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All Shapes & Sizes

Retailers Are Leaving Format Templates at the Curb to Make Room for More Outlets

By Eugene Gilligan

SUBWAY Restaurants and electronics retail giant Best Buy Co. sell vastly different products, but they also have one thing in common: a taste for expansion. And despite fears over the credit crunch (see "Will the Crunch Squeeze Retailers?" below), retailers are pushing ahead with plans for new stores.

Doctor's Associates Inc. now operates 28,198 SUBWAY stores in 87 countries, according to Subway Real Estate Corp. president John Devine, and 30,000 stores are planned to be open by 2010. "The key to success is that we have a varying footprint," he said, noting that the eatery opens 40 stores a week. "We can fit into space that is 300 square feet to 2,000 square feet."

SUBWAY has 6,577 stores in what it classifies as "non-traditional" developments: 1,424 of them are in Wal-Marts; 66 in airports; 3,514 in convenience stores, truck stops and highway rest areas; and 128 in hospitals.

Sean Whiskeman, managing director of leasing and marketing for Westrust Ventures L.L.C., a developer of lifestyle shopping centers, said that even big-box retailers, which in the past were rigidly tied to their store formats, are now willing to relax those standards in order to increase the number of outlets (see "Fewer Square Feet: More Flexibility" at right). "Retailers are becoming much more creative and are willing to relax some of their formats to meet the site demands," he said.

Such flexibility makes perfect sense, said Jeff Green, president of retail real estate advisory firm Jeff Green Partners. He pointed to Best Buy as a retailer particularly adept at penetrating new markets and increasing its presence in markets in which it already has a presence by building stores in different sizes.

"It's nimble and is rightsizing its stores to the market, to an area's population," Green said, noting that Best Buy is increasing the number of new stores that are 20,000 square feet or smaller, deviating from its standard 45,000-square-foot footprint. The move also makes sense for merchandising, as many Best Buy products—like iPods and cell phones—are small and becoming smaller, he noted.



Workout- and yoga-gear retailer lululemon athletica secured a prime spot in The Shoppes at Chino Hills, a 400,000-square-foot lifestyle center going up in California.

Best Buy is not alone in its shrinkable philosophy. Circuit City Stores Inc. unveiled a 20,000-square-foot format that will enable 200 to 300 new stores in the next two years; the company had been opening about

10 stores annually. The Home Depot is testing formats from 26,000 to 45,000 square feet, considerably smaller than its usual 105,000-square-foot stamp. And Wal-Mart Stores Inc. announced in late August that it was actively looking at new formats; most observers bet that means a smaller version.

"This is so overdue," Green said. "These retailers have a need to increase their store count, and downsizing is a way to do it. In addition, sites to develop these big boxes are getting scarcer, while time-pressed shoppers may migrate to convenient, small-store formats."

Indeed, serving busy shopper is an increasing focus for retailers, which now aim to provide one-stop shopping, said Deborah Jackson, executive managing director for Weiser Realty Advisors L.L.C. Luxury retail brands, too, continue to proliferate, Jackson said. One reason may be that a greater portion of the population is willing to pay for luxury items, such as the latest handbag pictured on a celebrity's arm. "Ten years ago, I don't know if you saw so many Burberry items as you see today," Weiser said. "Many luxury goods today aren't viewed as being under exclusive ownership of the rich."

European clothing chains H&M and Zara, both of which are expanding in the United States, are in great demand from retail developers, said Matt Landers, senior manager of real estate development for Opus West Corp. "If you have the opportunity to bring in a new name ... you add panache and excitement to your development," he stated. "You're going to generate foot traffic."

Retailers have an increasing ability to target their ideal demographic by compiling more detailed point-of-sale data from stores and combining it with information from such sources as the



SUBWAY Restaurants' flexible size and format have enabled it to expand both nationally and internationally, as evidenced by an outlet in Riyadh, Saudi Arabia.

Census Bureau to pinpoint where they want to locate new stores, explained Cushman & Wakefield Inc. executive director of retail services Gene Spiegelman. Many large retailers use this data when launching new brands to reach segments that the parent brand has not infiltrated. Spiegelman cited West Elm, a

moderately priced furnishings retailer that opened 10 stores last year and whose parent company is Williams-Sonoma Inc., and CB2, a Crate and Barrel division that targets the urban shopper with a lower price point.

Make Room for New Concepts

New retail brands can frequently find premium locations in new malls or lifestyle centers, a much easier means of entry than established shopping centers that are fully or almost fully leased, Landers said.

At The Shoppes at Chino Hills, a 400,000-square-foot lifestyle center that is under construction in affluent Chino Hills, Calif., developer Opus West Corp. offered a prime retail position in the women's apparel section to lululemon athletica, a workout- and yoga-gear retailer. Previous relationships between developers or owners and tenants can facilitate such favorable arrangements.

Fewer Square Feet: More Flexibility

	Standard Footprint	New Format
Best Buy	45,000	20,000
Circuit City	30,000-35,000	20,000
Home Depot	105,000	26,000-45,000

Source: Bloomberg News, CNNMoney.com and Minneapolis / St. Paul Business Journal

"Everyone wants to have the next Gap," said Ivan Friedman, president & CEO of RCS Real Estate Advisors. "If you have a hot concept, you can get the best location in a mall, as you're going to generate the most foot traffic. Older retailers, as they age, are going to get moved farther down the hall."

Developers sometimes actively seek new retailers for their developments. In an effort to draw in relevant shoppers,

Will the Crunch Squeeze Retailers?

Does the credit crunch have the potential to derail retailers' expansion plans? Many see at least some potential for a negative effect even as capital weaves its way through the market. "I don't doubt that retailers will be able to receive financing to execute their expansion plans," said Edens & Avant CEO Terry Brown. "I am concerned that the subprime lending problem could affect consumer confidence and trigger a consumer-led recession."

Although Brown has not yet seen an impact, retailers like The Home Depot and Lowe's may feel an effect, said Deborah Jackson, executive managing director for Weiser Realty Advisors L.L.C. "Is a homeowner going to put an addition on their house when they have trouble making their mortgage payment?" Weiser asked.

"It's not visible, but I am getting the feeling that some retailers are getting agitated," said Jeff Green, president of Jeff Green Partners. "Some retailers are being forced to grow—and Wall Street wants them to grow—while retail sales may start to decline."

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many retailers today include in their leases co-tenancy clauses that mandate that a mall or lifestyle center must include, for example, a certain number of fashion retailers that appeal to the tenant's target demographic, Landers said.

Terry Brown, CEO of shopping center developer Edens & Avant, believes that specialty retail grocers—many of which cater to health-conscious consumers—will form larger presences in neighborhood retail developments. Edens & Avant's portfolio houses three Fresh Markets, and another is on the way.

Another specialty grocer, Trader Joe's, is also winning fans among development companies. Some Southern California outlets, which typically run 10,000 square

feet, are reaching sales of \$2,000 per square foot per year, while supermarkets that are four to five times as large average 25 percent of that, said Philip Voorhees, senior vice president for CB Richard Ellis Inc.'s Newport Beach office. In other words, Trader Joe's can generate the same sales volume as the big supermarket brands but in a smaller footprint.

"Six or seven years ago, you might want to own a neighborhood center that was anchored by a Kroger or a Vons," Voorhees added. "Now, you might want to see Trader Joe's as the anchor of a traditional neighborhood center. Times are changing."

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