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REALESTATE

The REIT strikes back

Cedar Realty Trust rebounds with lower debt, trimmer portfolio

By DAVID WINZELBERG

When Bruce Schanzer became the chief executive of Cedar Shopping Centers in June 2011, the Port Washington-based real estate investment trust was the worst performing REIT in its sector.

Schanzer shed much of Cedar's weaker assets, changes its name and reduced and restructured its debt. Now, the reinvigorated Cedar Realty Trust has emerged much healthier, rivaling other shopping center funds for best in total shareholder return.

When Schanzer, 45, a former REIT adviser for Goldman Sachs, and Phil Mays, 46, who was an executive with national retail REIT Federal Realty Trust, were brought in to head the management of the ailing Cedar fund, the company's portfolio was a disparate amalgam of properties that included unanchored strip centers, malls, single-tenant net-leased assets and grocery-anchored shopping centers. By the summer of 2011, Cedar was wallowing in debt and paying a dividend that was too rich for its anemic cash flow.

Schanzer and Mays, the CFO, spent the next five months dissecting the company's finances before embarking on their strategy to right the ship. Then the repositioning began in earnest.

In an effort to pay down its debt, Cedar sold off more than half of its assets and refocused its portfolio on grocery-anchored shopping centers between Boston and Washington.

"It was a hodgepodge of regional malls, strip centers and drugstore-anchored centers spread through Michigan, Ohio and upstate New York," Schanzer said of the selloff. "We held onto the highest-valued assets."

The dispositions helped Cedar reduce its leverage by 20 percent, and 60 percent of its portfolio is now unencumbered by debt. Cedar's stock had fallen from $11.50 a share when it went public in 2003 to about $5 when Schanzer and Mays took over; it's now up to $6.15, a 20 percent improvement.

Indeed, Cedar's 2013 financials were comparatively rosy. Same-property net operating income in 2013 increased 1.8 percent from 2012. The company inked 177 new and renewed leases for 1.2 million square feet last year. It's portfolio of 66 properties totaling about 10 million square feet – including the 120,000-square-foot Pathmark-anchored Carmans Plaza in Massapequa – is now more than 94 percent occupied, up from 92 percent in 2011. The average rent across Cedar's portfolio has increased by about $1 a square foot.

"We're trying to build a portfolio that works in all economic environments," Schanzer said. "We're small enough to be nimble."

But Schanzer doesn't take all the credit for the turnaround, praising his team instead. Cedar employs about 70 people, half in Port Washington and the rest in regional offices in Boston, Philadelphia and Harrisburg, Pa.

One-year total return for shopping center REITs

(Mar. 2, 2013 to Mar. 2, 2014)

Retail Opportunity Investments	19.84%
Inland Real Estate	17.08%
Cedar Realty Trust	**10.87%**
Ramco-Gershenson Properties Trust	10.56%
Saul Centers	9.50%

Source: SNL Financial

BRUCE SCHANZER: From hodgepodge to red-hot REIT.

And now the company is loaded for bear. Before the end of last year, Cedar issued a secondary offering of 6.9 million common shares for net proceeds of $41.3 million and just closed on $150 million in unsecured term loans, according to its latest financial report. In keeping with the overall economy's recent expansion, Cedar execs won't be sitting on their hands.

"There are a lot of challenges and a lot of opportunities in this industry," Schanzer said. "We are active managers of our portfolio and we're always looking to upgrade."