



Representing a unique opportunity, now may be a good time to invest in Rite Aid

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Along with most net leased retail properties, the investment sales market for Rite Aids was virtually nonexistent in 2009. Beginning in 2010, numerous Rite Aids were sold, many of which were originally sold in 2008 by Rite Aid Corp. as part of their corporate sale-leaseback program, generally at cap rates in the 9% range. This increase in Rite Aid investment sales activity tracks Rite Aid's financial results which have stabilized. Standard & Poor's has rated Rite Aid's debt as a B- which is below investment grade.

Rite Aid currently operates approximately 4,700 pharmacies in 31 states and the District of Columbia. In terms of locations, Rite Aid is the largest drugstore chain on the East Coast and the third largest in the country behind CVS Caremark Corp. and Walgreen Co. In 2007, Rite Aid substantially increased its presence in the Northeast by purchasing the Brooks/Eckerd drugstore chain. Rite Aid leases a majority of these locations.

Nationwide, there are several Rite Aid portfolios currently on the market. Calkain posted a blog/white paper in GlobeSt.com discussing the fact that this is a good time to consider investing in a Rite Aid. We believe that the investor will obtain an above average yield commensurate with the market's view of Rite Aid. We have had discussions with several portfolio owners who are beginning to explore whether this may be a good time to market some of their properties. We are also starting to see interest in Rite Aid from net lease investment companies. We recently obtained an exclusive listing for a Rite Aid located in Lynn, Mass. This particular property has a relatively short remaining lease term which positions it differently than most of the other Rite Aids on the market but nonetheless is indicative of the fact that many are beginning to hit the St., and at attractive pricing. The utter lack of product on the market right now has no doubt influenced some of that activity; however, from a pricing perspective the cap rates we're seeing on Rite Aid are about the same as they have been over the last few years. The large portfolios out there all tend to be somewhere in the low 9% range cap-rate wise. It'll be interesting to see what pricing trends begin to emerge as those deals get gobbled up.

Calkain participated in the July ICSC New England Idea Exchange held in Boston. Our observation was that although attendance seemed to be less than in the mid 2000s, the discussion levels between owners, tenants, brokers and property managers were numerous. The "Retailers Runway" segment which features retailers who are expanding in New England included a mixture of established retailers, national retailers entering New England as well as start up retailers. Although no major deals were announced at the meeting, the sentiment that we observed from attendees was that business was slowly coming back. We were very pleased with the level of activity at our booth during the "Deal Making" session. Many visitors to our booth, consisting of developers and investment firms, were interested in further discussing our assessment of Rite Aid, both from a credit

as well as a real estate investment perspective.

We will be participating in the September Interface Net Lease Conference as well as the December ICSC National Conference, both to be held in New York City. We anticipate Rite Aid to be a major discussion topic among participants at both events.

In summary, we believe that Rite Aid represents a unique opportunity. At a time when cap rates have compressed to near record levels and demand outstrips supply, Rite Aid deals offer a healthy return for what we believe to be a manageable risk. Ultimately though, Rite Aid must be viewed as a real estate as opposed to a credit play. Consequently, real estate fundamentals apply. Being able to walk a property and working with a local broker who knows the market a given store is in, is critical. Buying one site-unseen on the other side of the country is probably not advisable. Rite Aid seems to have turned a corner as an enterprise, and seriously looking at Rite Aid now might position investors for significant upside in the not too distant future.

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