LEADING THE WAY THROUGH THE 21ST CENTURY
SHOPPING CENTER BUSINESS

Florida Investors See Improvement

Owners, investors are bullish on many markets as activity heats up.

Roundtable Moderated by Randall Shearin

SCB hosted a Florida retail roundtable at Crossman & Co. in Orlando.

Shopping Center Business held a Florida Roundtable earlier this year to see what the trends are among retail property owners and operators in the Sunshine State. The roundtable was hosted in Orlando by Crossman & Co. Panelists were: Greg Moross, principal and chief operating officer of Sterling Organization; Mark Worley, president of the Southeast for Brixmor Property Group; Mike Kinsella, senior vice president, Regency Centers; John Crossman, president, Crossman & Co.; Maury Carter, Maury L. Carter & Associates; Jim Gendreau, principal of Tailwind Investments; and Mark Thompson, managing director of Crossman & Co.

SCB: In what areas of retail are you active?

Jim Gendreau: We're a real estate developer based in Lake Mary, Florida, focused on Publix anchored centers and smaller triple net deals. Our efforts have been focused on assisting Publix supermarket's growth in the Southeast United States. In addition to working on our grocery anchored centers, we are also buying smaller corner retail parcels. Tailwind, in conjunction with our St. Louis based principal partner Rod Jones-Quadrant Properties, who has developed over 15 million square feet of retail throughout the United States, sees many new opportunities, not only in Florida but the entire country.

Mark Thompson: We represent landlords in the disposition of shopping centers throughout the Southeast. Last year, we did approximately $250 million of deals, 13 of which were anchored by Publix. This year, we've got $100 million on the market in quarter one, and we're going to continue that trend of last year on into the rest of the year.

Greg Moross: We're a vertically integrated private equity real estate firm focused on retail real estate in major metropolitan markets with over 75,000 people grated private equity real estate firm focused on retail real estate in major metropolitan markets with over 75,000 people in a three-mile radius. We focus on both value-add retail real estate and grocery-anchored core plus (or stabilized) real estate. We'll buy power-anchored shopping centers, grocery-anchored shopping centers, malls and street front retail. We have risen our second value add institutional fund in the amount of $311 million of equity and we have raised a stabilized fund with a focus on stabilized grocery-anchored shopping centers.

Mark Worley: We have 522 properties across the country separated into three operating offices, including the South, which comprises about 30 million square

Roundtable participants were generally bullish on the Florida retail investment market.

feet and 170 assets. You won't hear a tremendous amount from us about buying or selling today because our portfolio is pretty static right now. Our story is that we've got internal growth within our existing portfolio as we update our anchors, cycle out of some of the lower-tier anchors and then lease up the remaining junior anchors and small shop space.

Maury Carter: I've been involved in Florida since 1957...I've been in real estate since then.

Mike Kinsella: I work out of the Tampa office. We have three offices in Florida, and 19 regional offices across the country. We're really a nationwide company, although there are some states we're not in. Major metros are our focus. We are focused on grocery-anchored centers in Florida, as are a lot of people in the room. I've been with Regency for 14 years, and prior to that, was a retailer for 16 years. I have a unique perspective of both sides of the fence. We've been trying to acquire properties and are very active from a development perspective. We have actively sold some assets over the last several years, but are not currently engaged in selling assets in Florida.

SCB: We want to focus on the investment market in Florida and what's going on here in terms of leasing, selling and buying. How is it generally? Tell us about the conditions.

Crossman: The market is significantly better in a lot of ways than in the past few years, but it's also tougher in a lot of ways. First, if you're trying to buy core assets, it's challenging because there's so much competition. If you're a seller and have a core asset, you're in a great position. If you're a buyer, it's very competitive. I think one of the interesting opportunities right now, is in distressed assets. When the market was down and there were distressed assets that were just selling for pennies on the dollar, there were buyers for them. There are distressed assets where the banks are getting a decent price, but there's still meat on the bone. We're still seeing those kinds of deals in the market that you can get for good prices, that are value-add, have a redevelopment component or there's some story to it. When the market got really bad, it got hyper-inflated. We were seeing redevelopment opportunities that were selling way too high, too aggressively, where there was not enough meat on the bone. I think there are still some deals out there.

Gendreau: For ground up development in Central Florida, it's extremely aggressive in Orlando and the surrounding cities. The sites are harder to come by, no doubt, because there's a lot more competition. People are almost back to where they were. They're more cautious, but we're almost at 2005 levels. The residential builders are back developing in Central Florida. On our Deland Country Club mixed-use project, for example (120 acres), which is currently under development, we had no problem getting residential builders to the table to go along with our 24-acre Publix anchored Country Club Corners.

Crossman: Are the outparcels more difficult than the in-line leasing?

Gendreau: In Central Florida, both are moving and both deals are getting done. Our outparcels, for the most part, are ground leases, not sales, and we're having no problem with that, which is unusual because not everyone wants to ground lease.

Kinsella: I just don't see that much movement on the outparcel side. We have about 20 outparcels in Florida and I think we moved four last year. To me, that's not a lot of outparcels. There are not a lot of banks that are doing new business. Outparcels right now, in operating properties, are slower than I would like to see.

SCB: How healthy are the centers here?

Kinsella: Very healthy. Our nationwide portfolio is probably 96 percent leased, and the state of Florida is close to 95 percent leased. Our least occupied Florida portfolio is in South Florida, but that is driven by low occupancy levels at one shopping center, which is being set up for significant redevelopment beginning in 2016.

Worley: I would agree with that. The interest level is really strong and we've been doing a tremendous amount of leasing in Florida. We have a lot of standing product in Florida, so we're doing anchor repositioning. We worked with Kmart to get four stores proactively back from them across the country, one of them in Naples. We had a Kmart paying $3 per square foot and we went to them, took it back, and put in a Burlington Coat Factory at $15 per square foot. We just started construction on 60,000 square feet, and next door we're doing a Party City at $16 per-square-foot. There are a couple of tenants that we're not close enough to talk about yet, but there is exciting stuff like that happening. We've got examples like in Lake Worth outside of Miami, where we have a dark Winn Dixie that's been dark many years. We were able to cut a deal with a Walmart Neighborhood Market to come in, and take a fee back from Winn Dixie. The leasing that's coming off of that is just tremendous. We haven't even opened Walmart Neighborhood Market and we've done seven or eight new leases since it was announced and under construction.

SCB: Do you have deferred opportunity in your portfolio?

Worley: Yes, a lot. We've already repositioned over 150 anchors in my region, and we've got another 150 identified. They'll come into play over the next five years. In one center, we had an older Publix that was successful; we tore it down and put a new Publix up. We've done eight of those over a similar amount of years. We've got Kroger closer to Atlanta and beyond. Kroger is our largest tenant, and we are their largest landlord. They're going the opposite and getting bigger with stores that are 120,000 square feet. We're seeing Kroger, who, as they did expansions, would look for the gas pad for free in the past, because it's driving so much business and things are so competitive, we're getting pretty decent ground rents. In addition there's the redevelopment component and the cap rate compression you get from that.

SCB: How is pricing for centers in Florida?

Moross: The good product is getting priced up. That is the center that's fully baked and fully leased. In Florida, our focus is on the value-add product. We look for centers where you need to do a little bit more work and that are more complicated. The pricing for this product has gone up but there is still some meat on the bone. It does require more work, and does require a group that is built to do that work. Some of the larger REITs don't necessarily look at that product. At least two years ago, they weren't looking at that at all. Today, because of where pricing is on stabilized assets, they are looking at some of the value-add deals that require work.

SCB: There are owners out there that don't have the skillset to do that redevelopment?

Gendreau: One, it's a skill set, and two, it's manpower. How many people are you going to staff on your one or two assets? Many redevelopment deals we have worked on were owned by folks whose main line of business is not shopping center development or redevelopment, so they just don't have the time or desire to jump in and learn what we all know to be a difficult and time consuming but rewarding business. Many times a redevelopment can be as much work as a ground up development would be. It takes persistence, patience, and a strong team that communicates with each other.

SCB: Are the retailers telling you or are you seeing a lot of pent up demand?

Gendreau: There is some new growth going on in urban and tertiary markets where two years ago that was not the case. Pent up demand is being seen; the rooftops getting built certainly drive this. There are new highway interchanges coming to a few secondary type markets that will spur new growth in Central Florida. Two I can mention are Apopka and Minneola. These two road additions will, in five years, be surrounded by thousands of homes. With these homes, grocery stores, retail shops, pharmacies, hospitals, schools and the like will follow. Pent up demand, yes it is here and still coming.

Crossman: Mr. Carter, could you give us how you see the market, since you have a historical perspective?

Carter: I'm retired, so I don't follow the market as closely as I used to. One thing is, we have almost no debt. We have a little with Publix shopping centers. We always bought land just outside the major growth areas. As the growth comes there we patiently wait. We've had property we've held almost 20 years, but we bought it at a few hundred dollars per acre. The market we had back four or five years ago, I told our people to be prepared because it was going to go up. It's like the stock market, I guarantee two things: it goes up and it goes down. The market is hard to time. I knew it was going to make a major correction five years ago, but a lot of people didn't believe it. My thing is to stay out of debt and buy long-term. It's an interesting market, but it's hard to predict.

Gendreau: 2008 was really bad. Are we going to get a repeat of that in your opinion?

Carter: I've been involved in 55 years, and 2004 to 2008 was the hottest market I ever saw. The weather will always draw people to Florida. I was living in Baltimore, but when I first came to Orlando I was walking around town and there was nothing here. But for young people, the market is extremely bright here. There were what, 99 million visitors to the state of Florida in the last 12 months? A lot of those people come from cold areas and then move here.

Kinsella: We did go through a period where our state's housing cost out priced the people wanting to come to Florida, and we actually had more people leaving than coming into Florida. Then the Carolinas became the hot place to be. There are going to be ebbs and flows, but my personal perspective is there hasn't been enough new retail development that's occurred to start to swing the wrong way. It's been difficult to develop big retail and it's been slow to happen. That's when it seemed like it swung the other way: when we got oversaturated with new retail.

SCB: Mark, if someone wants to sell in this market, what do they need to do to best prepare that asset?

Thompson: It's a great market to monetize retail assets, as the market is as strong for sellers as I have seen since the run up in 2007. Due to rents being strong, locking up term on your national tenants is imperative, as the lending markets could get more restricted. On local and regional tenants, it's often overlooked but do the leases clearly define who guarantees the rental payments and clear recourse in the case of a compromise. As tenants ask for larger TI packages, the guarantee clarity becomes more important. Accounts receivable and tenant sales. This defines the health of a shopping center and the tenant's ability to pay what is likely to be a higher tax rate when the shopping center changes hands.

SCB: What properties get buyers' attention? What goes first?

Thompson: I probably make 10,000 calls a year, 200 a week. If I had a nickel for every time someone wanted a Main and Main deal off-market, I'd have a lot of nickels. You get flag-chasers. If the underlying real estate is not compelling, it is the flag that is being purchased. Being in the grocery market, Publix is probably the most sought after retailer in the multi-tenant space. With a Publix transaction, a buyer has to reconcile the right of first refusal or right of first offer, which can make for a more nuanced process. [Editor's note: Publix often has the right of first refusal to acquire a center it anchors if the owner decides to sell.]

Crossman: There are many Publix deals that they may not want to acquire. For instance, if it's a redevelopment or a new development, there are things they may want to purchase later. But if it's got that component; they may prefer to have someone else buy it. An owner may buy it, fix it and then Publix purchases it at the exit. There's a lot of great retail in our state that's not grocery-anchored. There's some great quality unanchored stuff, like high street retail. We control three Publix deals in South Florida and they're all interesting and unique and different. I think there's some pretty cool power, lifestyle and entertainment centers out there.

Gendreau: There's probably more opportunity for different types of retail today than there has been in a long time.

Crossman: Orlando is the only city in the country with a top 10 mall and top 10 outlet mall in it. In Daytona, there are five colleges that are in the same area. It's getting a deeper base there that's tough, but the speedway and collegiate components are helping.

SCB: What are some of the hot markets within Florida?

Crossman: Downtown Orlando is something that's really fascinating to watch. If any of us moved to Orlando after college and said, 'Let's look at living downtown,' none of us would have done it. It wouldn't have been an option. But when you look at the Millennials we employ, they all want to live downtown. I think that when you look at South Florida, and what Miami and West Palm Beach were like 20 years ago, they now have great, safe, vibrant downtown areas. You're going to start to see other parts of the state get that to try to happen.

Moross: Dade County is as hot as hot can be, I think it's the hottest market in the state right now. There's a population base that keeps growing. The cranes are back in the Miami skyline and they're building the condos again. That market is extremely strong.

Kinsella: It's a gateway city for South America and cities on the East Coast. We just opened a 350,000-square-foot shopping center in the heart of Miami. I can tell you firsthand it's not the easiest place in the world to develop, and it does have its challenges. If you can do it, the retailers and rents are there to support good development opportunities.

SCB: When you guys look at retail as a whole or a picture, what do you see changing or is differing? Are there new tenants that push experience and lifestyle rather than just groceries? Do you see any major trends as you look at your tenants?

Worley: Retailers are now realizing that the Internet is not taking the place of the brick-and-mortar stores, but is complementary to them. I know our CEO has had some conversations with retailers where they said that when they closed a store, they left a void and Internet sales went down drastically. I think that's a newer trend that's coming around: they're realizing a complement rather than a competition. Ten or 15 years ago, we all thought it was the kiss of death, but now we see it more as a hand-in-glove situation. There's a lot of experimentation with that, grocers included, in terms of how they use the Internet and how their customers want to shop.

Kinsella: We're trying to create place making within our developments where people want to go and spend time. We have a center in Tampa, Village Center, where we have a courtyard that used to hold events, but attendance fell off, so we faded away from that and it became an area that was less desirable and unused. We just completed a major redevelopment at Village Center, tore the Publix down, and built them a new prototype store, and we're about to spend $400,000 on recreating the courtyard. We will reconstruct and create a new environment that is an integral part of the shopping center. We believe this area will become a compelling part of our 'new' center that will change the dynamic of the entire Center.

Moross: We put a carousel in the courtyard area of one of our centers to attract families and kids. It's helped draw people to the center and has helped us attract restaurants and shops in that area. The Internet isn't providing restaurants for dining experiences, or a place to gather to be entertained.

Thompson: Greg [Moross], at Sterling, what are you looking to acquire?

Moross: Our main focus is to stay disciplined, stay focused, and continue to seek out the products that we want. We buy about 50 percent of our deals off-market by driving markets, going to owners, working with brokers and banks, and so on. We're looking for major metropolitan markets, primarily Florida, Georgia, North Carolina, Texas, Chicago, Dallas, Washington D.C. and in the Northeast.

Thompson: Are you finding that you have to turn over a lot more rocks to find the value-adds?

Moross: You have to turn over more rocks and you have to do more work. I'm finding that if you looked at what a value-add shopping center was two years ago, it was a grocery-anchored center that was 80 percent occupied. You could fill up that 20 percent, and that was your value-add. Today that value-add is being priced into the deal. We're finding value-add today requires more work and is more complicated. The center may be broken, but as long as the real estate and fundamentals are good, we like it. Centers go through cycles and they don't always match the cycle of the economy.

Thompson: Mark [Worley], you've had a lot of great news and press. What's happening with Brixmor right now?

Worley: We will continue to work with our existing sticks and bricks and get people into the right space. In Charlotte, we had Staples in half a box, and so we downsized them and put a Walmart in the whole box. The leasing that goes on behind it is phenomenal. We've seen that duplicate itself over and over again. The growth is so big, and you can do it and lease up the rest of the space on the back of the new anchor; there's more opportunity and people to choose from. We started with an internal mission to Raise the Bar and now's its out in the public, and it really has been repositioning our shopping centers with the best retailers, and the add-on leasing that comes behind it. Over the next three years, we have 40 percent of our portfolio rolling, under $12 per foot, and we're signing leases at $15 per foot. You put it on the scale of close to 90 million feet and it's pretty phenomenal. **SCB**