NorthJersey.com

FEBRUARY 24, 2016, 6:01 PM
LAST UPDATED: WEDNESDAY, FEBRUARY 24, 2016, 6:27 PM

Fairway supermarket chain struggles in suburbs like Paramus, Woodland Park

BY JOAN VERDON
STAFF WRITER | THE RECORD

Fairway supermarket executives thought making it in Manhattan meant success in suburban locations like Paramus and Woodland Park would be a piece of cake. But struggling chain has learned that the suburbs are a tough sell.

Last week, credit watchdog Moody's Investor's Service warned that the company was at risk of defaulting on loan payments, and said that even if it is able to get a reprieve from lenders "its current capital structure is unsustainable." Without such a reprieve, or an infusion of cash, the chain could end up in bankruptcy.

RECORD FILE PHOTO

Fairway, the New York City chain with two North Jersey stores, had set its sights on nationwide expansion.

Fairway's niche is offering a quintessential New York style shopping experience, with butchers and bakers who banter with shoppers, along with low prices on produce, and staples, and a wide assortment of specialty and gourmet food items and prepared meals. Its New York stores rang up close to $2 million a week in sales, attracting investor interest and a public stock offering, but it hasn't been able to duplicate those results in the suburbs.

The fortunes of Fairway have fallen dramatically in the six years since it embarked on a rapid expansion into the suburbs, opening a store at the Fashion Center in Paramus in 2009 that was intended to demonstrate to investors that Fairway could be a hit outside of the Upper West Side of Manhattan, where the chain was born in 1933. In 2013 the company went public and announced plans open up to 300 stores. But expansion plans have been put on hold as sales at existing stores have fallen.

In its most recent annual report, the company said comparable store sales were down 2.9 percent as of March 2015, compared to the previous year. Fairway lost $46.5 million in fiscal 2015, on net sales of $797.5 million.

The company has five stores in Manhattan and its boroughs, and 10 suburban locations, and the suburban locations have proven to be its toughest challenges.

"They had an inflated opinion of their own operation, and they terribly underestimated the strength of the competition in the suburbs, especially ShopRite," said Matthew Casey, of Matthew P. Casey & Associates, a real estate analysis firm in Clark that specializes in supermarket properties.

When Fairway opened its Woodland Park store on Route 46 in 2012, the ShopRite across the road "didn't give an inch," Casey said. "I think Fairway thought they were going to come in and eat ShopRite's lunch. And ShopRite doesn't give up their lunch," he said, adding that Fairway has lost similar battles in other suburban locations.

Fairway had great success in Manhattan and the boroughs, "but it's a different animal there," Casey said. "In the boroughs you're up against crowded congested 10,000, 20,000-square-foot D'Agostino's and old tired Food Emporiums, and high priced limited stores that aren't very strong," he said. "It is going to be the best store in Harlem. But it's not the best store in the suburbs of New Jersey or Long Island."

Whether Fairway files for bankruptcy depends in large part on its bond and note holders, who may be willing to negotiate more favorable terms to avoid a drawn-out bankruptcy case, said bankruptcy attorney Chuck Tatelbaum, a partner in the Florida-based law firm Tripp Scott.

“Because bankruptcy has become so time consuming and expensive, lenders are now working out deals ahead of time, outside of bankruptcy, to give them more time to restructure the debt,” Tatelbaum said. Then at some later time Fairway could file what is called a “pre-packaged” bankruptcy, with new debt terms already agreed upon.

Fairway also could get a reprieve, Tatelbaum said, if it can demonstrate it has significantly adjusted its cash flow and now has the means to pay the debt. To do that, Fairway most likely would have to close unprofitable stores, or otherwise cut costs. “It has to be something very demonstrative that will show very predictable results,” he said.

Fairway, like other chains, appears to be a victim of changing shopping habits, as well as a tremendous overexpansion in stores, Tatelbaum said. “We in the bankruptcy field call it the field of dreams theory – which is you build the store, they’ll come,” he said. “Fairway, along with other retailers, failed to recognize that bigger [in terms of more stores] is not necessarily better,” he said. More stores means more fixed costs, in an industry with probably the lowest profit margins of any, he said.

The loss of their Fairway stores would be a blow to the Fashion Center shopping center in Paramus and the Kohl’s shopping center on Route 46 in Woodland Park.

The Paramus Fairway has been a cornerstone of the revival of the Fashion Center mall, and the leasing deal with the supermarket in 2008 spurred the center’s makeover from an enclosed mall to a collection of separate stores.

But the recent A&P bankruptcy showed the resiliency of the North Jersey market in attracting new supermarket operators, said Chuck Lanyard, president of The Goldstein Group, a retail real estate brokerage based in Paramus. “The supermarket landscape in New Jersey is a very interesting and ever changing one,” Lanyard said. “What we’ve seen in the past two years is that different food operators are looking to come into Jersey because obviously the demographics are excellent and now there’s some good big box opportunities for them to come into a new marketplace,” he said.

Email: verdon@northjersey.com