DAILY BUSINESS REVIEW

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Big-Box Opportunities Flow From Both Expansion and Contraction

Alan S. Macken

Alan Macken and his partners in the Palmetto Park joint venture scored a major coup for their Miami Gardens shopping center when they landed the world's largest retailer as a tenant.

The group's Palmetto Gardens Plaza has a new anchor, a 40,000-square-foot Wal-Mart Neighborhood Market, one of the latest of a series of large retail stores planned for South Florida. A proposed store is in the works for Palm Springs North and a long-running campaign has sought to bring a 203,000-square-foot Wal-Mart Supercenter to Midtown Miami. Meanwhile, Broward County commissioners have cleared the way for a $100 million Wal-Mart-anchored shopping center in Fort Lauderdale.

For Wal-Mart, the expansion strengthens its foothold and responds to renewed competition from deep discounters and aggressively growing dollar stores. Their neighborhood stores cut into the mega retailer's share of the bargain retail market.

"When you develop a big-box center, you have to achieve the highest and best use," said Macken, whose North Miami-based VCM Builders and affiliated companies have worked single-box redevelopment plays for banks, 7-Eleven Inc. stores, Family Dollar and restaurants. "It makes you, as a landlord, up your game."

To sign Wal-Mart, Palmetto Park needed to meet the retailer's loading-zone specifications, parking requirements, tenant exclusions for certain competitors and a slew of other contractual terms. The deal took a year to hammer out versus 60 days for smaller tenants.

"The big box is not necessarily a panacea," Macken said. "It doesn't cure all your ills, but Wal-Mart gave our other tenants the confidence that there was going to be good traffic."

That's been good and bad news for South Florida retail landlords when one powerful lessee could mean a flood of shoppers to buoy neighboring tenants.
For some, like developers Art Falcone and Nitin Motwani, big-box leases help bolster massive projects like the proposed 10-block Miami Worldcenter with 765,000 square feet of retail anchored by a 195,000-square-foot Macy's store and a 120,000-square-foot Bloomingdale's.

But elsewhere across the region, where some big-box tenants folded during the recession or shrunk to adapt to the rise of online shopping, the loss could spell disaster for neighborhood centers like Nassau Square in suburban Lake Worth.

New Life

When broker Bill Reichel took over leasing for Nassau Square, the 160,000-square-foot neighborhood center had been nearly half empty for about a decade since losing its largest tenant, a regional department store that once occupied 45,000 square feet.

The dramatic stem in traffic cost the center smaller tenants and hinted at more bad news for Nassau Square. Its second largest lessee, Publix Super Markets Inc., had only three years left on its lease with no definitive plans for renewal.

Reichel's strategy involved a $1.2 million renovation with new facades, a spruced-up parking lot, fresh landscaping and thousands of dollars' worth of new lighting to reposition the lagging center. The move paid off, allowing him to broker transactions valued at $4.25 million and raise occupancy enough to bolster the value of the $10 million shopping center over the next 18 months.

Reichel secured a 45,000-square-foot lease with Metro Lumber and Hardware, a large Puerto Rican chain looking to make a South Florida entry. He then successfully negotiated renewals with Publix, Dollar Tree Inc. and the Brass Money Sports Bar & Grill, which together accounted for nearly 55,000 square feet. As part of the deal, Publix will invest about $1 million to renovate its interior. Plus, McDonald's Corp. signed a 20-year ground lease on an outparcel.

"Within 90 days that shopping center will take on a whole new complexion," said Reichel, president of Reichel Realty & Investments Inc. in Palm Beach Gardens. That sort of repositioning is key, analysts say.

Emerging Opportunities

As some big-box tenants shrink their brick-and-mortar footprint to compete with online sellers and others change their business models to adapt, retail landlords must prepare for new demands.

Once-lucrative tenants like Office Depot are shuttering hundreds of stores nationwide, leaving behind vacant storefronts that once were key revenue drivers.

In Broward County, Office Depot will shutter three stores in 2015 as part of a plan to close more than 400 Office Depot and OfficeMax locations nationwide.
That's both good news and bad for landlords.

"Office Depot is looking to sublet some of their spaces, but most people who come in wanting that much space typically want long-term deals," said Cammi Goldberg, director of retail leasing and landlord representation for Franklin StreetReal Estate Services' South Florida operations.

Instead of subletting, replacement tenants go straight to landlords to negotiate new long-term leases, which often mean higher rates and improved revenue streams for property owners.

But big tenants often mean big expenditures for extensive remodeling, adaptation and improvements.

"In most of these cases it means a big check for improvements, so landlords need to look for term."

That's easier to get now than it was just a few years ago when departures by stores like Borders meant these businesses were struggling financially or in bankruptcy. For some landlords, it meant rent streams immediately dried up as key tenants defaulted. Now departing tenants are likely to be realigning their business and still have enough revenue to pay the remainder of their contract, giving landlords a steady stream of upfront cash for renovation and repositioning.

"It's a really a good time to have these spaces come back to the market," said Barry Wolfe, vice president of investments and senior director of the national retail group at Marcus & Millichap Real Estate Investment Services. "It just took time, but now we're in a much different environment. I think landlords might be licking their chops, looking for opportunities to backfill these spaces."