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Big box co-tenancy deals popular, say local realtors

by Ted Carter

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HomeGoods recently opened a store in Madison, along side the recently opened petco and the soon-to-be-opened Michaels. It is also adjacent to a development opened last year that includes the retail outlets of Best Buy, Dick's Sporting Goods and Stein Mart.

Big box retailers are now doing what young children have always done when uneasy about things. They're getting clingy, commercial real estate professionals say.

So now you know why certain nationally branded stores are typically situated close to each other these days, they say.

It's part of a retail real estate trend called "co-tenancy" that has gained momentum over the last few years as a way to cope with market uncertainties.

While the buddy system may calm the jitters of anxious retailers, it adds to the challenges faced by retail landlords and leasing agents.

"The world changed in 2008," said Andrew Mattiace, president and founder of Jackson-based Mattiace Properties, developers of shopping centers and office buildings in Mississippi, Tennessee and Louisiana.

The days of the so-called "category killers" that sprang up in the 1990s – solo baby super stores, electronics outlets and book retailers — have given way to national retailers who have developed a one-for-all-and-all-for-one strategy, Mattiace said.

Today's new norm is if you sign Best Buy, you must bring along Dick's Sporting Goods, Petco and Michael's and the like, he said. "They require all of the other guys to be in place or they don't pay rent," said Mattiace, developer of Renaissance at Colony Park in Ridgeland.

"It's all about co-tenants," he said.

The trend started with fashion centers but today a Fresh Market has to have a Barnes & Noble next store or at least a few doors down, Mattiace said. "They all say we hold hands like a chain. If you lose two or three they say you break the chain."

As a landlord, Mattiace said his company has learned to live with the co-dependency, principally through shorter leases that protect it from one tenant departing and causing a remaining co-tenant to seek to sever a lease.

The evolution toward retailers thinking they must feed off each other is but one of a series of changes that have occurred in commercial real estate since the market crash of 2008 and the sustained slump that has followed.

"There are some rules that have evolved over three to five years," Mattiace said.

Mississippi commercial real estate professionals dissected those changes at a forum in Jackson April 26 sponsored by the Mississippi CCIM Chapter.

The CCIM, or Certified Commercial Investment Member, chapter titled the discussion "Development in a Downturn: From the Group Up to Distressed Redevelopment."

Along with Mattiace, panelists were William C. Smith III, a Jackson real estate attorney; D. Brooks Holstein, managing member of Biloxi-based Comvest Properties; Mark Utley, president of Olive Branch-based Utley Properties; and Andy Stetelman, president of Hattiesburg-based London & Stetelman Commercial Realtors. Jeff Speed, president and founder of Speed Commercial Real Estate, moderated the discussion.

Prospects for Retail Leasing

Look for sustained good health in Mississippi's retail leasing, said Mattiace and other forum panelists.

"Mostly because there is not going to be a lot of new stuff," Mattiace said, predicting strong absorption of current retail space.

>>VIDEO Jackson broker and moderator Jeff Speed talks with MBJ video journalist Stephen McDill about how important the Capitol City is to the Greater Jackson area.<<

Holstein's company specializes in buying distressed real estate, essentially retail centers whose owners are having trouble meeting debt commitments. "We've been very busy," Holstein said.

The more than 30-year commercial real estate veteran caught the attention of the forum audience with this prediction: "I think more wealth is going to be created in the industry in the next 10 years than in the history of the country."

But, he emphasized, "you're going to have to be well financed and have an investment criteria and an investment model that is disciplined and focused."

Smith, the attorney, said in this new age of deal financing the developer must be much more creative, even if the strategy requires working with the land owner to do the development a piece at a time. "This will allow the project to get off the ground," he said.

The Pine Belt region became vastly over-built via the federally tax-exempt Go-Zone (Gulf Opportunity Zone) bond financing after 2005's Hurricane Katrina, said Stetelman, the Hattiesburg commercial broker. "We were substantially over-built and didn't realize it."

Today, nothing new is getting built in the region and demand for existing space is starting to grow. "Now, we are starting to see some softening" in supply, he added, and noted that is not unusual to get three or more bidders when restaurant space opens up in Hattiesburg.

Utley, who specializes in north Mississippi and metro Memphis commercial properties, said occupancy at his firm's retail centers have remained north of 90 percent for quite some time and has "really tightened up in the last 90 days."

As in the south, nothing new is getting built in the north, he said.

Large stores like Dick's Sporting Goods are specifying whom they must have as neighbors.

Even though new housing starts in his DeSoto County market are nil, retailers are seeing sales climb about 9 percent year over year, Utley added. "It's pretty much the same story down in Oxford."

Returns on Green

Holstein, the Comvest managing member, said his firm has waded slowly into some green strategies intended to cut energy costs at a pair of its aged retail centers. So far, the results are promising enough that Comvest will soon make green insulation alterations to a larger center, Holstein said.

The first effort involved replacing

30-year-old exterior lighting fixtures, including common areas and the parking lot, with LED lighting. Monthly lighting bills went from about $800 to $300 and overall lighting quality improved, a circumstance that greatly pleased the owners of a Starbucks whose customers begin arriving in pre-dawn darkness about 5 a.m.

"Our lighting costs went from 13 cents a foot to 7 cents," Holstein said.

Next up was a Biloxi plaza that houses the Comvest offices in a former bank building. To remedy heating problems, contractor Green Apple installed environmentally safe insulation foam in the ceiling. "Our power bills were just obnoxious," he said. "We foamed the top of our building and our power bill dropped by over half."

Next up for the foam treatment is a 55,000 square-foot retail center, he said.

Holstein cautioned that going too green may destroy a project's financial viability. He cited the Malaver's Company's Abercorn Commons retail complex built in Savannah a half dozen years ago on one of the busiest retail intersections in Georgia. The $70 million center was the nation's first "LEED Gold" certified retail project. The center recently sold at foreclosure auction for $22 million, he said.

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