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## INDUSTRY PROS EXPECT STABLE, BUT STAGNANT, YEAR FOR RETAIL REAL ESTATE

DEC 8, 2011 9:00 AM, BY ELAINE MISONZHNIK, SENIOR ASSOCIATE EDITOR



Even with the **positive mood at this year's ICSC New York Dealmaking conference**, seasoned retail real estate professionals expect only moderate growth for the sector in 2012.

"There is so much focus on capital markets and the election, next year is going to be stable, but not exciting," says Michael P. Glimcher, CEO and chairman of the board with Glimcher Realty Trust, a Columbus, Ohio-based regional mall REIT. "For us, it's going to be about the balance sheet and strengthening the quality of our tenants. Next year is not going to be very dynamic."

To be sure, both domestic and international retailers will continue to

look for new stores, especially in well-established urban centers in the Northeast, including New York, Boston, Washington, D.C. and Philadelphia, according to leasing brokers including Peter Braus, managing principal with Lee & Associates NYC, and Jonathan Lapat, principal with Framingham, Mass.-based Strategic Retail Advisors.

For example, in the past year, Lapat has seen a high level of activity from quick service restaurants looking to open their first locations in Boston. Braus points to all the European chains that want to **use New York as a branding opportunity**.

At the same time though, malls and shopping centers in secondary and tertiary markets throughout the country will continue to experience historically high vacancies and stagnant rents in 2012 because of all the space that has been freed up by bankrupt retailers like Borders, Braus notes.

For owners of large retail portfolios, "there won't be a lot of natural momentum, it's just going to be more and more hard work," says Joe Dykstra, executive vice president with Westwood Financial Corp., a Los Angeles-based real estate investment firm that focuses on value-oriented and stabilized retail centers. "Rents are not going up very much, if at all. As leases expire, there continue to be rent rollbacks and to get anything done requires time and patience. It's two steps forward and one step back. People are still just grinding it out for lack of a better word and it continues to be very, very choppy."

As a result, don't expect a substantial increase in new retail development in 2012. While people are starting to have conversations about centers that might break ground one or two years in the future, market fundamentals don't yet warrant the creation of more retail space nationwide. The centers that are getting built tend to be those focusing on value, including outlet centers.

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Steven Peterson, president of The Peterson Cos., a Fairfax, Va.-based real estate developer, says he considers himself fortunate because his firm has two centers under construction at the moment, including an outlet center undertaken through a joint venture with Tanger Factory Outlet Centers at National Harbor in Maryland and a hybrid lifestyle center in Virginia that will come with a movie theater and a BJ's Wholesale Club. He knows The Peterson Cos. is one of only a handful of developers in the country with projects in progress right now.

"There is not a lot of development going on, but the answer isn't, 'We'll get back to you in a year.' It's 'Let's talk,'" Peterson notes. "The numbers I am seeing at our centers are flat. In a recession, when I see flat numbers, I am okay. Am I worried? I am less worried than I was six months ago or a year ago. But I still think we have three or four years ahead of sluggish growth and it will take time to adjust."

## Investment blues

When it comes to investment sales, there has been a pullback from the optimism experienced in the first half of 2011. At the beginning of the year, capital seemed to be flowing freely and many investors were beginning to look for acquisition opportunities outside primary markets and class-A properties in order to get higher yields.

But as the volume of CMBS issuance dwindled and traditional lenders have continued to **focus on core product**, investors looking for class-B and class-C assets have found that sellers have not adjusted their expectations. Many still expect to achieve cap rates for their properties in the 7 percent range, while a more realistic figure would be in the 8.5 percent to 9 percent range, says Dykstra.



Traditional lenders are still not at a point where they feel comfortable underwriting acquisitions of class-B and class-C centers, notes Glimcher. That's why most of the money out there is chasing core product. "It's gotten harder," to find acquisition opportunities that make sense since the beginning of the year, says Glimcher. "And there's a big void between class-A and class-B."

In fact, even the market for class-A properties might be overheated, notes Thomas K. Engberg, CEO of Loja Real Estate LLC, a Walnut Creek, Calif.-based firm that invests in and operates grocery-anchored shopping centers.

"In the past six months we've had a much harder time competing in open bids, and I am not sure the pricing is properly reflecting risk," Engberg says.

As the months go by, however, and lenders begin to deal with the **mounting volume of distressed loans** underwritten in 2007, he expects that the market might find more equilibrium and property valuations will come down to more realistic levels.

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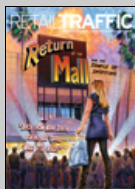
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