



New lease on life

By Anna Thibodeaux
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The message was short and not sweet.

“Even if we could agree on a lease ... in today’s economy, the economics do not make sense. Reviewed the site this week. We need to close the file on this deal.”

Until Austin Earhart opened his e-mail, he felt good about the deal. Earhart, a sales and leasing agent with Beau Box Commercial Real Estate, declined to identify the parties, but he did say talks had gone well with the national clothing retailer.

The landlord had placed a month’s free rent per year with the 11-year lease in a Baton Rouge shopping center on the table. Still, the retailer backed off, unnerved by the nation’s economic tailspin.



TRIPLE THREAT: Circuit City, CompUSA and Linens-N-Things are among national retailers that have closed their doors or are in the process of closing their doors because of the nation’s economic turmoil.

“It’s pretty hard to even get retailers to look at a deal these days,” he says.

In late 2008, the market flipped from a landlord’s market to favoring tenants despite the area’s stable economy. The Capital Region had healthy holiday retail sales despite a national 2% downturn.

But major retailers like Circuit City, Linens-N-Things and CompUSA closed their doors and left big-box vacancies nationwide. Those vacancies locally are still drawing interest in an area with comparatively little availability. And discount and value retailers are still choosing the Southeast for their few store openings this year.

But, in the recession, Earhart says rent has become secondary to landing the deal.

“We’ve seen landlord incentives over the years, but nothing like we’re seeing now,” he says.

Not all of them are working, however.

Even after negotiating the price per square foot from \$10.25 to the desired \$5, one retailer still stepped away from a deal to lease the former Dollar General store location in

Kenilworth Shopping Center, Earhart says. Another retailer renegotiated the square-foot rate from \$15 to \$11 for the former Blockbuster Video location on Government Street, and the deal still fell through. Both retailers blamed the recession for passing on the locations.

When Earhart went to the recent International Council of Shopping Centers' Gulf South regional meeting in New Orleans, he heard gloom and doom.

While there's going to be a lot of horse trading this year, James Maurin, the chairman of Covington-based Stirling Properties who made a presentation as an ICSC trustee, says Louisiana should still fare well.

"I get callbacks from retailers, but that's not happening in Detroit," Maurin says. "Maybe we're the tallest pygmy in the jungle, but we're relatively in better shape than most areas in the country right now. Every retailer in the country is talking to every developer saying 'I need some concessions.' In a tough market, that's what everybody does. It's not a question about right or wrong. It's about the marketplace."

Even in the state, where retail sales held firm despite a national 2% downturn in December, retailers are pushing across the board for rate breaks and concessions. And they're getting them, but not as deep as harder-hit areas.

Landlords are giving short-term concessions such as deferred lease hikes in return for a lease extension. Even in the one-sided deals, a landlord might be trading occupancy in return for the retailer agreeing not to exercise its "go dark clause."

The phone is ringing again at Brad Way's office at NAI/Latter & Blum Realtors after a slow late 2008. But he also says they've dropped some lease rates on smaller centers and also are offering free rent. Business startups and regional franchise players, mostly discount and value retailers in search of 1,500 to 1,800 square feet, are helping make the numbers work on a shopping center.

One of Way's landlords cut rent 15%, which means barely covering expenses. Another 5% would cut into his ability to cover the bank note on a 5-year-old shopping center in Baton Rouge.

"It's definitely a tenant market, and landlords are getting ready to weather maybe a year or two of some rough times," he says.

Mall of Louisiana General Manager Todd Denton says owner General Growth Properties' recent credit extension—which at least delayed bankruptcy—hasn't affected its ability to get new tenants. Despite financial troubles, Denton says GGP is making tenant improvements that retailers typically want in a new location.

Fewer retailers opening stores means fewer leases, which means more competition. But at the same time, many national retailers are struggling to keep the doors open.

"If you go to the mall and restaurants, they're packed," says Dottie Tarleton, vice president of Stirling Properties' commercial investment division in Baton Rouge. "But it depends on what's happening in the country. They don't do this one store at a time. Their operating income has to be better at the end of the year."

Ann Taylor, Gap and Charming Shoppes are among retailers trying to cut rates in hopes of surviving the recession, and Tarleton says it has started to snowball in the Capital Region.

"There are landlords willing to do these really bad deals because they're desperate for a tenant to take some of the big-box spaces," she says. "If you make one of these deals, you're making a deal for a long time."

Still, Tarleton, who has weathered past recessions, says it will not be a catastrophic year for landlords—though it will certainly be challenging.

She anticipates a higher vacancy rate, more store closings and more competition for a smaller pool of tenants cherry picking prime locations. Rates likely will fall 10% at more desired locations and up to 50% for less desired ones. Some national retailers are predicted to go belly up in the next three or four months, to be followed by a second wave of retail closings before the economy begins to turn around.

But Tarleton also offers this hopeful outlook to those who weather the economic storm: "At the end of the day, those who survive will do very well."