Can We Talk?
by Katherine Field, Senior Associate Editor, Chain Store Age magazine

A tactical plan is only as sound as its communications component. That’s a view both tenants and landlords hold when launching a re-tenanting strategy. And, as more and more centers are identified as re-tenanting candidates, the need for effective communications has never been higher.

“Re-tenanting, though always in the fabric of what we do, has become more of a focus recently in part because of the tremendous consolidation in the market,” explained Wendy Seher, director of anchor-tenant leasing for Rockville, Md.-based shopping center REIT Federal Realty. When stores go dark, whether because of consolidation, bankruptcy or lease expiration, developers are charged with picking up the pieces—which means re-tenanting.

“Every time we have one of these scenarios come up,” said Seher, “we see it as an opportunity to re-evaluate the real estate. We step back and pose the question: What is the highest and best use of this space? Then we look at the existing strengths and weaknesses of the center and of the marketplace, and then we evaluate the space itself.” The resulting re-tenanting may be as simple as replacing tenant for tenant or as complicated as razing the space and rebuilding from the ground up in a full redevelopment. Either approach requires communicating directly with all the tenants in the center.

According to Paul Kinney, executive director of The National Retail Tenants Association (NRTA) in East Longmeadow, Mass., retail tenants will feel far more positive about the re-tenanting process if the landlord is communicating. “There’s no question that re-tenanting is necessary, and retailers have to understand that,” he said. “But what bothers retailers more than anything else is finding out about a re-tenanting after it begins. Better communication up front would certainly help the retailer prepare for it.”

Advance preparation would allow retailers to, first of all, pull their lease documents to investigate what protections, if any, they’ve been afforded contractually. “A small retailer—for instance, a 3,000-sq.-ft. store in a million-sq.-ft. mall—will likely have very little protection,” said Kinney, “because the tenant lacked leverage during lease negotiation.” Still, there are some choice clauses that retailers should at least attempt to negotiate into a lease, including kick-out clauses that allow a lease to terminate prior to the end of the term, relocation clauses that prevent the landlord from moving a tenant to a less-desirable site as a result of re-tenanting, and tenancy clauses that keep tenants in close proximity to complementary categories.

Seeing the Big Picture
Regardless of what triggers a re-tenanting, it is imperative that all parties involved understand the big picture. It is not only the incoming tenants that require information about a center’s changing direction, but the existing retailers need to buy in, as well. According to Matthew Harding, president and COO of North Plainfield, N.J.-based Levin Management, that level of communication is most necessary when a re-tenanting project involves a sub-standard center.

“If you are re-tenanting a shopping center that has not performed well in the past,” said Harding, “you are faced with overcoming a negative image in retailers’ minds. You have to create a total vision and then be able to portray to each retailer how this property is going to work for them—by depicting the renovations that are going to take place, the traffic improvements they can expect, the enhanced access to the shopping center and the changing tenant mix.”

Re-Tenanting Through a Retailer’s Eyes
On Cape Cod, Mass., at a Kmart-anchored center called Capetown Plaza, a re-tenanting is under way. And one retailer is fighting to be heard. Moe Laliberte, owner of the local Cardsmart franchise, part of the Cardsmart Retail Corp. franchise system, Pawtucket, R.I., is using knowledge gained through his position as co-founder and outgoing president of NRTA to pressure his landlord into beefing up the communications. “This particular re-tenanting is occurring in response to the closings of some current tenants,” explained Laliberte. Consolidations are causing the closure of two Filene’s Basement concepts—Filene’s Furniture and Filene’s Home Store—leaving 50,000 sq. ft. of space up for grabs. Several other stores have closed for various reasons.

“My greatest concern comes from not knowing what the landlord’s plans are,” said Laliberte. “Because I’m more proactive than the average tenant, I have sought them out, I’ve tried to influence their decisions, but the reality is that some of the new tenants coming in are altering the mix of the center.” Laliberte relies on cross-shopping from the other tenants’ customers and, if the demographics don’t cross over, sales opportunities are lost.

Laliberte has some lease protections, but not many. “My direct protection is that, if the Kmart goes out, I can be released from my lease. But I would have to suffer a long time.” Kmart would have to be out for a full year and Laliberte would have to demonstrate that his store’s sales were negatively affected for that year. “My indirect protection is that, should I experience a decrease in dollar volume for a certain period of time, I do have a one-time volume kick-out that I can exercise,” he said.

Instead of planning for future kick-outs, Laliberte has a strategy that involves maximizing his customer base and continuing to try to influence his landlord. “My plan is to
focus on keeping the customers I already have, and to build the frequency of purchases from that established business base,” he said.

“And of course I will continue to try to talk to the landlord. I think that by keeping the doors open and the lines of communication flowing, it will benefit both parties in this re-tenanting process.”

(Reprinted courtesy of Chain Store Age magazine)