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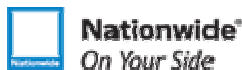
SHOPPING CENTERS TODAY

# Week



June 2nd, 2008

Vol. 13 No. 22



## House passes bill to extend tax breaks for developers

The House of Representatives passed a bill that would extend certain tax breaks important to developers and landlords. H.R. 6049, also called the Energy and Tax Extenders Act of 2008, would allow landlords to write off leasehold improvement depreciations over a 15-year period, versus a 39-year period. The shorter term allows companies to move the expenses of renovating and retrofitting stores for new tenants off the balance sheet sooner and thus boost after-tax cash flow. Landlords have been forced to use the 39-year depreciation schedule since Dec. 31, when previous legislation expired. In addition to the leasehold-improvement provisions, the bill would extend tax deductions per square foot for “energy-efficient investments” in commercial buildings and allow developers to go back to recouping brownfield cleanup expenses the same year the money is spent, as opposed to waiting until the cleaned-up property is sold. Developers had been enjoying those benefits before last December’s expiration.



It remains unclear how the Senate will proceed with the tax extender legislation this week, says Betsy Laird, ICSC’s senior vice president of global public policy. But the measure would essentially extend these tax breaks for one more year. The shorter write-off period could help boost the overall economy as tenants and landlords reinvest in their businesses, Laird says. “ICSC has been pushing for the enactment of these important tax provisions since the start of the 110th Congress last year,” she said. “If there is no certainty about these incentives, then businesses are hamstrung when making decisions concerning building improvements or adding energy efficiencies to their operations. In an already tight economic climate, Congress should move forward to help by extending these incentives as long as possible and for as long as possible.”

## Developers finding better luck with banks

Developers are turning more often to small banks for recourse loans now, as Wall Street and institutional investors fail to come





through. In fact, because of the impact of the subprime mortgage crisis, most shopping center loans extended today have some kind of recourse written into the documents, observers say. "A very meaningful percentage of the deals we are doing right now have a level of repayment guarantee to them," said Russell Schildkraut, a principal of

Ackman-Ziff Real Estate Group, a New York City-based advisory firm. "When the conduits were in their heyday, there was very little recourse being signed. Zero to 5 percent of the deals done in my office had a level of recourse. Now I speculate that 75 percent of the deals have some recourse."

Nonrecourse debt accepts the real estate as collateral. In a recourse scenario, the borrower is personally liable. "Good retail that is substantially leased is still going to be able to get nonrecourse loans," said Tim O'Donnell, a managing director and a principal of Fantini & Gorga, a Boston mortgage banking firm. "Construction loans to build new retail properties, even if they are substantially preleased, will, in most cases, be recourse loans. If they are refinancing out of a construction loan or a current permanent loan, and that loan is 65 percent to 75 percent loan-to-value, which is the majority of the situations we get involved in, then we advise them to take the best deal that is available, and it may need to be recourse or partial recourse. Clients have no choice, as they have to make a deal somewhere." Most people involved with commercial real estate financing expect the lack of nonrecourse loans to be temporary. The best-case scenario looking forward will be that recourse lending will diminish by the fourth quarter, says Bill Hughes, a senior vice president and managing director at Marcus & Millichap in Newport Beach, Calif. "As Wall Street comes back into the market, there will be more lenders [and] more competition, and one of the first things we will see is the loosening of the recourse handcuffs."

### **Costco benefiting from slow economy**

The economic slowdown is helping **Costco** boost sales and acquire better real estate, executives said on a third-quarter conference call last week. The warehouse chain's sales for the 12 weeks ended May 11 were \$16.3 billion, up nearly 14 percent year on year. Same-store sales, meanwhile, were up 8 percent. Part of the surge can be attributed to the skyrocketing price of gasoline, which accounts for about 10 percent of overall sales, said CFO Richard A. Galanti. Roughly three out of 10 people that buy gas at Costco also enter the store to shop, he said. Distressed department stores and specialty apparel chains are also helping drive sales gains at Costco, Galanti said, because they are flooding the market with unsold brand-name apparel and tools that the discounter might not normally get its hands on. "There are goods out there, and they've got to get rid of them," he said. "And we are the highest-end discount operation out there, and we'll take it all. Sales are probably down 5 percent to 20 percent at different apparel stores. But at Costco our apparel sales growth is up a few points to 10 percent for the quarter. And that's because of availability of those items." Costco, which says it wants to expand its store portfolio by about 6 percent next year, is also finding that landlords and co-anchors that once shunned it now have their arms open. The chain plans to open more stores in shopping centers, Galanti

said, particularly because more quality locations are available today than ever. "Pricing is not going down, but availability is going up," he said. "Even in a down retail real estate economy, prime spots don't go down as much."

### **Predictions vary on length of real estate slowdown**

Predictions on the duration of the current commercial real estate slowdown varied greatly during RECon in Las Vegas this year. Capital markets should improve within 12 months, but the retail industry is likely to take 18 to 24 months to regain its footing, said Kenneth Bernstein, CEO of White Falls, N.Y.-based **Acadia Realty Trust**. Jeff Olson, CEO of Miami-based **Equity One**, concurred. "If [the downturn] were a baseball game, it's in the third inning." Others, including Richard Tucker, CEO of Highland Park, Ill.-based **Tucker Development Corp.**, and Shelley Sponholz, senior vice president of real estate at grocery chain **Giant Eagle**, expect a return to equilibrium within 18 months. "Everything is taking more time, and time kills deals," Tucker said. Martin Mayer, president and CEO of Covington, La.-based **Stirling Properties**, estimates that there are about 12 months left in the down cycle, and he characterizes the present environment as "a state of paralysis with buyers, sellers and lenders" that has more to do with confidence than credit. "If you don't have to do anything, you aren't going to do anything," Mayer said. But he feels that the credit crunch will end sooner than the downturn. Daniel P. Hurwitz, president and COO of Beachwood, Ohio-based **Developers Diversified Realty Corp.**, was more optimistic, foreseeing an end to most of the turbulence within just eight months. "One day we'll wake up," he said, "and find out we've been in a recession for four or five months and [realize] we're almost out of it."

### **ICSC rolls out Research Mentor program**

ICSC launched a Research Mentor Program last week that matches ICSC volunteer mentors with members to help disseminate information about the industry. Members will be able to familiarize themselves with ICSC's research network and to meet others in the research business worldwide. Many ICSC members are becoming interested in the research field but do not know how to break into ICSC's research circle, says Michael P. Niemira, ICSC's chief economist and director of research. The program includes an advisory group of 150 mentors. "This program has already been enthusiastically embraced by ICSC's research community," Niemira said. "Clearly, we are filling a need. This is a one-on-one, relationship-building program for researchers." Volunteer mentors have already signed up from the U.K. and parts of continental Europe as well as the U.S. and Mexico. ICSC will act as facilitator, with Erin Caffrey, ICSC's senior research coordinator, responsible for the program's advancement. Those interested in serving as a mentor need only to be involved broadly in the research industry and are invited to contact the department by e-mail. A short form available in the ICSC Research Department's newsletter will be used to help match up the participants.

### **TRANSACTIONS**

**Glendale Square LLC** sold the 46,196-square-foot **Glendale Square**, in Placentia, Calif., to Burbank, Calif.-based **Glendale Square Holdings** for \$19.5 million.

**GBHR Corp.** acquired the 18,000-square-foot **Lighthouse Plaza**

shopping center, Orlando, Fla., from **ACP Lighthouse Plaza** for \$5.8 million.

**Natalie Realty** sold a one-story retail building measuring 34,773 square feet, at 6303 5th Ave., in Brooklyn, N.Y., to **6303-11 5th Avenue LLC** for \$5.6 million.

**Carl H. Tiedemann** purchased a 4,773-square-foot retail building in Santa Monica, Calif., from **Norman and Sandra Furr** for \$3.85 million.

## THE COMMON AREA

The mall boom continues in Europe, where some 22 million square meters (237 million square feet) of shopping center space is expected to open this year and next, according to a Cushman & Wakefield report. Russia tops the list for the most projects in the pipeline in Europe, followed by Ukraine, Spain, Romania and Poland.

**Walgreens** says it plans to open stores in Alaska next year, which will give it a presence in all 50 states, as well as the District of Columbia and Puerto Rico. That first Alaskan store is to open in Anchorage next summer, with two others to follow in the state by year-end.

**Sears** made a deal with rapper LL Cool J to produce a clothing line that is to roll out in 450 stores in September. If successful, the line could be expanded to include accessories, Sears says. The retailer says it hopes the venture will appeal to a diverse base, particularly blacks.

**IHOP** says it will change its corporate name to **DineEquity**. The company, which purchased the **Applebee's International** restaurant chain last year for \$2.1 billion, says its restaurants will keep the IHOP name. The merged company operates some 3,300 restaurants.

## Correction

An article last week headlined "Survey: 450 New Centers Opened in U.S. This Year" should have read, "This year alone 23 centers larger than 400,000 square feet of gross leasable area were built in the U.S."