the leases in bankruptcy court.

Mervyns, which was liquidated, had 150 leases up for sale. In sounder financial times, experts said the leases collectively could have fetched \$50 million to \$100 million. Only 46 Mervyns leases found takers for a total of \$6.2 million.

Even healthy retailers are using the distressed economy to try to get rent reductions. "A retailer doesn't have to be in bankruptcy," said Ivan L. Friedman, president and chief executive officer of RCS Real Estate Advisors, which helps retailers evaluate their real estate portfolios, shed underperforming stores and trim occupancy costs. "Retailers are not renewing leases that they can't get great rent relief on."

RCS is marketing 165 leases belonging to the bankrupt Steve & Barry's. "We are getting a few calls on [the leases]," Friedman said. "I don't know what's going to happen to them. In good times we could sell lots and lots of leases. Now, everyone is preserving cash. You've got no buyers."

RCS has doubled or tripled its client base this year, Friedman said. "This is not a good time for anybody. I get 15 to 20 calls a day

from retailers with companies that do \$200 million in sales and up. Everybody says, 'I need rent relief' or 'I want to get out of leases.'"

Andy Grasier, co-chief executive officer of DMJ Realty, said, "Generally when a space went back to a landlord it would get leased up within a year. It's probably going to take longer to fill some of these vacancies than ever before. Landlords will allow some discounters that they normally wouldn't have allowed into their centers. They're going to try everything, churches, health-related services and schools. There's going to be a lot of alternative uses. This is a fairly new phenomenon."

Power centers may have trouble finding large tenants to replace big box pads. In some cases, the boxes are too big to subdivide. "Some of these power centers are going to rely on less occupancy from the nationals and will start focusing their efforts on some of the regional players," Grasier said.

"Landlords are being as flexible as humanly possible," Grasier said. "It's no secret that there's little or no growth."

Friedman also finds that "landlords are being very cooperative in reducing rents. I've done deals where I've reduced rents by up to 50 percent. A 20 percent to 30 percent decrease in rent for B, C and D malls is not unusual. Right now it is very much a restructuring environment."

The glut of retail space can't only be blamed on the economy. For years, retail experts have said that the country is overstored, but the industry for the most part ignored the warnings. Now, the problem of too much retail square footage has come home to roost. "The bottom line is that we were overstored for several years and that was during the good times," Grasier said. "We're in a very overstored situation."