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## Vacancies Create New Site Options

By JON SPRINGER

The ongoing rash of retail store closures — affecting retailers from Circuit City to Value City — is providing supermarkets with more options for expansion and, for those who dare, the opportunity for real estate bargains.

Observers contacted by SN predict shopping center landlords in possession of vacant retail space will be eager to deal as fear of additional closures mount and the field of perspective tenants decline. Burt P. Flickinger III, managing director of Strategic Resource Group, New York, said he expects about 200,000 retail stores

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and restaurants to close this year in the U.S. — with food retailers accounting for less than 1% of those closures. The International Council of Shopping Centers, a New York-based trade group, said it expects about 148,000 store closures this year.

Most recently, electronics giant Circuit City said it would shutter its remaining 567 stores after announcing 155 closings late last year. Earlier this month, regional store chains Gottschalks, National Wholesale Liquidators and Goody's filed for Chapter 11 bankruptcy, with Goody's announcing it would close all of its 282 stores as it headed into a second bankruptcy only months after emerging from a first.

The closings are sending a shiver through the real estate world, but can be a boon to retailers who remain in business.

"Landlords are very nervous now," Harvey Gutman, president of Brookside Advisors, Marlboro, N.J., told SN. "Even if they're collecting rent, they are very nervous about having vacancies, because who knows what the future's going to bring. I think they'll be more aggressive trying to find replacement tenants, even if they have to reach into their pockets if [a retailer] can't get full financing."

The closings should also bring new opportunity to dense urban markets that were previously difficult to crack, said Matt Casey, president of Matthew P. Casey & Associates, a supermarket real estate consultant based in Clark, N.J.

"The positive is there's not a whole lot of new sites out there, especially in the Northeast. The corner of Main and Main went away in 1974," Casey told SN. "And with developers not having any money and banks not lending any cash, there's not a whole lot of new sites out there. I would have to assume landlords will be more flexible and more willing to negotiate than they would have a few

years ago to fill an empty box these days."

Gutman said the glut of available properties should further slow retailers' appetites for new store-builds — already paralyzed by the credit crisis — and could serve to lower rents. And since existing stores have already cleared many of the zoning and environmental

"It's not that it can help them, it's that it is helping them," Hershey said. "It's giving them a lot more options, especially in a market like Denver where there is limited space in order to find new retail growth within the city itself."

Those two natural-and-organic chains are also less affected by the credit slow-



A flood of store closures, including the 567 locations that Circuit City is exiting, may give food retailers some opportunities, particularly in densely stored markets.

requirements new supermarkets typically require, turnarounds can be faster.

"The implication of those closures for supermarkets is that there will be less ground-up development, and more takeovers," he said. "That doesn't necessarily mean lower occupancy costs since the cost of refitting a Circuit City and structuring it so that it is appropriate for a supermarket isn't that different than building from scratch. But it does speed up the time required."

Retail boxes in the 20,000- to 30,000-square-foot range coming to market in the form of former Mervyns, Circuit City, Cost Plus, and Linens 'n Things stores are especially appropriate for discount stores and emerging food retailing concepts such as Sprouts Farmers Market and Sunflower Farmers Market, noted Jeff Hershey, president of Jeff Hershey Consulting, a Royal Oak, Mich., firm that has helped the latter two companies identify sites for new stores.

down, having secured expansion capital before the markets collapsed, Hershey noted.

Flickinger said the uncertain economy will make supermarkets careful about moving too aggressively to take advantage of closing rivals, describing it as "more of a longer-term opportunity."

A more immediate impact will be felt by those stores that are losing co-tenants, he said. "Where you have a major co-anchor like Circuit City go down, those shopping centers will have lower customer counts."

Some supermarket chains with general merchandise selections such as Kroger's Marketplace stores may also see some benefit by absorbing sales from fallen big boxes. Flickinger estimated that a Kroger Marketplace in competition with Circuit City could pick up as much as 5% of its business. Discounters such as Wal-Mart and warehouse clubs like Costco are expected to benefit even more.