attractive prices. Consider DDR's sale of Ormond Towne Center to the Jaffe Corp.: Although Jaffe declined to disclose the purchase price, local experts say the grocery-anchored center sold for $20 million—about 50 percent of what the asset should have sold for given the in-place tenants and NOI—because DDR needed cash.

Similarly, Centro Properties and its joint venture partner JPMorgan Investment Management sold New London Mall in New London, Conn., for $40.7 million. Cedar Shopping Centers Inc. acquired the 260,000-square-foot center at a 7.7 percent cap rate, according to John Williams, managing director of Savills LLC, the New York City–based firm that brokered the sale. Williams says the grocery-anchored center had attractive assumable financing, which helped it sell at a higher cap rate than other similar properties. However, he notes that the same center would have traded for 100 basis points lower just 12 months ago.

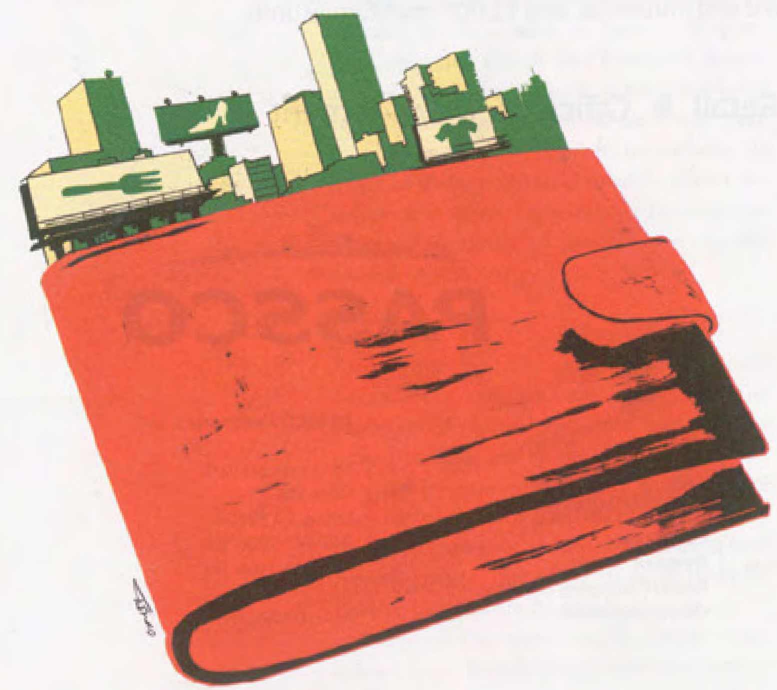
Libby Corp. also benefited from Centro's distress by buying Henderson Plaza at about a 10 percent cap, Libby says. "We never thought we would see the day when centers like this sell at 10 percent cap rates and above," he says. "For companies like ours, that have been waiting and complaining about people overpaying on deals, now is the time to strike."

While Libby understands why investors are "scared" of retail right now, he doesn't agree with their decisions to remain idle. "Yes, retail is going to be under pressure for a while, but you can't just sit around because the economy stinks," he says. "Today is the buying opportunity of a lifetime." RT

Building Confidence

Some developers find ways to build in a down market.

By Mike Janssen



It's a sign of the times: a developer that breaks ground on a site or lands tenants for expansion stands out simply by dodging the economic tsunami. In Atlanta and Los Angeles, near Chicago and Houston, shopping centers are still managing to rise and branch out. Though their progress hinges on a number of factors, they share similarities such as the involvement of national tenants whose fortunes have stayed relatively strong: Target, Lowe's, Wal-Mart. Pockets of the country where the recession's impact has been muted until now, Houston among them, remain ripe for openings. And developers are showing more caution as they seek early commitments from major anchors and pre-lease much of their space before building or expanding.

Even shopping centers opening in what look like the most favorable circumstances may have to fight hard to draw shoppers. "Anything that's completing today is unsupportable, just by definition of consumer spending," says Suzanne Mulvee, a real es-

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tate strategist with Boston-based Property and Portfolio Research (PPR). "The market itself is moving away from developers." A property that succeeds will likely do so at the expense of competitors, she says: "It really is a 'survival of the fittest' scenario."

Most centers now opening have commitments from national tenants weathering the economy and, in some cases, are too far along in construction for banks to withdraw, Mulvee says. According to an analysis by PPR, a third of projects under construction are power centers with big-box tenants still able to expand. Another quarter are lifestyle centers, while regional and superregional malls make up 10 percent of the mix.

Several developers with projects now under way have chosen locations where they face a minimum of competition for shoppers. For Los Angeles–based Primestor Development, this strategy predates the recession. Primestor focuses on building centers in densely populated, historically underserved communities, mostly with large Latino populations. Many of its centers are public-private partnerships. And they often house retailers that sell necessities rather than luxuries.

Primestor broke ground January 8 on Plaza Pacoima, a $78 million, 209,000-square-foot center in Los Angeles. Pacoima will be home to a Best Buy, Costco and Lowe's, as well as 4,000 additional square feet of retail, restaurant and office space. The center is slated to open early next year.

Pacoima's San Fernando Valley district is among Los Angeles' lowest-income areas—median income within a mile of Plaza Pacoima hovers around the mid-$30,000s, while the inflation-adjusted 2007 median income for Los Angeles was about $46,000. And the Valley's population is 85 percent Latino.

Planning for Plaza Pacoima began years ago. In 2002 the city's Community Redevelopment Agency (CRA) targeted Plaza Pacoima's site, formerly home to a manufacturer of plumbing fixtures, for an overhaul and pollutant cleanup. The CRA eventually contributed $4.1 million in public funds to the site and granted new-market tax credits that gave Primestor a net benefit of $2 million. The Los Angeles Community Development Department contributed another $8.2 million, part of which came from a brownfields development fund.

"Without their participation and that of the city, there was no way we could have moved forward," says Primestor partner Arturo Sneider. Primestor is putting up $4.5 million of its own money and financing an additional $40 million with a construction loan from Wells Fargo. Prudential Real Estate is a joint investor as well—Primestor uses joint-venture capital for about half of its deals, Sneider says.

Like other developers moving forward with projects these days, Primestor seeks commitments from primary tenants before proceeding with projects. Plaza Pacoima is almost entirely pre-leased. The center will also benefit from its relative lack of smaller retail spaces, which are more difficult to lease in the current economy, Sneider says.

Exploiting a great pocket

While some builders seek neglected niches in big cities, others have the good fortune to be established in a region with enduring popularity as a place to live. Such is the case with Planned Community Development (PCD) in Sugar Land, Texas. The developer has two projects under way in its hometown, a Houston suburb that ranks among Texas' fastest-growing areas. Houston also ranked as the top market for new construction in PPR's analysis, in a state where the economic lull has been slower to hit.

In 2006, CNNMoney ranked Sugar Land third among its 100 Best Places to live. The city made the list last year as well, coming in 64th. Sugar Land's population has grown steadily in recent years. In 1990, Sugar Land's population was 24,529. It grew to 63,328 by 2000, an increase of 158 percent and has added another 25 percent since, coming to 79,573 as of Jan. 1. In 2007 its median household income was almost $100,000 in inflation-adjusted dollars. Even as Houston suffered a depression during the '80s, retail in Sugar Land continued to grow, says Steve Ewbank, executive vice president of PCD.

"You gotta look for the pockets, and we just happen to be in a good pocket—a great pocket, actually," Ewbank says.

Sugar Land still features some underdeveloped areas despite this popularity, left over from development that spread outward from Houston to overtake the suburb. These in-fill locations appeal to retailers, Ewbank says. One of PCD's ongoing projects, Lake Pointe Village, just landed Whole Foods as an anchor of its second phase, a 50,000-square-foot expansion scheduled for completion this summer.

"[Whole Foods] said, 'What building used to be on this site?'" Ewbank says. His response: "Nothing. Cows." They said, "You've got to be kidding. How did that site remain empty for all these years?"

"It's like taking Main and Main at the center of a city and saying, 'It's never been used. You get to buy it,'" Ewbank says.

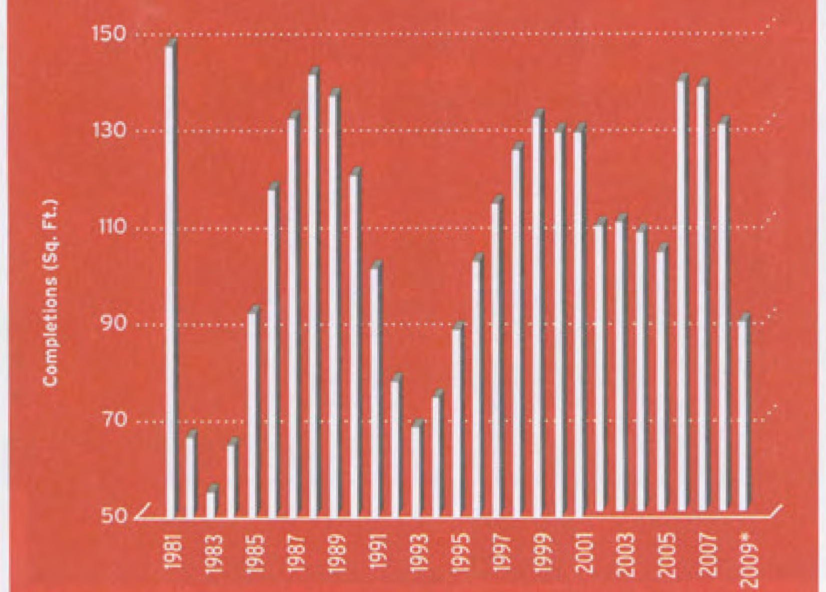
The second phase of Lake Pointe Village—the retail element of the 190-acre Lake Pointe Town Center, a larger mixed-use site—is now about half leased. Whereas national retailers would once have been the main tenants in better economic times, Ewbank notes that the center is now attracting more local and regional retailers, including a salon, a bike shop and a store selling organic pet food. And like Primestor, PCD often lands tenants before building out. Lease rates are holding steady, Ewbank says, though absorption rates have fallen.

The third phase of Lake Pointe Village will feature two restaurants, 20,000 square feet of retail space and a 10,000-square-foot building for medical and office use. This phase is scheduled for completion near year's end.

Meanwhile, across the street from Lake Pointe, PCD is putting up the final stage of Sugar Land Town Square, a 1.5-million-square-foot mixed-use center whose first phase opened in October 2003. Ewbank cites the Sugar Land Town Square as an example of the benefits of mixed-use development during a weak economy. Retail makes up only about 40 percent of the Town Square's mix of properties. The other elements—residential units, a hotel, a conference center and Sugar Land's city hall—provide a buffer from the retail downturn.

PCD is financing both projects with a mix of equity and loans from JPMorgan Chase accounting for about 80 percent of the cost. It is also financing Lake Pointe with joint-venture capital. Banks PCD has dealt with have required more equity and compensating balances, Ewbank says.

US Retail Completions Summary



* Forecast
Includes Retail buildings 10,000 square feet and greater

Sources: Marcus & Millichap Research Services, Costar Group, Inc.

Fixing a hole

PCD's Sugar Land sites are just two of a number of examples of in-fill developments moving ahead. This highlights such development's appeal to investors and retailers, who find reassurance in the prospect of a strong location and a dense, ready-made consumer base.

In the Atlanta market, Sembler Co. opened Canton Marketplace in March, an 800,000-square-foot power center in the suburb of Canton, stocked with a 186,000-square-foot Target, a Best Buy, Lowe's, Dick's Sporting Goods, Bed Bath & Beyond and others. (Sembler would not disclose the cost of the project.) Tenants have reported openings above projection.

"It's a bright spot in the retail market today," according to Sembler president Jeff Fuqua.

Sembler benefited from signing leases at Canton three years ago, in sunnier economic times. Target led the way for the project by determining that the suburb could support a SuperTarget store. The retailer's involvement attracted others, says Fuqua. Sembler is now negotiating to fill all of the center's remaining 40,000 square feet of retail space, he says.

In coming months, the developer expects to announce five anchor tenants at Town Brookhaven, a mixed-use site in Atlanta including 1,000 residential units and 600,000 square feet of retail. The urban in-fill site, now under construction, boasts attractive demographics and little competition from other retailers. The residential component adds a helpful synergy, says Fuqua.

"To get these deals done, they really have to be the best sites and the best markets, and make the most sense financially," Fuqua says. "In most of these cases, we've done that, and our tenants are cooperating with that." Atlanta also ranked third in current construction in PPR's survey.

Landing a strong national tenant also sparked the creation of Huntley Grove in Huntley, Ill., a project of Tucker Development Group. Based in Highland Park, Ill., the developer expected to open in April a 176,000-square-foot Wal-Mart Supercenter, the site's primary anchor. The 300,000-square-foot property is more than halfway leased, says TDG president Richard Tucker, and is slated for completion next year. TDG had secured financing for Huntley Grove more than a year ago—Tucker declined to discuss details. The developer has been able to secure tenants at market-rate rents.

"There's a built-in market here that just was underserved," Tucker says. He expects that the site's location, a central intersection in Huntley, will continue to attract additional development in the coming years. RT

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