



A return to reality: Times they are a-changin'

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In the dynamic world of retail real estate, change is in motion; unsettling to some, but in the long run, might not be such a bad thing. In the present, we are watching as the industry reinvents itself in countless ways, including how we do business, where we do business and with whom. Last month's ICSC RECon in Las Vegas was exciting and productive, but vastly different than those in recent years. The attendance may not have been as great as in the past, but the energy was exceptionally positive.

Positive attitudes in this soft economy? Absolutely! People came to RECon to work this year with an increased determination and it was all about quality, not quantity, of contact. Developers and owners engaged in landmark discussions with brokers, as they pave the way to a new economic horizon. The talk of the convention was about not just surviving, but prevailing in this brave new world. Developers and owners were involved in serious debates about retailers looking for work-outs and assistance. There was a consensus that although work-outs were doable and certainly anticipated in these times, a quid pro quo was necessary from the very beginning of the negotiations. In addition to helping good tenants bridge tough times, the environment is also rife with potential problems from those looking to exploit the poor economy and demanding help they don't need. Retailers rejoice: we seem to have turned a corner and the consumer has begun to stabilize.

Overall, flexibility was a serious theme at ICSC. There are no templates for determining how much to negotiate, but there is common sense. More and more developers are inclined to read P&L statements first and negotiate later.

Slow Simmer

The boom areas of a few years ago, e.g., Phoenix, Las Vegas, Broward and Dade County, Fla., are now the most troubled because of the impact of regional housing crises on their local retail. Currently, the strongest markets are the established ones, which traditionally had had the highest barriers to entry. Because they are less affected by the national downturn, cities like New York and Los Angeles represent real opportunity for retail expansion.

These markets may not be at full steam, but they do offer warmer waters for new ventures. In New York City, retail vacancy according to a CoStar Group survey is just at 2.4%. Other surveys, such as Madison Marquette, list New York as the least distressed market in the country.

Los Angeles comes in with a 4.5% vacancy rate, also according to CoStar, and San Diego is even lower, at 4.4%. Despite the dire straits in which the state of California finds itself, even San Francisco is holding steady with only a 2.7% retail vacancy rate.

Another surprise is Washington, D.C., which is seeing new life in retail markets. Its current 5% retail vacancy rate is unprecedented-even in good times. Marcus & Millichap predicts low vacancy could continue there through 2009.

The times, they are a-changin'

So what's keeping us afloat may boil down to innovative deals being completed by some of the nation's smartest owners and developers. Short-term commitments at preferred rates, rent deferrals and other concessions have become integral to the art of negotiating. Work-outs in which landlords cut rents or go to percentage for a period of time, with the missing sums added on the back end, are increasingly common. Same for renewals being cut to see if certain retailers will perform again when the economy is firmly back on track. Eliminating or reducing co-tenancy clauses has also become a common give-back in exchange for rent reductions or deferrals. While there's no such thing as a free rent, these types of concessions are helping retailers get back or stay on track and space occupied.

In Las Vegas last month, business was brisk, albeit with less people participating. But those who did attend were serious and in some ways, the atmosphere harkened back to earlier days. With Boston ICSC a little less than a month away, it's a good bet there will be similarities.

It will be interesting to see how many developers, owners and operators repeat the efforts that were accomplished at the previous conference. This is a challenging time for retailers across the nation. Most of us in the industry are prepared for losses in some of the more established sectors and gains in emerging ones. But for those businesses that address the changing needs of consumers, there is the likelihood they will prevail throughout these changing times.

My trip to RECon was certainly worthwhile. The decision makers on both the tenant and landlord sides were in attendance and willing to talk seriously. The educational sessions offered forthright views of the state of the industry. Most people I spoke with were glad they made the trip.

While we won't know the full value of what was accomplished for some time, I'm already making plans for RECon 2010, which with any luck will take place in a much improved economic environment.

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