



Company of the Month: Retail developer Heidenberg Properties continues to add value during the pandemic

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Hershey Square Shopping Center, 1130 Mae Street - Hummelstown, PA

New York, NY The COVID-19 (Coronavirus) Pandemic, which began in March and is now experiencing new all-time highs of daily infection rates as we head into the final quarter of 2020, has

hit the commercial real estate industry particularly hard. Whether it is the near-abandonment of office workers in major metropolitan areas, the reduced level of rent collections across asset classes, the rise in loan delinquencies or the ever-growing list of retailers and publicly-traded mall REITs filing bankruptcy, there has been plenty of news about the retail industry...most of it bad.

However, one retail developer has not only successfully managed its portfolio through the pandemic, Heidenberg Properties Group has launched several redevelopment projects utilizing different strategies.

The first is the Hershey Sq. Shopping Center located in Hummelstown, PA. Upon the departure of Kmart from 107,000 s/f in March 2019, Heidenberg Properties began marketing the anchor space for lease. Despite having an anchor in Kmart that was neither a draw nor a driver of cross-shopping, the balance of the tenants at Hershey Sq. thrived. The 55,000 s/f Weis Markets, which added a beer garden in 2018, the 10,000 s/f Fine Wine & Good Spirits-Premium Collection, as well as Panera Bread and Five Guys all contributed to making Hershey Sq. the center of retail activity in the Hummelstown market. Although filling over 100,000 s/f of retail is never an easy task, the developer was poised to add value at the shopping center.

From November 2019 through May 2020, Heidenberg Properties executed leases for over 90,000 s/f with companies comprising a “who’s who” of today’s leading retailers. In what the developer has been calling “Hershey Sq. 2.0,” Heidenberg Properties has entered into long-term leases with T.J. Maxx, Big Lots, Five Below, and Planet Fitness, and is building a new pad for Chipotle (including a drive thru and “Chipotlane”) in front of the Weis Markets. In addition, Weis added additional term to its lease, further demonstrating its confidence in the center. According to Heidenberg Properties’ vice president of real estate Ken Simon, “These are exactly the types of opportunities we seek when we make acquisitions. We knew that this space would be desirable to top tier retailers and we couldn’t be more excited about the new tenant line up. The mix of treasure-hunt, value and experiential retailers that we are adding will well-position this property for the long-term.”

To effectuate the redevelopment, Heidenberg Properties refinanced the property with Provident Bank in July and began construction in September. All new tenants are projected to be open and operating by Spring 2021. Provident chief lending officer Walter Sierotko said, “Refinancing in this environment is primarily sponsor-driven, especially as it relates to redevelopment. Heidenberg Properties and its partner, Strategic Real Estate Partners (SREP) have the experience and track record to sufficiently mitigate execution risk. We are confident that these developers will deliver on their business plan and we are pleased to bring them in as new customers to the bank.”

A second exciting redevelopment, also a joint-venture with SREP, is taking place in Monticello, N.Y. home of Heidenberg Properties’ Thompson Sq. shopping center. Situated on Rte. 42 across from Walmart and near the multi-billion dollar Resorts World Catskills and Kartrite Hotel and Indoor Waterpark, Thompson Sq. has been home to anchor tenants ShopRite and Home Depot. The fourth quarter of 2019 however, marked a material improvement in the tenancy of the shopping center. Just over a year ago, the developers demolished a former theatre to allow for the construction of a 21,000 s/f Marshalls. While the pandemic and local government restrictions halted construction for

much of the Spring, 2020, the developers and its general contractor, the Bannett Group, Ltd., were able to secure the site, protect the work and ultimately timely deliver the new store to Marshalls, who will open in the Spring, 2021. Not one to rest on its laurels, just two weeks after turning over the new store to Marshalls, Heidenberg Properties executed a lease with a large franchisee of Popeye's Louisiana Chicken in August, 2020. The franchisee will be demolishing a former bank building and constructing a new prototype Popeye's. Heidenberg Properties is currently negotiating with other national retailers who will be located in a further expansion of the center. The group expects to finalize leases and ultimately begin construction in the second half of 2021.

The Berlin Mall Redevelopment in Progress, 282 Berlin Mall Road - Berlin, VT

Finally, the Berlin Mall in Berlin, VT represented an entirely different sort of challenge for the New Jersey-based developers. The Berlin Mall boasts thriving anchors in Walmart (one of only five in Vermont), Kohl's which opened in March 2016, and the more recently added junior anchor Planet Fitness in December 2017. Despite strong performing anchors however, the mall's inline tenants have experienced mixed results. The Mall's owners were convinced that in order to survive long term in this challenging environment, a new approach was required. Taking advantage of the property's size (over 65 acres), proximity to major highways such as Rtes. 89 and 62 and major employers such as the Central Vermont Medical Center, Heidenberg Properties Group entered into a unique partnership with Dousevicz, Inc. to develop 98 units of independent, assisted living and memory care units on one of the mall's outlots. By adding a residential component located on land adjacent to the existing mall buildings, Heidenberg Properties will be taking its first step towards creating a vibrant town center, where people of all ages live, work and play.

While the partnership was memorialized prior to the COVID-19 pandemic, the partners received their official Act 250 Permit just weeks before the pandemic hit. While adjusting to the "new normal," Dousevicz, Inc., obtained its Vermont construction permit for Chestnut Place (the official name of the development) in May and commenced construction in June. Additionally, the Town of Berlin is pursuing a "New Town Center" designation for the mall property, as well as other adjacent lands, with the hopes of creating a walkable, pedestrian-friendly center that may include other housing, office and community uses.

Heidenberg Properties attributes its success in the pandemic to the active engagement of its tenants, service providers and lenders. The developer understood that each of these components were uniquely affected by the various stay-at-home orders and other government restrictions and were determined to find mutually agreeable, if not ideal solutions. The upside was that this dislocation of "normal" created opportunities and Heidenberg Properties was determined to take advantage of them. In addition to redeveloping Hershey Sq. and creatively adding uses to the Berlin Mall, Heidenberg Properties is in the process of negotiating new leases to spur development across its portfolio. According to chief operating officer Jason Lazar, "The coronavirus pandemic has

brought uncertainty, stress and disruption to virtually every walk of life. It was critical for us to rally as a team, engage all of our stakeholders and work tirelessly to manage through it- together. However, we are in the business of adding value and that means both taking advantage of and creating opportunities to make our portfolio stronger. At Hershey Sq., Thompson Sq., the Berlin Mall and other properties in the portfolio, there have been isolated victims, but those situations have allowed us to fine-tune our tenant-roster, add the type of retailers and non-retail users who have successfully evolved, and strengthen us for the years to come.”

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