SCT

SHOPPING CENTERS TODAY

SEPTEMBER 2009
www.icsc.org

Spotting talent

Landlord expertise is turning nascent players into solid tenants

PAGE 38

KEVIN KROOS,
ANYTIME FITNESS

ICSC

TURNING GOOD IDEAS INTO GREAT TENANTS

KEVIN KROOS HAS STANBERY DEVELOPMENT TO THANK FOR HELPING HIM LAUNCH HIS ANYTIME FITNESS FRANCHISE.

PHOTO: WILLIAM NEUMANN

LANDLORDS ARE WORKING HARDER THAN EVER TO SPOT AND NURTURE PROMISING CONCEPTS TO ENRICH THEIR CENTERS

By Curt Hazlett

KEVIN KROOS OWNED A MORTGAGE company until the recession forced him to hunt for another livelihood. He found an opportunity he liked in Anytime Fitness, a fast-growing health-club franchise. But as a first-time franchisee, he knew he would need support to make a success of it.

He got plenty of that from Stanbery Development, a developer of lifestyle centers based in Columbus, Ohio. Aided by what he calls "a high level of co-operation" from Stanbery, Kroos opened franchises this summer at three of the developer's New Jersey centers.

Stanbery "allocated a lot of resources that off-loaded a ton of the work that I would otherwise have had to shoulder, so I could focus more on operational issues," Kroos said. Beyond that, the landlord is supporting the franchises by providing customer e-mails for promotional offers, by underwriting part of the cost of a co-marketing opportunity, and by being flexible on signage. "Typically, a landlord might look for a reason not to help, but they are looking for reasons to help," Kroos said.

Support is the name of the game these days as landlords look for new names to fill vacant space. Many are actively courting retailing newcomers, whose numbers are expected to rise, thanks to the wave of layoffs and buyouts sweeping corporate America.

An increase in retail entrepreneurism is fairly typical in difficult financial environments, says George Whalin, a retail consultant in Carlsbad, Calif. "When things get tough in corporate America, people start looking for something else to do that isn't dependent on some corporation," Whalin said. The trend is aided by the availability of good leasing deals and the desire of developers to differentiate their properties, he says. "After all, how many more jewelers and shoe stores can they have?"

Atlanta-based Flip Flop Shops is among the young companies hoping to take advantage of the new opportunities. The chain began selling franchises in January 2008 and now has 10 stores open. "We are absolutely feeling the love from landlords around the country," said Flip Flop Shops CEO Darin Kraetsch. Some of the Flip Flop Shops franchisees have retail backgrounds, but Kraetsch says many are trying new things. "Some have been downsized or laid off or are worried about that happening," he said.

Whatever the franchisees' work experience, mall owners have been eager to work with them. "They are willing to carve out the kind of space we need, which is a smaller piece of real estate that puts us with the kind of tenants we want to be with, like American Eagle and Abercrombie and Hollister," Kraetsch said.

The spirit of cooperation even extends to drumming up interest among potential franchisees. Flip Flop Shops and Westfield America are testing a program in which large barricades in front of vacant stores in three Westfield centers advertise the availability of Flip Flop Shops franchises.

Center owners have a variety of tools they can employ to attract and support fresh retailers, says Terry Brown, CEO

When the economy flopped...

It was the summer of 2008, and consumer spending was evaporating like water in the scorching Texas sun. Stores were going dark all across the Houston area as national chains pulled back and cash-strapped local retailers cut their losses.

To Anna Ruhl, it seemed like a good time to start a career in retailing.

Ruhl bought the area's first Flip Flop Shops franchise, which opened in May at General Growth Properties' Baybrook Mall, in Friendship, a suburb of Houston. She was unfazed by the lousy economic picture, which she saw instead as an opportunity.

"There are people out there who are more willing to lease us spaces," she said. "We're selling a product that has a good price point. People are still spending $20 to $40 on things like flip-flops."

Ruhl is no stranger to business. She co-owns an auto-body shop. But she wanted to find something she could feel passionately about. "I married into what I'm doing now," she said. "Not that I don't enjoy it — it earns me a living, but it's not my passion. It doesn't do anything for my emotional needs."

She did not want to build a business from the ground up, preferring instead a ready-made concept with a marketing plan. After much searching, she came across the fledgling Atlanta chain.

It did not come cheap. Flip Flop Shops charges an initial franchise fee of $25,000 and a weekly royalty of 5 percent of gross sales, and it pegs the cost of opening and operating a shop at between roughly $167,000 and $249,000, depending on store size. Ruhl says the only problem she faced in dealing with her prospective landlord was finding a space small enough for her needs. (Her store is just 500 square feet.)

Ruhl is happy with her decision. "Gosh, I don't want to make anybody jealous, but this is probably the easiest job I've ever done," she said. The acid test of her satisfaction is that she has bought two more Flip Flop Shops franchises. Said Ruhl: "I can pretty much tie the city of Houston down." — CH

FLOYDS 99 BARBERSHOP, COMING SOON TO WOBURN MALL, MASS.

of Edens & Avant, which operates 140 shopping centers. "There are a number of ways a company like ours can incubate those kinds of local retailers, not just in neighborhood centers but in malls as well," he said. "You can put them in temporary space, you can put them in kiosks, you can have lower rents for a period of time that ramp up as business ramps up. You can structure leases with a higher percentage of sales versus base rent, you can help with signage."

But encouraging newcomers can be labor intensive, Brown says. "We've been involved in helping review business plans and helping arrange financing with local banks for these retailers, including going and sitting down with the bankers," he said. "You almost have to become business partners in a way. There is a lot of hand-holding that goes on around that."

Los Angeles–based Wilson Commercial Real Estate, which represents 9 million square feet of retail space in 85 shopping centers in Southern California, has yet to see a significant rise in retailing entrepreneurism, says Scott Burns, Wilson Commercial's senior vice president. But it has not been for a

"We like local retailers. We believe they make our centers more interesting to the consumer."

lack of encouragement. "We've retooled our marketing at some projects to go after those types of ideas," Burns said. "We've floated the idea of marketing in local papers to reach people who have lost their jobs and may want to open a business. In some centers, we've sat down with the site plan and put together a merchandise mix. What uses do we have, what uses don't we have?"

In Columbus, Glimcher Realty Trust met with officials of nearby Ohio State University about ways in which the firm could tap the creativity of the university's students. "Say there's an entrepreneurial contest in the business school and a couple of the ideas are retail," said Glimcher President and COO Marshall Loeb. "We'd be willing to give them a kiosk or maybe inline space, depending on the use, and do percentage rents. We'll give them the space and let them try it out." The discussions have been theoretical thus far, but there is potential here, Loeb says. "If it's excess space in a downturn, it's an advantage to us just to have the lights on and cover the utilities."

If the miserable business climate has any upside, it would be that landlords have become more open to new concepts. "We certainly are much more creative in looking at potential tenants," said Ben Devine, a principal at Boston's KGI Properties, which owns retail properties throughout New England and New York. "Before, we just stuck with what we did and had relationships with solid national tenants. Now we are open to working with anybody that looks like they are going to be profitable."

Among the concepts Devine has looked at recently are a sushi franchise (he took a pass) and Floyd's 99 Barbershop franchise (coming soon to KGI's Woburn Mall, in Massachusetts). "We've done a lot more deals with franchises lately," Devine said. He is more cautious about local startups. "We're intrigued by them, but we're reluctant to be their bank. We take enough risk with the real estate."

Whatever the risk, there are solid reasons shopping center owners are thinking locally as they pick their way through the economic debris of 2009. "Three years ago there was less necessity to do it," said Brown. "We like local retailers. We believe they make our centers more interesting to the consumer. The hard thing for us is trying to do it at 150 centers. It's a lot of work, but it's proving to be very successful."

The question is: Does it pay to encourage local entrepreneurs? Judging by Paul Fleming, yes it is. In 1993 Fleming, a Ruth's Chris Steakhouse franchisee, took his idea for a Chinese restaurant to the management of Westcor's Scottsdale Fashion Square, in Arizona. Westcor liked what it heard, signed a lease and eventually helped the restaurant expand into other areas.

Fifteen years later, that chain, P.F. Chang's, posts some $1.2 billion in sales yearly. "That's one of the best examples of taking a flyer with a local tenant who had an idea and became a national star," said Greg Cochran, a vice president of leasing at Westcor.

Westcor tries hard to identify promising local retailers, says Kim Choukalas, another vice president of leasing at the firm. "It's a very important part of the business model for us," she said. "We strive to find those good local tenants that make sense in the marketplace, position them in the right center and give them the ability to grow."

Scottsdale Fashion Square illustrates the point. A new 100,000-square-foot wing anchored by Barneys will also include four homegrown tenants. "We've incubated a number of local tenants," said Cochran. "It really has become a philosophy: How do you give the consumer a unique experience?" SCT

Cookies: Just the medicine

Lawrence J. (Doc) Cohen lost his job with a drugstore chain when the economy tanked, then found career salvation selling cookies. That was 31 years ago, but it could just as easily be today, a time when thousands of people with solid business skills are looking to reinvent themselves.

Cohen's background was not especially suited to cookies. Trained as a pharmacist and a lawyer, he eventually became a vice president of the now-defunct Drug King chain. Then that job disappeared. "I decided I wasn't going to have my fate in someone else's hands anymore," he said. He tried franchising and found that he was good at it. Now his company, Doc & Associates, of Tomball, Texas, owns 30 franchises, mostly Great American Cookies stores.

The reasons for becoming an entrepreneur may be the same these days, but a lot has changed since 1978. "There's been a dramatic shift in the relationship with landlords," Cohen said. Securing space used to be a matter of convincing leasing managers that he could add value to their center. Small tenants might get a break up front, he says, maybe starting out with rent kept low for a few years before escalating nearer the end of the lease. "Rents were spelled out according to the type of store," he said. "We would negotiate based on what we could afford to pay."

Now there is no evidence of such a system, especially among larger shopping center owners, Cohen says. "The landlords have become our partners," he said. "They come in and say, 'You're a cookie store, you do a volume, we want 15 or 20 percent of that' — whatever they think we can afford to pay. It's no longer related to the dollars per square foot generated by the shopping center; it's related to what this tenant can pay and still exist."

Cohen says landlords who want to nurture small retailers "need to consider stepping the rent so the tenant has a better opportunity and lower costs on the front end. And they need to ask whether they can help tenants with a tenant allowance, because a new guy coming into a business is looking at a lot of capital expenses and the access to capital these days is so limited."

Such considerations were a big help 31 years ago. "I had a lot of trouble getting money," Cohen said. Some things never change. — CH