

# Advantage: Tenants

## The economy makes it a renter's market at Central Mass. shopping centers

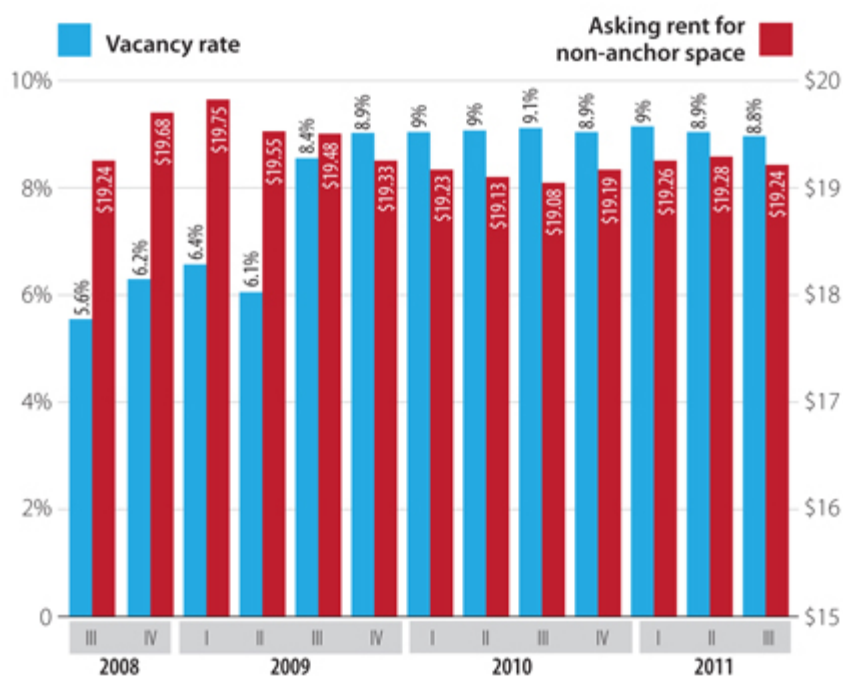
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Today

### Rents And Vacancies

Since the middle of 2008, vacancies in the Worcester County retail market rose more than three percentage points, while the average asking rent for non-anchor retail space in shopping centers has fallen back to its mid-2008 level.



Source: Reis Inc.

Attention retail landlords: Keep your tenants happy, because there could be greener pastures right down the street.

At shopping centers across Central Massachusetts, economic realities have shifted the power balance of the landlord-tenant relationship, area brokers say. In many areas, especially to the west of the I-495 corridor, it's a tenant's market.

Owners with the most desirable properties need not worry too much, but consolidation in the retail industry and stifled consumer sentiment have many property managers on their toes,

said Nancy Elliott, a Framingham-based broker and Realtor with Commercial Property Specialists.

“Anybody’s willing to talk to anybody to see what type of deal they can put together,” Elliott said.

Elliott has seen landlords granting rent concessions and other favorable terms to keep their spaces full.



Photo/Rick Saita

A worker adjusts the signage at White City Shopping Center in Shrewsbury. White City's owner is spending between \$10 million and \$15 million on renovating the plaza to give it a more modern look.

In some situations, potential tenants can afford to play the waiting game if they don't like the lease terms a landlord proposes, Elliott said. The odds are better now that the space will still be vacant a month later than they were three years ago.

“Landlords are taking it on the chin,” she said.

Nancy Davids, an attorney with Boston-based Goulston & Storrs who oversees permitting and leasing for retail developments, agreed that tenants have gained a bit of an edge in lease negotiations.

“They absolutely have more leverage then they had a few years ago,” Davids said.

Data illuminate the trend. Vacant retail rental space in Worcester County is staying on the market 40 percent longer compared to two years ago, according to data compiled by LoopNet.

And asking rent prices for non-anchor retail tenants at neighborhood and community retail centers in the area are flat or lower than they were in 2008, with vacancies at neighborhood and community shopping centers at 8.8 percent, up about three percentage points since 2008, according to Reis Inc.

A commercial strip in Auburn near the Auburn Mall is one area with a vacancy problem. In recent years, the Route 12 strip lost an Ethan Allen, a Bernie's Appliance, a Pier 1 Imports, a Staples, a Bickford's restaurant and several others.

“That's a pretty dark stretch,” said Michael Jacobs, a principal at Glickman Kovago & Co. who is working to find tenants for some of those properties. “The challenge with Auburn and that stretch of road is they were prominent-sized buildings, they were prominent retailers and they were all together,” he said. Potential tenants can get nervous when there are multiple vacancies in an area, he said.

## Places For Local Retailers

Jacobs said local retailers sometimes help fill space vacated by national retailers, and often at lower rents. The Bernie's Appliance space now houses Big Bob's Flooring Outlet, for example.

The Shoppes at Blackstone Valley in Millbury, constructed in 2004, have taken away some of Auburn's appeal as a retailing center in recent years, he said.

"If Millbury didn't exist, those retailers would be in Auburn," he said.

One big problem Elliott sees is banks not making financing available to the retail sector.

Jacobs agrees financing is more difficult now. He said there's not much speculative developing going on.

But he sees signs of optimism. Retailer interest in the area has been picking up over the past eight to 12 months, he said.

Jacobs recently brokered a deal that will bring a Kohl's department store to a development on Lincoln Street in Worcester that will also contain an Aldi supermarket. Jacobs is also working to market retail space for the CitySquare project in downtown Worcester, which he said he's confident will bring more than 100,000 square feet of urban streetfront retail to downtown.

"These are all good signs we're heading in the right direction," he said.

## Keeping The Tenant Happy

David Fleming, marketing director at Chestnut Hill-based WS Development, said the company has increased efforts over the past few years to ensure tenants get a good start in their space.

WS Development operates multiple retail centers in Central Massachusetts totaling more than 2 million square feet. Among them is the Shoppes at Blackstone Valley in Millbury, the largest open-air shopping center in Central Massachusetts.

Wary of some of its tenants' tight marketing budgets, Fleming said WS has tried to maximize exposure for businesses there, as well as at some other centers in the eastern part of the state.

For example, if a wine store is holding a tasting event, WS will pitch in to provide live music, he said. Or the company will handle press announcements about a new opening and provide signage at the space announcing the tenant's impending arrival.

"We try to do events that drive traffic to the center, and we try to work with the retailers to enhance what they're already doing," Fleming said. "It's in our best interest for the retailer to succeed."

Fleming said WS has managed to keep vacancy rates low at its properties since the recession. He said the company does have some persistent vacancies in Fitchburg and Marlborough, but added that WS is ready to move forward on building a 550,000-square-foot Bellingham plaza that has been slowed by the economy.

The company, which already owns three retail centers in Bellingham, is working with town and state highway officials to get an interchange built to service The Shoppes at Bellingham. Fleming could not say how long it would take to build an interchange.

At this point, landlords may not need much warning on lease expirations. They have seen the shift. Jacobs, of Glickman Kovago, said some anchor retailers initiated lease renegotiations with their landlords during the downturn over the last few years, well before their leases expired.

The retailers knew they had leverage and their landlords would not want to lose them.

Dauids, of Goulston & Storrs, said landlords are willing to talk.

"I think landlords are listening," she said. "I think landlords are trying to negotiate and strike a deal that still works for the project but that responds to some of the tenants' concerns."

White City Shopping Center in Shrewsbury can be seen as another example of a landlord working to keep tenants satisfied.

Paul Brandes, principal at New York-based Charter Realty & Development Corp., said his company is spending between \$10 million and \$15 million on renovating the circa 1970s plaza to give it a more modern look, improve pedestrian access to its shops and attract new tenants to fill several vacancies. Charter Realty and its partners bought White City last year for \$56 million.

There may be some annoyances during construction, but Brandes said that ultimately, the plaza will be a stronger draw for customers, which will benefit tenants.

Though Charter's Massachusetts properties have maintained better occupancy rates than its developments in other states, Brandes said, the company can't rest on its laurels in this market.

"The market takes note of properties that appear dormant," Brandes said. "The owners who are unwilling to reinvest in their centers have a difficult time attracting tenants."

Brandes agreed that tenants have picked up some leverage in the retail market in the past several years, but he said properties with strong sales histories and management will fare better than others.

He said tenants want to protect their downside as much as possible in lease negotiations, but he thinks they recognize opportunities when they arise.

"I think most tenants treat landlords in the same manner they expect to be treated in return," he said. "We try to be fair, and expect the same from them."

Charter recently inked a lease agreement with Five Guys Burgers and Fries, a restaurant chain that's expanding throughout Massachusetts and the country. And they're in talks with others, Brandes said.

But White City has also felt competition. Arts and crafts retailer Michaels Stores, one of its larger tenants, is vacating the center. Northborough Crossing, a new development in Northborough

anchored by a Wegmans grocery store, has announced a Michaels will open there next year. Michaels Stores did not respond to a request for information about the move.

Brandes said Michaels had made the decision prior to Charter's purchase of the plaza last year. He said the space is outdated and feels renovations will help attract a high-quality tenant.

"We viewed it then, and still do, as part of the opportunity to redevelop the plaza," he said.

Goulston & Storrs handled development, permitting, structuring, financing and leasing for Northborough Crossing. Davids said Wegmans, the first in Massachusetts, made it easier to attract other tenants.

"It's a very powerful draw," she said.