

New York Developers State Of The Market

SCB meets with the New York Developers to find out the state of the Northeast market.

Roundtable chaired by Jerrold France, Katie Foxworth and Randall Shearin

Shopping Center Business recently met with the New York Developers, a group of development executives who actively promote their region through an event at ICSC's Spring Convention each year. The group also informally meets to discuss issues in the region, and SCB joined at a recent meeting. In attendance were Mitchell Salmon, vice president, New York City-based Mall Properties Inc., David Silver, corporate director of marketing, Plainfield, New Jersey-based Levin Management Corporation; Matthew Harding, president and chief operating officer, Plainfield, New Jersey-based Levin Management Corporation; Kenneth Breslin, president, Garden City, New York-based Breslin Realty Inc.; Charles Serota, owner of Valley Stream, New York-based Serota Properties; Joshua Weinkranz, director of real estate for the New York Metropolitan Region, New Hyde Park, New York-based Kimco Realty Corporation; and Stephen Ifshin, chairman of Tarrytown, New York-based DLC Management Corporation.

SCB: Tell us about your group.

Breslin: We started this around 1998 as a consequence of the Las Vegas parties were becoming too segmented and it was becoming tougher to get people in one place. We started with eight developers. It was the opening of the New York New York hotel and casino. We had an exceptional turnout that year. After that, we've kept it to about 12 sponsors and really the sponsors just generally contribute time, effort and money. Our industry — retail — doesn't have Oscars or awards or dinners. The

center of our world is in Las Vegas in May. Now that we've brought the vendors into the party, we've had more and more support. Last year we had 56 sponsors.

SCB: How many times a year do you meet as a group?

Ifshin: Four or five times.

SCB: What are the objectives when you get together?

Serota: The objective for this group is the annual party that we do in Las Vegas. And sometimes we talk about our businesses together so we collectively know who is doing what and what retailers are doing — who is looking for locations and so on in the Northeast.

SCB: What retailers are now pounding on your door that want to get into the market?

Breslin: We have more restaurants than ever before.

Serota: Unfortunately, in some places in the Northeast, you cannot build some of these restaurants because of health department approvals. In the Southeast, you have easier regulations. Land is very expensive in the Northeast, and you have the approval process that takes longer. These casual restaurants, whatever they can get, they pay because they know it is not going to happen overnight.



(left to right) Mitchell Salmon, David Silver, Stephen Ifshin, Joshua Weinkranz and Charles Serota.

Salmon: Most are national. Panera has obviously been very aggressive in the market. Chipotle and that concept is well supported. They are going to try to be as aggressive as conceivably possible over the next 18 to 24 months. Charlie [Serota] is not wrong; there is a highly developed super-saturated marketplace in the Northeast. When a new concept comes in, they make promises to their shareholders of 50 to 75 locations and they give them their 75 open-to-buys over a 12 to 18 month period and then they have to readjust that in 6 to 9 months when they realize what the actual circumstances are in the environment they are trying to come into.

Harding: Some of the national chains that are franchise driven seem to be rolling out a little better. Panera has done a good job of that — getting locals who know what is happening in the market and is able to do deals more quickly.

Salmon: From the perspective of the investment of the landlord, when it does break down to the franchisees, the landlord has to be extremely careful. You



(left to right) Mitchell Salmon, David Silver, Stephen Ifshin, Joshua Weinkranz and Charles Serota.

have to really know a franchisee you are going up against. When all is said and done, you can put whatever franchisor's name on the front cover of that lease, you are really going to have to rely to a great extent on that franchisee's expertise and its financial capacity to stay in business. It is just the nature of how they are expanding.

Breslin: A lot of the deals we're seeing now are having the franchisor guarantee the franchisee's obligation. That is a difference in today's market.

Serota: Most lenders and institutions won't give you financing for a franchisee where there is no money or no track record.

SCB: The franchisors are having a difficult time. They want to open more stores but you have to have the franchisees. Some of them are selling areas to a franchisee, but the one-offs are probably more difficult.

Salmon: In Parkchester, a franchisee opened the first Pizzeria Uno restaurant in the Bronx. They put an enormous amount of money into the installation. We're well into a seven-figure installation. It was a very qualified group. And the franchisor is still not 100 percent because it is the first venture into a marketplace they've never really been in before. It should be exciting for them but you've really got to look very hard at who you're dealing with. We did and luckily they had the financial wherewithal to come through with the

investment.

SCB: Is Pizzeria Uno looking to open up more restaurants in the Northeast?

Salmon: They'll be a lot more apt to look for more as long as this one is successful. They are looking, particularly in the boroughs.

SCB: All of you own properties in really different areas — New Jersey, New York, the boroughs. What activity is taking place in those areas?

Weinkranz: At Kimco over the past 2 years, we've been dealing with a lot of tenants that have started to pull out of malls and try the traditional strip centers. We're negotiating with several tenants now that are taking their first crack at it.

Ifshin: We're really spread across the country. We don't do a lot of deals with franchise restaurants because we don't love the credit. We see a tremendous amount of pressure in the market coming from the dollar stores, the discount stores, the Tuesday Mornings, Big Lots, filling places that have been very hard to fill. They are opening hundreds of stores a year. They are starting to pay reasonable dollars. A lot of them don't look for tremendous landlord installation.

SCB: Are you finding that type of retailer is really filling a void?

Ifshin: The dollar stores generate a significant amount of traffic. We generally

buy centers that have needed work and needed to be upgraded and needed the traffic that is generated by tenants. We don't get a lot of resistance from the majors against the concepts of dollar stores or Big Lots. A lot of the majors now have off-price divisions of their own that aren't exactly at a higher level than some of the dollar stores.

Serota: In the Northeast, you have a very sophisticated consumer. Wal-Mart has articles in their stores and food products that are different from the Northeast supermarkets that are entrenched here. If the consumer wants Wal-Mart's products, they can go buy them, but most of them know what they want. What is going to happen in the shake out of the supermarket business is your guess. Eventually one of the major chains that we have here is probably going to go broke or get taken up by a larger chain. Something is going to happen. We have X amount of people here. Everybody shops for food, but we have limited land. They are paying high rents with low margins.

[Editors Note: Participants clarify they are discussing the boroughs, the Long Island area, Westchester and New Jersey.]

Harding: I think in New Jersey you do see the supermarkets reacting to Wal-Mart and Target coming in as well as Wegmans coming in from the higher end. It is a very competitive environment and [supermarkets] are having a tough time.

Salmon: There is always going to be a direct relationship between the per capita income of a market and the influence that Wal-Mart is going to have. In southern and Midwestern markets, you see a real impact. Wal-Mart can go up against even a B enclosed shopping mall and have a significant impact. But [in many projects here], you have a have a different consumer, a different per capita income rate. [Developers and owners] can be a little more selective and they can afford to say 'no' to Wal-Mart. Additionally, Costco is incredibly explosive in the Northeast.



(left to right) Ken Breslin, Matthew Harding and Mitch Salmon.

Ifshin: Outside this area, Wal-Mart is devastating to competitors. They have put every major supermarket under pressure in areas that they are. And now they are starting to put 40,000-square-foot small markets around their Supercenters. We find that when a Wal-Mart Supercenter opens against a supermarket, the grocery stores take a hit — sometimes as much as 20 percent. They get some of it back over a year or 2 years, but they have to compete fiercely to get it back.

SCB: The food aspect of our industry is so important in terms of anchors to these centers. Do you have any other specialty, high-end food stores other than Whole Foods coming into the market?

Serota: There is the King Kullen chain. They have a company called Wild by Nature, which is an organic supermarket. They have two right now, but they are going to open 10 or 12 of them. They realize the market is there right now for them. Whole Foods is in the Time Warner Center now, and Trader Joe's is going to start opening a lot more stores.

Salmon: Trader Joe's is trying hard to find locations. Whenever you go into the boroughs, almost every retailer has to show physical flexibility [with store layouts] and also demographic flexibility because the story isn't always told by looking at it on a standard demographic sheet. You really have to go to the neighborhoods and understand the potential.

Serota: The boroughs are such a melting pot. You can go four blocks and you're in Japan. Another four blocks and you're in China or an Italian neighborhood. You've got to understand the customer where you are, especially here.

Harding: Whole Foods is another example of a store putting pressure on traditional supermarkets. They've gone from a 25,000- or 30,000-square-foot store to a 60,000-square-foot store and are putting lines that are more everyday-priced lines.

Salmon: A few years ago, there was an unbelievable onslaught of drugstores coming in. Now those 10,000- to 12,000-square-foot blocks are coming back into the market. That is where you'll see the Trader Joe's and the King Kullen concepts. They can fill those neighborhood niches and become very functional.

SCB: When people look at the Northeast, particularly the boroughs and New Jersey, they get the impression that nothing

new can come in. Are there new retailers coming into the market that are filling a void?

Salmon: Home Depot is going crazy to try to fit themselves into the boroughs.

Ifshin: Retail in the boroughs will change dramatically in the next 10 years because major players in the retail business — the 'big box guys' — understand that there is a tremendous untapped market here. They haven't really figured out how to get to it, but they are starting to figure it out. They might be getting to it on the fringes of Manhattan as opposed to in Manhattan, like Home Depot. Target is in the Bronx now. That Target is going to draw from all over Manhattan because it has parking. IKEA is in Brooklyn; Costco is in Brooklyn; Lowe's is in Brooklyn. There is a dramatic change coming in New York City real estate as the national companies figure out they can make a living here. There is a density here that they don't find in the suburbs.

SCB: How do you as a group look at lifestyle centers in the market?

Harding: We manage several lifestyle centers in New Jersey and Pennsylvania. They are very successful. It gets back to what we were talking about before with everybody being pressed for time and the mall retailers seeing that they need to get to a more convenient place. We manage The Shoppes at Union Hill in Denville, New Jersey. It is very successful and has a great lineup of tenants.



(left to right) Stephen Ifshin, Joshua Weinkranz and Charles Serota.

SCB: On the investment side, are you buying? Are you selling?

Ifshin: Interest rates have made the current cap rate compression palatable, if you will. Clearly, if you're looking to buy in this area with the kind of money we invest, it is probably virtually impossible to find any kind of value to our investors. By looking in places that are less attractive to the Northeast, you do have the ability to source deals that are affordable if you don't chase them and if you leave the bidding process when it gets too expensive. We've bought about \$180 million of properties this year. We've been able to find some value in the marketplace, but you have to search very hard for it and you have to be aggressive in getting it.

Salmon: It is almost impossible today to find a property prospectus or an offering with a price. That is when you know you're in trouble.

Serota: Nationals that come here are in this for the long term and don't care what they pay. [Foreign money is] inflating the price of real estate in the Northeast. As businessmen here, we can't understand how they can afford to do that, but they do it. It is great if you want to sell something.



Ken Breslin.

Ifshin: There is more than foreign pressure on the market. The 1031 market has pressurized values dramatically. The other thing that I think has inherently changed the market is the investment brokerage community. All of the elements have achieved dramatic results by giving the brokers from the major companies the ability to market them exclusively. They put an incredible amount of pressure on pricing and it is very hard to break down.

SCB: Around the country, there are constantly new developers coming into markets. In this market, is there an opportunity for that? Or are all the old-line companies the king of the road as far as retail in the Northeast?

Serota: In the Northeast, there are a lot of families that have been entrenched here for many years. And the foreign money is coming in here. And there are the REITs. Those are the three categories of investors in the Northeast at the moment. There is very little left for a new guy. You need knowledge of the Northeast, the zoning and regulations here. And you better have a lot of capital because you're going to sit for a while to get something approved. **SCB**