



Upwardly Mobile Tenants

(By Steve McLinden - SCT Shopping Centers Today www.icsc.org/sct)

Tough times have brought career advancement for some retailers. Tenants that hitherto found themselves confined to weaker shopping centers are finding a welcome in newer, better-located properties.

This is not an entirely new phenomenon, of course, but it has become strikingly amplified over the past few years, against a backdrop of dwindling retail tenants and shrinking rents.

"With so many big-box spaces available, tenants can now march around a trade area to upgrade, because in many cases they can get into an 'A' center for 'B' and 'C' center rents," said Chris Simmons, senior vice president of Minneapolis-based Welsh Cos., a commercial real estate firm. "We're seeing this happen across the board. Tenants now have the ability to get into a trade area that they didn't have a hope of entering even 24 months ago."

Others, too, bear witness of this accelerated flight to discounted quality spaces in recent months. "It is absolutely happening," said Mex Birdie, director of retail investment services at Maitland, Fla.-based NAI Realvest. "Landlords are enticing those tenants [from other centers] that have their leases come up for renewal or who have some kind of 'out' clause."

Weaker centers are suffering a double whammy, Birdie says. They are losing major anchors to newer or better-positioned rivals, which in turn triggers co-tenancy clauses, giving the junior anchors excuse for exodus as well — often to the very same center where the major anchor relocated. To combat this, many landlords will offer a "blend and extend" deal under which rent terms are redone and the lease is extended.

Such scenarios are likely to continue through at least the rest of this year, says Birdie. "The retailer will still have these opportunities."

Though retail brokers and center owners are typically mum about specific instances of aggressive tenant recruitment, the media are rife with examples. In November Stein Mart announced that it would leave its anchor position at a struggling mall in Corpus Christi, Texas, and relocate to a former Circuit City space in the nearby Moore Plaza by this spring. At its new home in Moore Plaza, Stein Mart joins fellow anchors HEB, Hobby Lobby, Marshalls, Office Depot, Old Navy and Target.

Last summer saw the recruitment of Giant Foods, T.J. Maxx and others from a Pottstown, Pa., center northwest of Philadelphia to the new Upland Square shopping complex, in neighboring Pottsgrove.

Another nearby strip mall lost its Staples tenant to Upland Square as well.

A company that planned a mixed-use complex near Cleveland was accused at a public meeting by another center of trying to steal nearly all its retail tenants, the local press reported.

These relocations are not limited to U.S. markets. Canada, with an average retail vacancy rate of just over 3 percent at year-end 2009, is getting more than its share of new growth and replacement locations from American retailers.

Lowe's Home Improvement plans to expand to western Canada this year with multiple stores, and Jimmy Buffet's Margaritaville will make Calgary its northernmost home as one of five planned Canadian locations, says Jeff McGinley, a principal in the Calgary office of [Avison Young](#), a Canada-based commercial real estate firm. Several other U.S. tenants are lining up for Canadian expansion as well, McGinley says, including Five Guys Burgers and Fries, which Avison Young represents. "Canada is getting a lot of traction from the U.S.," McGinley said.

Canada has had just over a year of economic trouble, versus nearly three years in the U.S., says Darren Snider, a principal at the [Avison Young](#) Edmonton office. Given the low vacancies and Canada's under-retailed status, retail is perceived to be a healthier asset class in Canada than in the U.S., says Snider. Hence, there's less lateral movement among Canadian retailers, he said. "Most are deferring site decisions until 2011," he said.

Back in the U.S., retailers are re-evaluating their positions more assertively. "They all want to be near traffic generators and strong anchors," said Daniel Taylor, senior vice president of SRS Dallas and a site-acquisition specialist and retail tenant representative. Many retailers tell Taylor they want to move to centers where such discounters as Ross Dress for Less and T.J. Maxx reside. "But it's not just the tenants that are aggressive — landlords have gotten that way too," Taylor said. "Landlords are cutting back on offering tenant-improvement dollars, because that's money out of pocket, but they're offering [months of] free rent." Consequently, regional retailers and mom-and-pop shops are getting into better spaces more cheaply, he says.

Yaromir Steiner, CEO of Columbus, Ohio-based developer Steiner + Associates, says significant net reduction in retail square footage is likely to occur through this year as the industry hits a stronger "bifurcation point between good and bad [centers]." Many that were just hanging on could fail or be forced to convert to nonretail uses, he says.

In general, retailers are taking a much closer look at managing existing stores in their portfolios these days, says Branson Edwards, executive vice president and managing director of retail occupier services at Grubb & Ellis. "They're looking for the biggest bang for their buck," Edwards said. "They're prioritizing and optimizing, which means they're reconciling lease obligations and making sure rents are appropriate."

Though some retailers are relocating to better centers, Edwards says most of the lateral moves he has seen were the result of a lost lease or an anchor that went dark. "Barring that, I see them spending whatever hard-earned capital they have more on refining existing locations, on lease administration and rebranding of stores," he said. New signage and catching up on maintenance that was deferred during tough times will be factors too, he says.

McDonald's is a good example of such refinements, says Edwards. As competitors built new stores or moved, McDonald's reinvested in existing stores and focused on being relevant, he says. "That has yielded tremendous and obvious benefits."

The departures of the likes of Circuit City and Linens 'n Things and the recession-related retractions of others have not only created market-entry and relocation opportunities for non-national retailers and restaurants, they have bolstered the real estate strategies of surviving national chains as well. "Best Buy, for example, is picking through the carcasses of the old Circuit City locations and is being very selective in opening up a handful of excellent stores," said Birdie. "It used to be, just let the good locations take care of the bad locations, but now you can pick and choose."

Because of the long and narrow configurations of some of the vacant boxes, many landlords "are going to have to either mothball the back of some of these spaces because they're so long, or get creative with multitenant deals — or even convert some of them to mixed-use," Welsh Cos.' Simmons said.

The possibility that a couple of other big-box chains will close this year will create additional rent pressures and relocation opportunities, says Simmons. Welsh is breaking up one former big-box site into four or five tenant spaces at a well-located, he says, Target-anchored center across from a regional mall, but at closer to grade-B pricing.

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