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2014: Year of the Landlord?

May 18, 2014 Elaine Misonzhnik

When it comes to leasing negotiations, the pendulum has finally swung back in the landlord's favor—at least according to retail REIT executives who've made it to this year's RECon show. Owners and managers of malls and shopping centers say they've been getting meeting requests from tenants with aggressive expansion plans and, given the lack of new development on horizon, the expanding retailers are more amenable to both occupying second-generation spaces and paying higher rents than they have been in the past.

Executives with Philadelphia-based mall REIT PREIT, for instance, will meet with more than 25 retail chains at this year's RECon that they haven't done business with before, according to Joseph F. Coradino, CEO. A high percentage of these brands are coming from overseas, including apparel sellers Uniqlo, Topshop, Garage and the Retail Group of America. PREIT also recently signed a deal with New York-based discount department store Century 21 to open a location at The Gallery in Philadelphia, the retailer's first foray outside the New York region.

"The industry right now is very well positioned for growth," Coradino says. "A lot of tenants are looking to expand their footprints and there's very little [new center] supply, so there's an opportunity to really drive rents."

The replacements

Of course retail landlords also continue to deal with store closings by some tenants—Staples and Office Depot are consolidating their portfolios, and Family Dollar recently announced it would close hundreds of underperforming locations. The major difference from a few years ago is that there is now enough demand from up-and-coming tenants that retail center owners can both be choosy about who they want to renew leases with and use exits by existing tenants as opportunities to improve their store line-ups, notes Michael Carroll, CEO of shopping center REIT Brixmor Property Group.

Among the retailers that Brixmor is working with right now are the TJS Cos. brands, Ross Dress for Less and Wal-Mart Stores. The company has also found opportunities to bring smaller organic grocery chains, including Fresh Thyme Market, Mrs. Green's Natural Market and H-Mart, to some empty junior boxes in centers that didn't have a grocery component before.

Like Coradino, Carroll notes that lack of new retail supply has been great for leasing momentum.

“There’s been a tremendous amount of demand for anchor space,” he says. “There’s really no new supply coming on-line, so the industry is beginning to push rents.”

Besides the fact that new retail projects are still few and far between, retailers who are focused on expansion don’t necessarily want to wait several years before those projects will get all their approvals in place and be finished with construction, adds Bruce Schanzer, CEO of Cedar Realty Trust, headquartered in Port Washington, NY. Cedar is currently concentrating on repositioning its portfolio to focus exclusively on grocery-anchored shopping centers in high-density locations.

“We’re seeing a benefit for owners of existing shopping centers,” Schanzer says. “Tenants have to play ball on a more even-handed basis.”

Ed Hogan, national director of leasing with Brookfield Properties, a New York City-based property owner and developer, notes that in the past several months retailers have shown the most interest in new leases since 2007. They are still laser-focused on picking the best locations rather than just expanding for expansion’s sake, he cautions.

But, “Most of them are seeing growth in their businesses and that’s across the spectrum, from luxury [brands] to big-box retailers.”