

Special Advertising Section

Shopping Centers Now Serve As Multipurpose Community Hubs

By Joseph Dobrian

As some shopping centers, and some types of retailing, continue to struggle in a down market, others are weathering the storm quite well. It appears that the downturn has to some extent recast what consumers are looking for in shopping centers, in terms of tenancy and amenities. It has also shifted the advantage away from larger power centers, and created opportunities for smaller players.

A difficult economy also gives shopping centers the opportunity to establish themselves as multipurpose hubs of the community, rather than just shopping destinations. Some centers are bringing in cultural attractions, performance venues and schools in addition to traditional retail tenants.

Above all, customers are looking harder for value in a retail destination now, than they did a couple of years ago when money wasn't as tight. According to Willing Biddle, president and chief operating officer of Urstadt Biddle Properties, a real estate investment trust based in Greenwich, Conn., consumers are less inclined to buy what they don't need. Saving, rather than consumption, is in vogue. This, Mr. Biddle says, works to the advantage of certain types of shopping centers.

"People have been scared enough by this latest downturn that they'll always remember what happened and will become savers if they can afford to," he predicts. "That will positively impact retailers of basic necessities, like grocery stores, dollar stores, discount stores: any retailer that's perceived as selling anything you might buy in a department store, but at value prices. Those that will be hurt are the luxury apparel retailers, many women's clothing chains, jewelry stores, high-end shoe stores."

"I'd rather own an ugly dog in a good location than a pretty one on the outskirts."

"The type of shopping centers we own are grocery-anchored, with other retailers that sell basic necessities: a pizza restaurant, an eyeglass shop, a pharmacy, a Chinese restaurant," he adds. "People still have to eat, still have to have their shoes and glasses repaired, so those centers are doing fine. Those that are hurting are the power centers: 'category-killer' retailers all grouped together, without a grocery anchor. If you get a vacancy in one of those centers, in this economy, who's going to fill it?"

Secrets to Success

Current conditions prove the adage that the three secrets to successful retailing are location, location and location, Mr. Biddle notes. Poorly located centers will be the first to lose tenants and lower their rents, the first to have trouble paying their mortgages — and the hardest to sell if they're foreclosed.

"A new difficulty," he adds, "is that when the economy was stronger, many owners put big mortgages on their properties, as much as 80% loan to value [the proportion of the property value that has been borrowed]. Now, the value of the building has dropped to the point where there's very little equity in the property, and if a new tenant wants the owner to pay for buildout, it may not be feasible to do so if the mortgage is about to mature. The downturn has shown that low leverage is very wise, and grocery-anchored



Retail venues, such as Steiner + Associates' Zona Rosa Shopping Center in Kansas City, Mo., are gaining importance as places to live, work and play.

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Where does Mr. Biddle see the best investment opportunities in shopping centers today, in terms of region and property type? Well-located properties in densely populated areas are always best, but even those can lead to unpleasant surprises, he says.

"Go where it's hard to build," he advises. "Oversupply will depress rents even in the strongest markets. Go where the land will become more valuable over time. It'll cost you about the same to build a shopping center in Fairfield County, Conn., as in suburban Ohio, but the land in Fairfield County is more valuable because of density and income levels."

Cash Flow and Creditworthiness

In deciding whether to acquire a property, Mr. Biddle recommends several basic steps. Cash flow and the creditworthiness of the tenants are vital considerations, but he examines the underlying value of the real estate as well.

"Tenants do go bankrupt," he cautions, "and you'll want to be sure that if a tenant leaves, you'll be able to get at least the same rent from a new tenant, if not more. So, we look for properties that have below-market rents, that are older, that we can enhance through facade renovations and by improving the tenant mix. I'd rather own an ugly dog in a good location than a pretty one on the outskirts."

Yaromir Steiner, CEO of Columbus, Ohio-based Steiner + Associates, an owner-developer, says the major trend he notices is that shopping centers are gaining importance as cultural destinations: places not just to shop, but to live, work and play.

"The best new shopping centers are more diverse today than ever before," he says. "This continuing trend reflects a return to the familiar touchstones of small-town America: the Main Street and Town Square. Only now, instead of functioning as the economic and social hub of a single small town, these public spaces and mixed-use



The Southcentre Mall in Calgary, Alberta, encourages community relations with a large customer service center, hotel-quality washrooms, and video strollers for children.

places are becoming the go-to destination for an entire region. For many communities around the country, shopping environments are the new 'downtown' — the place where people come together both for everyday activities and to celebrate special events.

Surprisingly, Mr. Steiner adds, the recent downturn enabled him to add more diversity to the tenant mix in his properties through more aggressive and creative outreach to local and regional businesses.

"We've worked with them to create new opportunities for them as temporary tenants, not only maintaining a high level of occupancy, but diversifying our already dynamic and

appealing tenant mix," he says. "These unique tenants not only contribute a distinctive regional character to the center, but also help solidify its status as a true community center," he says.

Shawn Hanson, general manager of the Southcentre Mall in Calgary, Alberta, says that hiring a community relations specialist is one way for a property owner to build goodwill and add perceived value. Just as important, he says, is his mall's effort to build a niche as a "comfort shopping" destination.

Changing Tenant Mix

"We've introduced a large customer service center that's second to none, hotel-quality finishes in our washrooms, video strollers for children, a kids' club program, and themed areas throughout the center, like a sports nook with a Jumbo Tron," he says. "It helps that our tenant mix is changing, and retailers are becoming more sophisticated. We're seeing more movement from U.S.-based retailers, and many Canadian centers are competing for them."

The idea of shopping centers as community hubs is catching on world-wide, particularly in under-retailed markets. In Dubai, Shahram Shamsaei, senior vice president of asset management at Majid Al Futtaim Properties, says that his company's growth is greatest where the supply of retail is thinnest, with competition extremely heavy in the Middle East's larger markets. But, he adds, the challenges that face shopping center owners and operators are much the same all over the world.

"Consumers are generally more disciplined in their spending," he says, "and in parts of the Middle East where the supply side is more in line with developed markets there is intense competition for their business. The quality of the assets in many ways determines how well one copes with the changing environment. We deal with the universal issues: footfall, dwell time, average spend, tenant mix, rents, focused marketing backed by consumer and tenants feedback, and operational efficiencies."

Hard-Hit Luxury Retailers Are Seeing a Rebound

By Joseph Dobrian

Hard economic times have had considerable impact on consumer shopping habits, both in the U.S. and world-wide. Luxury retailing slumped badly in 2009, while lower-end retailers took less of a hit. There's been more consumer focus on savings and frugality, with money going to "must-have" purchases, while the "nice-have" purchases are postponed. Retailers have reacted to this trend by creating efficiencies and paring down expenses — and positioning themselves for a rebound.

Their expectations are about to be realized, says Michael Niemeira, vice president and director of research at the International Council of Shopping Centers (ICSC), based in New York. A recovery is quietly under way, both for the consumer and the retail industry, he says, with economic indicators turning more positive and boosting consumer confidence.

"During the past recession, retailers slashed inventories, reduced their personnel and closed unprofitable stores," he says, "but that adjustment is now yielding healthy profits, which are boosted further by recovering consumer demand."

"The hardest-hit retailers, the luxury stores, are coming back the strongest. But as the consumer cycle evolves this year, we expect the dollar stores — those that benefited dramatically from the recession — will see some of their customers return to

the middle-market retailers. Right now, though, everyone is getting a lift. Overall retail sales, including automotive, were up 10% year-on-year for March."

However, Mr. Niemeira warns retail real estate owners that for them, the hard times might last a little longer. Retail demand and real estate run in two different cycles, he explains, with real estate lagging demand. "It could be another year before we see upticks in leasing and rents," he says.

"Despite that extraordinary sales boost in March, people remain very practical about their shopping," says Faith Hope Consolo, chairman of the retail leasing and sales division of Prudential Douglas Elliman Real Estate in New York. "Clearly, with the increase in the Dow and employment figures stabilizing, shoppers are a bit more secure. But they're not going overboard. The aspirational shopper, who propelled retail during the mid-'naughties' because of the increase in home equity, is out of the luxury market, at least for a few years. This will create a more stable retail market — not the highs of 2005, but not the



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lows of 2009, either — as shoppers stay within their means and clean up their personal balance sheets."

Ms. Consolo points to the debut of the iPad, which she says didn't enjoy the huge initial sales that had been anticipated. It could be, she suggests, that shoppers are holding back to find out whether the iPad really is useful and efficacious — and hoping that its price will drop in time for the holidays.

For now, dollar stores, supermarkets, and drug stores seem to be strong and growing, which is good news for many shopping center owners, says Ms. Consolo. Drug stores are challenging supermarkets by adding more food. Fast-food and quick service restaurants are expanding, although "white tablecloth" eateries have virtually stopped growing. In all, stores have not been closing at a high

rate, but development of new retail property has been almost nil in 2009 and 2010, and will probably not pick up in 2011.

"Therefore," says Ms. Consolo, "the tenants that are growing have fewer available spaces. Rents will rise again — most people say next year, but I think it might happen earlier for the best locations."

By 2011, she adds, new retailers will be coming onto the scene, having put their plans on hold for the past couple of years. Shopping center owners, she says, are encouraging these newcomers by giving them an initial break on the rent.

"Lots of new luxury labels have been held back," Ms. Consolo notes, "and now luxury retailers are expanding into shopping centers. TOUS, from Spain, is ramping up from 12 to 50 accessory/jewelry stores in the U.S. They just took one in the Rockefeller Center [in New York City], one in Bal Harbour, Fla., one at The Mall At Short Hills, Short Hills, N.J., and one at the Beverly Center in Los Angeles."

Much of the growth in luxury retailing has come in the less expensive luxuries, such as food and fragrance, she says. "For example, Kusmi Tea, which was founded in St. Petersburg and established itself in Paris, is now coming to North America. We've placed them in Montreal, Toronto and New York City. High-end fragrance stores, like Artisan, are expanding in the same way. Meanwhile, shopping center owners have been amenable to the 'new normal' deals that are more in line with today's economy, so they'll allow these new retailers to establish themselves for a couple of years before introducing an aggressive rent hike."

Another type of retail that's gaining popularity in shopping centers is wine stores that offer tastings. At one time, Ms. Consolo says, these had been seen as unhelpful competitors to restaurants, but now they're regarded as traffic-builders.

"We've been in a recession, rather than a recession," Ms. Consolo concludes. "Shopping centers are the hub of American culture, and they're looking for the next big brand."

Wine stores that offer tastings are gaining popularity in shopping centers, and are seen as traffic-builders for neighboring restaurants.