Boston Roundtable

Infill nature of New England market keeps the area moving.

Roundtable moderated by Jerrold France and Randall Shearin. Edited by Coleman Wood.

On October 15, 2008, retail experts from the metropolitan Boston area gathered at the Boston office of Goulston & Storrs to discuss the dynamics driving and affecting the Boston retail sector. Attendees included: Bryan Anderson of Atlantic Retail Properties, Jason Weissman of Boston Realty Advisors, David Locke of CBL & Associates, Dean Stratouly of Congress Group Ventures, James Koury of Jones Lang LaSalle, Don Mace of KeyPoint Partners, Bob Sheehan of KeyPoint Partners, William Beckeman of Linear Retail Properties, Ted Chryssicas of Colliers Meredith & Grew, Thomas Wilder of The Wilder Companies, Brian Sciera of W/S Development, Mark Roberts of W/S Development, Michael Sleece of Wachovia Bank, and Doug Husid and Martin Glazer of Goulston & Storrs.

Shopping Center Business recently held its Boston Retail Roundtable at the law offices of Goulston & Storrs.

SCB: Bob [Sheehan] could you start us off on some stats for the market?

Sheehan: Based on the database that we maintain, there were about 181 million square feet of retail space in the market as of spring 2008, and that's up about 1.4 percent from a year ago. There is some net positive absorption going on in the market, which is a good thing. I don't know what this year is going to look like. Vacancy rates climbed effectively from about 6.1 to 6.9 percent over the past 18 months or so, which I believe is probably doing a little bit better than the nation as a whole. There is still some development going on. Lowe's is still doing deals and a couple of lifestyle centers have opened. Mansfield Crossing opened in the last year, and Colony Place, which has a lifestyle component, also opened up in the last year. There are still some things happening, although we are starting to see several of the new projects slow down.

SCB: There has been a lot of new development that was announced here in the last 3 to 4 years. How would you say that is coming along? Is the demand still there for these new projects?

Sciera: Our property in Lynnfield (Meadow Walk at Lynnfield) is going well. We're scheduled to open in 2010. Of course, things aren't going as fast as they were 2 years ago, 18 months ago, or even a year ago, but leasing is going well. Because of the strength of the location on [Route] 128 and the real estate, it will be a great project. We're obviously still bullish on the market, and the projects that aren't out of the ground are just going to take a little bit longer to find the right mix of tenants to pull them together than they did previously.

SCB: Are you finding it more difficult or taking a longer period of time to get the deals done with the retailers? Are they being more cautious overall or does it depends on availability and what retailers want to do in a specific market?

Sciera: There is no question that deals are taking longer. More and more people are getting involved in them from the different levels on the retail side. Whereas previously, decisions may have been left to two or three people, now it seems six or eight people are getting involved. Since deals are taking a little bit longer, you have to work a little harder, and get in front of them more often. Retailers have looked positively upon Boston because it

Bob Sheehan.

Martin Glazer.

is — while certainly not unaffected — an insular marketplace that is diverse with the colleges, universities, and health fields. A lot of retailers, at least that we've talked to, look at Boston very positively because it's already a mature market.

Husid: The pace obviously picked up dramatically over the past few years, in terms of what the anticipation is and how quickly deals turned. On the landlord side, there is an acute sense that a deal in hand is a deal that has to be pushed very hard and very fast because you just don't know if it's going to be there in 2 weeks or a month from now. The pressure turns around once there is a handshake or an LOI. Some tenants are starting to take another look at some of the provisions. I am probably not one of the only lawyers in town whom has been asked, 'What are our outs?' Although there have been some very successful projects, it's a very competitive environment. There are situations in which people are playing one location against another. Developers know about it far better than I do, but construction costs have just been escalating at such a rapid rate, and the crossover for what you need for rent to make these things work is moving at a pace that is inconsistent with what's happening with the rest of the market. There is enormous pressure to get the deals that are out there done, and the new deals are going to take awhile.

SCB: Are you finding if you represent owners, that they are more willing to come down on rents in this market, or is everybody sort of holding the line?

Husid: Not hardly, because the properties are all extraordinary opportunities. Marty [Glazer], you may want to comment on that because you see it more than I do.

Glazer: There's no question that as the marketplace becomes more competitive, the rent structures become more difficult to maintain. Tenants are becoming much more aggressive in terms of wanting the landlord to increase its investment; therefore, tenant allowances have been skyrocketing. It's another way that the tenant is trying to put more of the risk on the landlord and on the developer. And we see this in a number of different areas, in terms of the tenancies and the co-tenancies, which have always been a relatively important part of any leasing structure. A tenant has to look at a center and think about what it is going to be like. They can understand the demographics of the marketplace, but they want to make sure that they understand the demographic of their own center.

SCB: Ted [Chryssicas] what are you hearing from the tenant side?

Chryssicas: It is not about the next shopping center down the street; it is really about the center that is on the other side of the country or the one that's in Nashville. Tenants will play that off of us as well, because they will only have, say, eight slots for 2009, and they will say, 'Hurry

up and make this deal, and we need it at these terms and conditions, otherwise this thing is not going to get built in 2009. Maybe we'll be back to you in 2010, but we can't promise anything.' That's what we are finding. We try to sift through that to make sure that we're not wasting anyone's time, particularly a developers' time. People are looking and knocking on doors, but they're not real players. So that's one of our fears as a broker.

Anderson: I would concur. Retailers are not just playing off another site; they are playing off of other markets. And you don't see the pressure today on the in-house real estate managers to have a quota of deals a year like they did a few years ago. It's different now. They are going to be smarter because there's no pressure from Wall Street in terms of opening up a certain number of stores. Today, if you don't deliver that last store, Wall Street is not going to punish the stock. They want to make sure they're all solid deals, rather than just getting a deal to get a number.

SCB: Is there a preferred property type here for new stores?

Anderson: Today, metropolitan deals are more exciting for retailers. The suburban deals have been pushed to the limit, and we're going back and talking about all of the exciting projects along [Route] 128. Those are all still of great interest to all retailers because there's still great density and inside 128 is still underserved by retailers. You have two pretty dynamic projects that some may argue are going head-to-head in Dedham and Westwood. Both of them are going to be spectacular and successful projects because there is such density and it's such an underserved market. There are not many places in the United States that can have two projects of that magnitude. Legacy Place is 735,000 square feet and Westwood is 1.1 million square feet of retail. You're talking about 2 million square feet in one market, and it's an under served market.

SCB: Are current retailers coming back to you for rent relief? Is there an opportunity for retailers to take advantage of that?

Beckeman: We have several properties that have mom-and-pop tenants, so we have probably seen a few more of those calls. In the past year, we have lost three retailers out of 260, and that's about a normal year. So it really hasn't shown up in the numbers, however, looking down the pipe it looks a little scarier because some of the tenants are reluctant to open up a new shop in this kind of environment, and they are having trouble getting their bank line. We are going to see a little bit of strain on that side of the market.

Ted Chryssicas and Brian Sciera.

SCB: Are you trying to help out some of your good operators survive because you know that they'll come back. Is it just a matter of working through this environment?

Wilder: Absolutely, and today you have to be a good operator. You have to have a strong tenant retention program, whether it is locals, regionals, or nationals because they need the help. Right now, part of our big thrust is maintaining occupancy lev-

ALEWIFE BROOK PARKWAY SHOPPING CENTER

Linear Retail Properties is currently redeveloping the Alewife Brook Parkway Shopping Center in Cambridge, Massachusetts. The shopping center, which consisted of a 30,000 square foot multi-tenant retail building and a free-standing, 6,200-square-foot vacant building was purchased by Linear February 2007.

"When we purchased this tired, outdated center last February, we knew we had acquired an A plus retail location but didn't really expect to be underway with our redevelopment work so soon with commitments from coveted retailers such as Trader Joe's," says Bill Beckeman, president and CEO of Linear Retail Properties.

The development firm demolished the 6,200-square-foot building, formerly occupied by a Ground Round Restaurant, and set to work on a new 17,000-square-foot, multi-tenant retail facility. The new building fronts Alewife Brook Parkway and features ample parking behind and to the sides of the site. The building has been designed to accommodate six tenant spaces, most of which was been pre leased prior to construction. Occupancy is scheduled for Spring 2009.

The 30,000-square-foot building is slated to undergo a complete gut rehabilitation and will be re-tenanted with a new 16,000-square-foot CVS Pharmacy end cap and a 14,000-square-foot Trader Joe's. Construction will commence in February 2009 and the new tenants will open by the beginning of 2010.

We had considered a much larger scale mixed-use development on the site, but the intense interest from retailers steered us away from the complexity presented by competing uses and toward more simplicity," explains Beckeman. "Our team focused on making the layout as attractive as possible for retailers and we ended up with an aesthetically appealing blend of prominent storefront retail spaces within a conventional high traffic volume shopping center. The retailer reception has been exceptional and heartening in this uncertain business environment."

— Stephanie Mayhew

els, which might mean reworking a lease. However, sometimes we don't want to have to do that, but there's a trade-off in terms of an additional term, a percentage clause, a waiver of some sort, or expansion controls they have had over the property. Long-term, we are going to come through this, but there is gong to be a lot more fall-out in 2009, and you need to be prepared for that. You need to be prepared to work with your tenants; you need to help them with their marketing; help them with their merchandising; help them to understand the market and their opportunities in the market.

SCB: How do you see Boston compared to other markets you're involved with?

Wilder: Boston is relatively strong because of the barriers to entry. We've seen that in a number of properties. We bought a portfolio last year that was a great portfolio of infill properties, and we're still 96 percent leased today. We are not quite getting the rents we thought we could get, but we didn't actually underwrite those higher rents, so we're still doing better than what a Comp USA or a Circuit City was paying. Lifestyle deals today are challenging. The pool of retailers has shrunk and they all know who they are and they all talk, and there's no getting by with any cute co-tenancy clauses anymore. If you don't get those main retailers, than forget it, I'm not opening.

SCB: We've heard some of the retailers saying, 'We're coming in; we'll pay the rent, but we're not opening for a year-and-a-half.'

Wilder: We've had some tenants come back and say that they don't want to open until 2009. We have had a couple of tenants come back when the lease was signed, and they have a commencement date that's tied to 90 or 120 days, and they have tried to renegotiate that. We have worked with some of those tenants to try and incentivize them to open early because we are all dealing with these co-tenancy issues. We need to have the occupancy because it is important to the success of the existing retailers.

SCB: How does CBL see this market?

Locke: The existing lifestyle tenants have opened up very well. One location in

southwestern Connecticut is a terrific spot for these people to be. In other locations, though, in terms of the leasing environment, we have just seen the tide turn. As Tom [Wilder] mentioned, we have even seen retailers utilizing their leverage of pushing us to get projects started without signed documents. And that's the ultimate push for a business when you need commitments in order to go forward. But the leasing world has just changed so tremendously. Three or 4 years ago, we were looking at three or four category-dominant-type retailers that we could turn to, and today, in most categories, we are looking at one tenant. It's changed how you pursue them. In new developments, the rent relief situation in existing tenants is one thing, but as you're working through a deal, the rent relief situation turns to push backs for them to improve their deal. So the urgency to get leases signed is just paramount. We're under construction for a project outside of Pittsburgh, and half-leased on a 600,000-square-foot center with six or seven tenants, but it's the remaining half of the space that is the real challenge, finding those remaining shop and box tenants who are going to be able to make the commitments. It's a challenge. Being a public company, we enjoy the benefits of what the public markets have been able to give us. More recently, we've obviously suffered on the value of the stock, the Wall Street situation and the suffering of the mall REITs. So it's really a situation that has not been in our balance lately.

SCB: What about on the acquisition side? Are there properties available here? Is there anything that is more difficult to come by?

Koury: There are properties on the market. We've been fortunate to work with several sellers that have been pretty pragmatic when it comes to pricing. The bad news is that if you are in the customer sales side of the business. In the past year, customer sales have been down about 90 percent from the year prior, which was clearly outstanding. I would say that we are down about 35 to 40 percent from a normal year, from 30 percent of a normal year. The good news is that there are plenty of buyers and sellers trying to put deals together. We have buyers and sellers coming together on pricing, but then the buyers can't get the financing. We have to keep a positive attitude because there is some light at the end of the tunnel. We anticipate liquidity coming back on a couple of different levels after January 1st. Next year, insurance companies should hopefully re-allocate some financing and banks will probably offer some recourse. A big segment of that market, the conduits, is gone. The conduits had probably as much as 70 percent of the market in the past couple of years, but they were really a much smaller part prior to 2002, so the world will go on without them. Costs will be a little higher and loan-to-values will certainly be lower, which may give somewhat of an edge to the institutions that can come up with 35 to 40 percent down. So there may be a little bit of an advantage there.

SCB: One of the things we're hearing around the country is that if you don't have to sell right now, don't. Wait until the pricing sort of falls out a little bit. Is that something that you're hearing here, too?

THE SHOPPES AT FLEMINGTON

This past September saw the grand opening for the 113,454-square-foot first phase of The Shoppes at Flemington, an upscale lifestyle center located at the intersections of routes 202, 31 and 12 in Flemington, New Jersey. The project's developer, Stanbery Development, is using the project to tap into the upper class demographics of the trade area.

"Hunterdon County is the most affluent county in New Jersey, and depending on the list, it may be the most affluent county in the country," says Ray Brunt, leasing director for Stanbery Development.

This isn't the only project that Stanbery is developing in the neighborhood. The com-pany has partnered with Garden Commercial Properties for the development of Raritan Town Square, located in nearby Raritan Township. But while the latter project is focus-ing on value-oriented retail tenants, The Shoppes at Flemington is firmly planted among upscale retailers. More notable tenants include Ann Taylor Loft, Banana Republic, Coldwater Creek, Jos. A Bank, Lane Bryant, New York & Co. and Talbots.

"There is not one tenant that really acts as the anchor at this point," Brunt says.

In forming the tenant roster, Stanbery chose to make the center itself a destination, rather than have an anchor that serves to attract tenants. Other tenants include AT&T Wireless, Bath Junkie, Children's Place, Five Below, J. Jill, Massage Envy, Snap Dragon and Tails of the Village. Stanbery is also aiming for five restaurants within the project, with three tenants already signed. Bensi Italian Grill has already opened, and it will soon be joined by Bok Bok Fresh and Panchero's Mexican Grill, which will both open before the end of the year.

"It is really the apparel that drives traffic in there, and the food drives a repeat in business that brings people in more than once a week," says Brunt.

Stanbery plans to construct second phase for The Shoppes at Flemington, but Brunt says it is too early in the process to go into specifics. At the earliest, construction would not begin for the phase until the end of 2009 or the beginning of 2010. The phase will comprise approximately 36,000 square feet of additional space, and will tentatively be built out by the end of 2010. With an upscale apparel tenants and restaurants that keep shoppers at the centers, Brunt believes that Stanbery has found the perfect project for the area.

"I don't think there's anything like this in the trade area at all," he adds.

— Coleman Wood

Mark Roberts.

Weissman: The urban markets have still been pretty active — Newbury Street, Washington Street, etc. What's really important is the underlying real estate. We are going to see some major fallout, and you have to look at consumer confidence on a macro level.

Beckeman: We have been in buy mode for the last 5 years, pretty consistently buying $40 to $70 million per year. We have already bought nine so far this year, and we are maintaining the pace to be in that range again this year. We have seen almost no movement in pricing to date for quality properties. Maybe in the last month. But with B properties, there has been pretty big movement, at least in terms of what you're willing to pay. Sellers aren't quite there yet. They have not quite realized how much the market has moved away from them. They are just sitting and waiting for things to get better. Our focus has been on the urban areas. That's kind of the last frontier for Boston in retailing, and we've put a lot of energy into buying in the city.

Locke: When sizing up a new development opportunity, buyers don't realize the pressure that is put on the developer from rising construction costs, the tougher deals they have to make with tenants, and shrinking returns. I don't know if the property owners have caught up with that reality, from our perspective. Whether or not, it's a wait-and-see game or folks don't have to sell, they're going to wait it out, but not everybody's in that situation. From the development perspective, with returns shrinking, that has to be an avenue that has to change for us.

Stratouly: It doesn't matter whether you are in Boston or the greater metropolitan area; the barriers to entry are sort of like scaling barbed wire fences. It's virtually impossible. How long did it take Legacy Place?

Sciera: Quite a bit longer than expected.

Stratouly: The problem is nothing makes sense. I am amazed that there's as much positive reaction in this room as there is. You've got an economy that's driven 70 percent by the consumer; 60 percent of his net worth is invested in his house; 60 percent of his net worth is gone. You now have 70 percent of our economy is in trouble. The retail numbers came out just before I came over, and they're down 1.2 percent, and that's in September — the school shopping period, or at least the tail-end of the school shopping period. So what's Christmas going to be like? If you look at the grocery stores, how many do you think that are operating right now will be here in 12 months? If anybody raises their hands and says yes, then you're in the wrong business. Two of them will be gone.

SCB: How many grocers are in this market? Are there a lot?

Doug Husid and Dean Stratouly.

Stratouly: Five. We will see one or two of the big international players consolidate and possibly one of the family-owned chains. So, you are looking at one of the core elements of our business consolidating. We have the perfect storm: supply that's growing, demand that's dropping, consolidation across the board, and costs rising. You also have a banking system that I don't think will unclog, to use [Henry] Paulson's expression, for another year. Not to pick on Michael [Sleece], because he's one of my bankers, but who would have thought 6 months ago that Wachovia would not be around. It's one of the storied franchises, one of the great real estate banking franchises, and it's gone. Capital and equity are disappearing, and you put that together and we're all going to be sitting around for a long time trying to bail out our boats. Certain public companies, if you look at their debt-equity ratios, are in good shape, however, some of your brethren are way over-leveraged. I know one particular retail REIT that has $2 billion coming due at year-end. Where do you get $2 billion?

Jsson Weissman.

Locke: A number of REITs have found themselves in the position of having to face debt rollover and fortunately for CBL, our debt rollovers are relatively minimal over the next couple of years. We're thankful for that. At this time, it would be a very difficult situation to try to address.

Stratouly: I have one lifestyle center that has taken us 4 years to get permitted, and we have leased it three times now. All of a sudden, your health club deal in Boston is competing against a health club deal in Cincinnati, Ohio, and return on capital in Cincinnati is a hell of a lot better than return on capital in Boston.

Chryssicas: The times we're going through also present many opportunities, especially for some of the developers, but more so for Bill [Beckeman]. You must have a lot more things coming your way and at a much higher cap rate.

Beckeman: We haven't seen the higher cap rate. You know it's there, but we have been focusing on the quality assets. So things that we might have bought a couple of years ago, we really aren't going after today because the price just doesn't justify the risk. That's now the property that lenders want to lend on today, but low-leverage, quality properties — there's still money out there for the smaller deals.

SCB: Bill [Beckeman], what are you buying?

Beckeman: We buy mostly convenience-oriented shopping centers and pharmacy-anchored centers. We buy smaller properties in the destination corridors. And we buy urban retail, however we can find it. We've been finding it in places such as the bases of buildings and condominium units. We thought we would have a catcher's mitt on as the turmoil started to really materialize at the beginning of the year, and all we have seen is the real junk in the marketplace for about 3 or 4 months. In the last 6 months or so, there have been a few deals that would come out, but we have bought mostly off-market. It's tough to compete when you have the national and international beauty contest, particularly when you're dealing with buying properties in Boston. Over the last few years, it has been international. We tend to focus on chasing opportunities independently with brokers and finding opportunities.

SCB: Jason [Weissman], you mentioned you're doing some work downtown?

Weissman: Yes, we are. Last year, at the same time period, you would probably have had 15 to 20 property trades. Those who don't need to sell aren't going to market. Property owners that are in trouble in other areas will have to potentially dispose of assets in the core markets, so that's probably where there is going to be opportunity. Secondarily, those same owners, who own in core markets, may look to go to market if there is a spectacular opportunity in other areas. And we are actually seeing that right now. We are working with a group that may go to market with a multifamily portfolio because there is a great retail opportunity in another market in another part of the country. That's where the property trades will come from: folks who have to sell for some sort of reason. In Boston, we didn't really experience the irrational exuberance that was seen in other markets. In the Manhattan apartment market, for example, NOI is 50 percent of what the interest expense is at Peter Cooper Village. The point is: you are going to see movement from people who have terrible problems.

SCB: At our New York roundtable yesterday, one of the issues they mentioned was the fear from luxury retailers. They are super saturated with this sector because incomes were so high, but now there is a fear of fallout from the situation on Wall Street. Is there a similar fear here?

Roberts: If you look at things from a somewhat positive, the-glass-is-half-full aspect, there is going to be a lot of opportunities. There is going to be a flight to quality from retailers because of the lack of product and not the fact that they want to open up stores. You can't say, across the board, that every retailer doesn't want to do deals. There are several who might have scaled back, but it is more of a function of how much opportunity they want to pursue. For us, hopefully, when they do look across the country they will want to move to the better properties. When that pool shrinks, and those small players who mostly work on the fringe completely fall off the map, there are going to be others

LEVITTOWN TOWN CENTER

Located in the suburbs of Philadelphia, Levittown, Pennsylvania, has a unique history. It was the second planned community built by William Levitt, who is sometimes credited with creating the American suburb. Largely built out in the 1950s, the community is known as a working class town. One feature the community lacked, though, was serv-ices for this demographic. Levittown is surrounded by more affluent communities with upscale retail options, but nothing was available for more value-oriented consumers. This was the impetus for the renovation of one of the area's major retail centers.

"[Levittown Town Center] is the brownfield redevelopment of the former site of an open-air, regional mall built by the famed William Levitt & Sons in 1957," says Adam Ifshin president of DLC Management Corp. "We bought the site, demolished the mall, did a multi-year environmental remediation, and now we're building this in its place."

Levittown Town Center is a 458,000-square-foot power center that is under develop-ment at this former site. DLC acquired the property in 2002 and spent the next 5 years completing an extensive environmental clean-up, which, among other things, removed approximately 1 million square feet of asbestos-laden material and 66 underground storage tanks.

"[Once complete], it's going to be, by far, the central shopping location for people in the immediate trade area," says Ifshin. "It sits at the intersection of Levittown [Parkway] and Bristol Highway — it's like First and Main for Levittown and the borough of Tullytown that it encompasses."

Some retailers, including The Home Depot, Wachovia and KFC/Taco Bell, opened in 2004. The balance of the center is currently under development, with leases signed for 75 percent of the space, with approximately 40,000 square feet left to lease.

"I think we'll be leased up by the first quarter of 2009," Ifshin says.

In addition to The Home Depot, Levittown Town Center will be anchored by Wal-Mart Supercenter, Ross Dress For Less, Famous Footwear, Dollar Tree and Advanced Auto Parts. Another 60,000 square feet of inline retail space has also been signed. All of the tenants that have been announced plan to open their stores between the second and fourth quarters of 2009.

"We are focused, not only in economies like this, but all the time on retailers who pro-vide an extreme value proposition," says Ifshin. "For example, we do not build for retail-ers such as Talbot's, Chico's and Banana Republic. We build for Wal-Mart, Target, Lowe's Home Improvement Warehose and The Home Depot...And if you think about who we have put in the center, for the times that we're in, people need to save money — they need to stretch their dollar further."

"Those are all tenants that really, really help the consumer in a time where the con-sumer is stretched," he adds.

— Coleman Wood

that are still waiting to buy.

Anderson: I would have to agree. Retailers absolutely recognize the strength of Boston and the Northeast. They have faith that these stores will do well. They may scale back their projections to a more conservative number, but they still believe in their minds that there's great upside to these locations. You could do a deal in Arizona and know exactly what it's going to do in sales, or you could go do a deal in Florida and have a pretty good idea what it will do in terms of sales, but if you get an opportunity to put up a store in Dedham, Waltham, or Burlington you might have an idea of the sales that it will produce, but you could be light on your projections and make much more, and retailers believe that.

Roberts: Bryan [Anderson] brings up an excellent point. Out of the 80 properties and 16 million square feet that we have in this market, we generate a monthly report on how our tenants do year-over-year and how that compares to the national average. I'm not going to tell you that every one was up, but I'll tell you that they are

COOPERTOWNE CENTER

In Somerdale, New Jersey, a renaissance is currently underway that centers around the redevelopment of the White Horse Pike corridor, which is itself being expanded. It is in this area, specifically at the corner of White Horse Pike and Evesham Avenue, that National Realty & Development Corp. (NRDC) is doing its part to revitalize the corridor with the development of CooperTowne Center.

The new shopping center comprises the redevelopment of a retail property first developed in 1988. The property was originally anchored by Caldor and Mayfield Food Town, but Caldor's bankruptcy resulted in an 83,000-square-foot vacancy. A department store took over the space, but also went bankrupt not too long after. When Mayfair was sold to Shop N Bag, which also later went bankrupt, the center had developed a reputation.

"It was a center that, for all intents and purposes, was snakebitten because of several bankruptcies," says John Orrico, president of NRDC.

So in October, after a 4-year approval process, the groundbreaking occurred for CooperTowne Center, a 52-acre retail center that Orrico hopes will be more than just another shopping center for the residents of Somerdale and Magnolia. The existing 283,000-square-foot shopping center will be razed except for 83,000 square feet, and a 14,000-square-foot building will be built in place of the demolished area. For the existing structure, the façade will be redone, a new roof will be installed and the building's interior and mechanical systems will be upgraded. A 203,000-square-foot Wal-Mart will occupy a freestanding location at the site, and three pad sites will be constructed along White Horse Pike.

"We're creating a traditional Northeast downtown look within this project," says Orrico.

The shopping center will feature a two-story façade with variations in design, in an attempt to recreate the feel of a traditional downtown area that evolved over time. NRDC is putting in 24-foot wide sidewalks to encourage pedestrian traffic and outdoor seating areas for restaurants, as well as parallel parking in front of stores. A plaza within the center can be closed for community events without disrupting traffic.

Some tenants from the center's previous incarnation, including Cinemark and Pizza Hut are remaining at their locations. Cinemark, in particular, is launching a $1 million renovation to upgrade its facilities. Other tenants include LA Fitness, Dollar General, Gamestop and Applebee's. In addition to these big-name tenants, NRDC is also hoping to attract regional and local tenants such as bakeries and coffee shops that make a city's downtown unique.

"When I go to my hometown, I walk downtown and there is a coffee shop and a pizza shop. You know the people who own them; you've gone there for years. And that's the type of feel we're trying to create here," says Orrico.

Barring any delays, Orrico is hoping to have the project complete by November 2009. Despite the relatively early stage of construction, the project is already gaining recognition. The state of New Jersey declared it a grayfield development, one of only four in the state. This designation is for an economically blighted development, much like a brownfield designation is for an environmentally blighted area. It has also become a pet project for the New Jersey Office of Smart Growth, which uses CooperTowne Center as an example of how to redevelop an urban/suburban fringe center.

"It's being looked at as a model of how to do grayfield developments in New Jersey," Orrico says.

— Coleman Wood

not down in comparison to the national average.

Stratouly: We have a relatively small market that is characterized by fairly limited population growth, but our demographics are different from other states. We have watched apartment vacancies reach historic lows again, and we are seeing rental demand rise. We are also now have the best office market in the country with the lowest vacancy. We did a deal at Arch Street 2 weeks ago at $74 per square foot. However, we have gone from fairly significant office absorption — not just downtown, but in the suburbs as well — to tenants stopping their expansions. Is the next shoe to drop unemployment? We did not have unemployment rise in the last quarter in the commonwealth, but unemployment is going to stat to hit us regionally, and what does that do to your same-store sales? Next quarter, when you run your numbers, do we comp out in this region more reflective of the national trend, as opposed to a certain level of isolation right now? Are we just behind the curve right now?

Sciera: There's an underlying conservative nature here that will probably serve us well through this period. You hear about so many developers with billions of dollars of debt coming due. We have a company that has more than 80 properties, and we have one loan coming due in the next 5 years. There's a conservative thread through New England. Could there be a downturn in employment? Sure, but I think there's been enough diversity and conservative business over the years that should serve us better than other parts of the country. When you travel to other parts of the country chasing retailers, it's very easy to see the lack of conservatism.

Koury: Firms that need to diversify their real estate portfolio want to have a segment of it invested in retail. However, as we enter or continue this recession, retail is certainly going to get, as a perceived investment vehicle, hammered over the head, based on all of the points we brought up here today, on a national basis. You are going to see these effects happen on even a broader scale in the Midwest and parts of the Southeast, but for those who want to diversify into retail, people will look at the Northeast as somewhat

William Beckeman, James Koury and Bryan Anderson.

of a safe haven. We didn't have rents going through the roof like in other parts of the country and vacancies are not going through the roof either because of the barriers to entry. People will look to this region, in terms of economic turbulence, if they need to diversify. And they will look at it internationally, as well as domestically as a favorable place to buy.

SCB: Michael [Sleece], what is the stance from banks? I know it's difficult to get a loan, but how do you view this?

Sleece: Until the bailout plan, banks were trying to unlock their capital. You literally could have come to us with a cash-secured loan request and we would have had to say no for capital preservation reasons. But assuming you are in the business and you are going forward, the underwriting has changed. We now look very closely at co-tenancy provisions, which frankly scare the hell out of you because if one goes dark, it typically blows up the entire center, especially if you have one big anchor. Whereas, 2 or 3 years ago you would say, 'I'm not going to worry about that.' Debt-service coverage ratios that typically would be underwritten at 1.20, 30-year amortization and a 7 percent interest rate are now are now 1.25, 25-year amortization and a 7.5 percent interest rate. Well, that cuts back your proceeds. Now you're putting in 35 percent equity realistically, at least, which is going to have to drive values down and cap rates up. It just has to, because to get your return you have to put so much more equity into deals. A 200 basis-point rise in cap rates is going to be very real, regardless of the quality of the property. A year ago, centers were trading at a low of 5.25 and now it's going to be 7.25. And we will see some that are going to go from 8 to starting at 10, which we all started in this business with 10 percent cap rates, that was a normal deal. We have lost the conduits and life companies are, at best, limited to 65 percent, so how do you get taken out? There's just a lot more equity in the projects.

Koury: There are a lot of deals today. Both of the points are being done on a negatively leveraged basis. The debt constants are above the cap rates in many scenarios, so actually a lower loan-to-value will help your returns in that scenario until that dynamic reverses itself. So it's playing on both sides.

Beckeman: The pension funds for the past decade have struggled to get to the return thresholds that they need because they can't get there with stocks and bonds. So they have all been expanded their investment in alternative vehicles: private equity real estate. And if you look at equity returns, yes, maybe you don't get the mid-teens leveraged returns that you did, but you will still get an 8, 9, or 10 percent return, with probably a very limited downside. And with the market that we've been through, a lot of people are looking at that and saying, 'That may be a better place to be so long as you don't need the money quickly.' It still tends to be a liquid asset. On a relative basis, real estate is actually going to hold up pretty well. Over the next 6 to 12 months as the pension funds report their earnings you will see how much they got rocked in the stock market, yet their real estate holdings are generating positive returns. That, if nothing else, is going to encourage those making the decisions to say, 'Maybe we ought to inch up our allocations for real estate.' Because those aren't the people getting whacked. It's the people who have been taking the opportunity to hit the maximum leverage in the marketplace. Now, those who have been considerably leveraged are really going to survive fine and create more opportunities. We'll just have to go through a major de-leveraging of our whole industry before things happen.

Koury: I would absolutely agree with that. Another dynamic, just to put this in perspective, is in 2002 the best supermarket-anchored shopping centers were selling at 9 percent caps. We do valuations for owners that take their properties to market, and right now we're looking at supermarket-anchored centers selling in the 7.5 to 7.75 cap range, depending on where the loan constants are, because ultimately the buyers are looking at their leveraged returns. In the past 3 years, they could have gotten as low as a 5.75 or 5.8 cap, 6.5, certainly 7 cap on the property. Now they can only sell it for 7.5 or 8. What I tell them is that you may no longer, from a pricing standpoint, be on the top of Mt. Everest, but you're on the top of Mt. McKinley. I want you to come down off of Everest and look how far up you were from a normal market selling at a 9 to 10 percent cap. So it's all gloom and doom because these things are selling at 8 caps now. On a historical level, that's still an aggressive cap rate. If they bought these properties in the past couple of years at 6.5 cap, they have 10 years to figure out how to get their debt down. If you bought it at 6.5 and now you're at 7.5 or 8, and you have short-term financing out, unless you had some major upside you have a problem buying your debt out. That's just another dynamic that's kind of hanging out back there and will surface 8 to 9 years from now.

Stratouly: I just want to comment on the movement of dollars. Everybody knows that one of the great movements in our business is obviously the preponderance of the CMBS and the CDOs. The other big movement of capital into our market was, as you said, the alternative investment class — the funds started, whether it was Goldman Sachs, the endowments, or the Fidelities. We run two funds and we're out trying to raise a third fund right now. One of the reasons we collectively are doing well in the industry over the past few years is what we refer to as the 'denominator effect.' As that stock market grew, a $2 billion allocation for a university or school would allocate, call it 5 percent — just making that number up. We're now on the downside of that cycle. That $2 billion endowment isn't $2 billion anymore and suddenly these alternatives, which may be

Thomas Wilder and David Locke.

performing ok, are not meeting targets but are at least performing on the positive side of the ledger. The denominator is now affecting the numerator, and you are starting to see redemption requests because they are over-allocated in alternatives — and that's overall allocated in hedge funds, real estate, etc. So we're seeing what I call seismic shifts in our capital sources. I'm worried about the fund, especially next year as we start into a new year of allocations — whether there are any new allocations.

Beckeman: Clearly the denominator effect is having an impact. If you think about the people running the pension funds and look at the kind of volatility in the stock market, real estate doesn't go quite through the same volatility. One of the things to be concerned about is this whole wave to mark the market, and if all of a sudden people feel that they have to be cautious and start reigning in appraisals because we think things are going to get bad. It's going to be a self-fulfilling prophecy, and then we'll have some real problems.

SCB: Switching gears, I want to talk about the retail market. Putting aside your feelings about whether they last or not in this type of climate, are there retailers that are entering the market with multiple stores or are in the market and looking for more stores?

Sciera: Retailers are looking at the entire country, so we are not just competing against New England opportunities; we are competing against other markets in the country. It depends on the strength of the real estate. There are a lot of good retailers that are expanding into Boston.

Apple is expanding into Boston; it's probably one of the hottest retailers in the country right now. Urban brands, such as Anthropologie, are expanding into Boston. That's the specialty side of it, which I focus on. There's a lot of appetite.

Roberts: You have the J. Crews of the world that are still performing well and are under-penetrated. We've even done deals with people who are saying they aren't doing deals, such as Gap Inc. A retailer may have a strategy that says it's about repositioning and right-sizing, but a lot of that means repositioning and right-sizing from where they are, which may no longer be the right spot, to where they think they should be. There's still activity with the quality players.

SCB: What about developments?

Stratouly: In Wayland, we have 165,000 square feet of lifestyle space that is grocery-anchored by Stop & Shop, and 100 units of housing goes with that. And we're now into our third year with permitting just plugging away at barriers to entry. If you look at the demographics of Wayland, it's as good of a community as you can find anywhere in the country, and I don't think anyone here would suggest that it's over-retailed by any stretch. We have had three different grocery store deals, we have had three different drug store deals, we have had three health clubs, and we have had women's specialty stores — all with letters of intent. They are about to sign and the next thing you know, they've moved into financial stresses or put the lease on hold and said yes, but are waiting. Or you have lost to Cincinnati. How could you take Cincinnati over Boston? And suddenly, we go from our myopic view of us being the center of the universe to some guy sitting in a boardroom in Minneapolis saying, 'Why would I invest in Boston for an 8 percent return, when I could invest in Toledo, or Tulsa or Dallas and get 14 percent.' Suddenly you're competing on a national basis again. So it's been frustrating, but we have our last conservation commission hearing tonight. If we get through that relatively unscathed, in Wayland anything could happen, we should start demolition of the building. Financing is ready to go at about a 40 percent equity ratio, maybe 35 percent. We have a project that we started 2 years ago in Sharon that is 450,000 square feet and anchored by a very large Midwestern retailer. The deal we had a year ago is quite different from the deal we have today. That particular retailer shut everything down, took a timeout and came back. We did what we had to do to get the deal. And now we're chasing the grocer, and it's the same story: get close with the grocer and next thing you know, your demographics change. So lots of activity; lots of talk; a great amount of caution in signing. We are cautious about them, they are cautious about us, and they are cautious about their own business. So it's going to take much longer than anybody thought.

Sciera: We have Legacy Place under construction, which is probably our most visible project. At this moment, I would say about 95 percent leased. We're planning to open August 2009. We were fortunate to get a lot of our leases done ahead of this curve that we're in. We are cautious about executing and getting the project open. It has great anchors, great restaurants and great specialty stores, so we are really excited about that. We also have one on the North Shore and in Lynnfield. Both Legacy and Lynnfield have Whole Foods Markets in them. We had a lot of discussion about grocery stores and we're happy to have them as a tenant. We have some work to do at both, but at the same time, we are grinding out deals one at a time. It's a momentum thing, and we'll get there. Overall, it's really going well.

We opened two projects this year in Mansfield and Wareham, which are more hybrids. Mansfield is 475,000 square feet and Wareham is 650,000 square feet. A lot of boxes, as well as specialty components and restaurants. Both of those projects have come on the block and they're both doing very well. We're doing a project in Cheshire too.

Locke: In the New England area we're finishing up our Milford project. Beyond that, we have a 600,000-square-foot project that started as a lifestyle center, but we are converting about a third of the project to more of a box-type of layout that reflects the demand today from those boxes that are still out there, versus tenants like Coldwater Creek, who are not as active. And we're finishing up Phase II of a project in North Carolina. In terms of New England, though, we have not been as active lately, but we have about 1.5 million square feet elsewhere.

Roberts: We are very actively involved across the bridge at Seaport Square, which is currently going through the permitting process. Ultimately, it will have 6.5 million square feet split in thirds between office, residential and retail. That's with Morgan Stanley and Gale International. And I think in the long run, once that gets built out and we get it finally permitted and it takes shape, it's going to be a very dynamic project. I don't think there's a tenant that we've talked to who hasn't shown a great deal of interest in that section of the city, and I already think there's a number of retailers and restaurants that will do well

over there with a little bit of infrastructure. We just keep adding office buildings, a convention center, which at the moment is still top 10 in the country and looking to add 300,000 square feet. Long-term, there are great prospects for growth.

SCB: As you lease your properties, you obviously have your eye on specific retailers. As some of these retailers disappear, are you perhaps lowering your standards a little bit as far as what kind of retailer you will put in, versus what you wanted to put in initially? Is your tenant mix changing from what you originally wanted?

Sciera: It depends on the property and it depends on the underlying real estate. You change directions all of the time. That's the nature and the core of our business. The one certainty that we can all count on is change. So there is a direction change a couple of times in a day, in a week or in a month. I wouldn't call it a lowering of standards; I would call it a change of direction. If we were doing X, Y and Z tenant in one project, we may do another set and think it's just as good; it's just a different direction. You have to focus on your market and the customer that you are going after in that market. Who are the hundred tenants in the 70 spots that you are going to fill who answer the call in that market. Absolutely, it will swing wildly and be all over the place, but there's still a bunch of tenants that you want to go after and secure, who cater to that customer you are going after.

Roberts: Depending on the project that we are closing, we have maintained that we are developing a holding company. For the past 5 years, and maybe a little bit longer, there's been a lot of players who develop and flip, either before it's built or right after it's built. And it's really about how much of a bottom line can I generate. And It may not be the best thing for the guy who's going to buy it or the tenants that are in place, based on what the center's going to look like and the quality. Our goal is to build great projects that are leased well. So something like Legacy Place, which has some of the best tenants in the marketplace, we are not going to compromise. We might hold those last two spaces for the right tenants. Other ones, we might modify them slightly. If you are to maintain and deliver what you said you were going to deliver, it's not about filling space, it's about the quality of the tenant that fills it.

Wilder: With some centers you have an A merchandising plan and you have a B plan. I think we're seeing more and more often that you have to go to the B plan. And I don't think there's anything wrong with that. You can design the kind of flexibility into a center so that you can still pitch your A plan because the design accommodates that, but if you don't get the A retailers, you still have a B plan. It's still credit. Maybe the rents aren't quite as high, but again, you can fill it, it can be occupied and it can generate cash flow. We are doing an 825,000-square-foot center in Northborough that is a mix of junior boxes and it also has a lifestyle component. It's a 2010 project, and I'm happy about that. We are not in a great rush to lease the lifestyle part because everybody is out there looking right now. Lock in your anchor stores, the market will turn, and by 2010 there will be an opportunity to really do a great job at merchandising that kind of center. Again, we have an A plan and a B plan, and we have to be prepared to execute the B plan.
SCB