

MID-ATLANTIC MOMENTUM

With stabilizing economics, retail activity continues to gain traction in Pennsylvania and New Jersey.

By John Nelson



Bakers Square, a 220,000-square-foot project in Philadelphia, is a conversion from Tasty Baking Company's former production facility.

New Jersey and Pennsylvania have experienced upticks in job gains and consumer spending in recent months. The retail markets in these adjacent states are following suit, but not necessarily in the traditional ways. National retailers have been somewhat reluctant to expand in the region, which has opened new opportunities for regional tenants, particularly grocers, restaurants and discount stores. Government initiatives on the state and municipal level have also helped spur retail activity, especially in Philadelphia's Center City. Additionally, construction for ground-up developments and redevelopments are contributing to the upward momentum, although these projects are still down from pre-recession levels. *Northeast Real Estate Business* takes a look at retail in these markets to find out more about what is driving demand.

smaller retailers. In the wake of the recession, lenders haven't been particularly eager to loosen their purse strings.

"Smaller retailers aren't able to tap 401(k) funds or small equity loans to finance new businesses — mom and pop stores are struggling because of that," says Steve Evans of High Real Estate Group LLC. "Even the in-line, national tenants are a little hesitant, but they are doing deals."

Right now, retailers are seeing that it's a tenants' market in the region.

"The opportunities are in the tenant's favor as compared to the landlord's favor," says Brad Nathanson, senior director of Marcus & Millichap's National Retail Group.

PREIT has seen continued traction in its properties in the region. According to Coradino, the quality assets are still adding tenants and bucking the sluggish economy. Its centers, such as Voorhees Town Center in Voorhees Township, New Jersey; Willow Grove Park in Willow Grove, Pennsylvania; Plymouth Meeting Mall in Montgomery, Pennsylvania; and Cherry Hill Mall in Cherry Hill, New Jersey, are

seeing new lessees.

"We are still renting stores, doing a lot of showings, closing deals and getting our prices," says John Azarian, owner of The Azarian Group. "We are also seeing more activity from franchises."

For example, Sunoco, Inc., has acquired leasehold interests in 14 retail locations in central Pennsylvania from Shipley Stores and plans to convert each location to be operated by Sunoco and include an APlus convenience store.

Philadelphia's Center City district has also seen a flourish of leasing. Three United Kingdom-based retailers — Dr. Martens, Jack Wills and Barbour — have all expanded with Center City locations. Athleta, a new concept from Gap, has also leased space in Center City with plans to open in November.

GOVERNMENT INVOLVEMENT

Some of the recent retail success is due in no small part to state and city government initiatives to boost retail

Levin Management Corp.'s redevelopment of both a 50,000-square-foot Shop Rite in the Hamilton Plaza Shopping Center in Hamilton Square, New Jersey, into a 80,000-square-foot store, as well as Clifton Plaza in Clifton, New Jersey.

Finally, Center City is also seeing its share of redevelopment. PREIT is redeveloping Gallery at Market East, a 1.08 million-square-foot enclosed mall at 901 E. Market Street, and has proposed a redevelopment is for Girard Square, a 272,753-square-foot project that will span five stories and feature new retailers and lighted billboards.

"Retailers are a little slow in terms of adapting to infill areas with smaller boxes," says Garrett Bedrin, head of acquisitions and leasing for The Bedrin Organization. "If big box retailers want to be in urban infill locations, they're going to have to adapt their box requirements."

Some retailers are answering this call, adapting to the available properties and changing their traditional layout. Target and Staples, among others, have occupied properties with less square footage than most of their traditional stores.

LOOKING AHEAD

"I think through the end of 2011 we'll keep the same pace," says Azarian. "As we go into next year we do expect things to pick up."

Harding agrees. "Leasing is up from where it was the past couple years, and I assume for the next year it'll stay at about that level," he says. "There are availabilities in better located properties and I think the retailers out there

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LEASING ACTIVITY

National retailers, as a whole, have not been as aggressive in New Jersey and Pennsylvania as in the past, which has been concerning for some in the commercial real estate industry.

"Our entire industry depends on one thing: expanding national retailers," says Steve Gartner, president of Metro Commercial Real Estate.

Some of the larger retailers like Walmart, Costco and Hobby Lobby are expanding their presence into the market, but most others are sitting on the sidelines. However, in the interim, local and regional retailers are having a strong showing by expanding their stores.

"We've seized upon this time to begin to introduce some of the better regional and local retailers," says Joseph Coradino, president of Pennsylvania Real Estate Investment Trust (PREIT) Services. "It serves two purposes: filling vacancy and differentiating these properties from a homog-

enous enclosed mall."

Additionally, grocery retailers such as Aldi, Wegmans, Shop Rite, Whole Foods, Giant Food Stores and The Fresh Market are expanding their presence and experiencing success in New Jersey and Pennsylvania.

Discount retailers such as Bottom Dollar and Dollar General have been opening stores and are beginning to transcend demographics. Quick service and fast casual restaurants like Chipotle, Red Robin and California Tortilla are also growing.

"We've seen a stabilization of retail markets on a leasing front," says Matthew Harding, president and CEO of Levin Management Corp.

In the region, there's also been a fitness craze for national and regional fitness centers like LA Fitness and Gold's Gym. "Before, fitness centers were looked at as the retailer that would take space in the back or the basement," says Gartner. "But where else do people go to two or three times a week on a regular basis?"

Funding, as usual, is an obstacle for

activity. Economic development agencies have had their hand in the retail market in Pennsylvania and New Jersey through promotions, events and legislation.

"What we're finding is that municipalities and townships are much more cooperative and proactive in discussing opportunities," says Greg Bianchi, vice president of U.S. Realty Associates, Inc. "It's more of a team effort to get everyone to stand on the same side of the line and pull at the same time."

The City of Philadelphia has undertaken several different initiatives to attract retailers to their market. One was creating the Philadelphia Retail Marketing Alliance (PRMA), which is a collection of marketing entities like the Business Improvement District and the Greater Philadelphia Tourism Marketing Corp.

"Retail attraction is part of our responsibility," says Michelle Shannon, vice president of marketing and communications for Philadelphia's Center City District. "Our goal is to put Philadelphia out there as a destination for new retailers."

The City of Philadelphia also offers business incentives that are available to businesses in any sector, not just for retailers. Most of the incentives are based on job creation and tax credits.

To boost retail activity further, Philadelphia has passed an ordinance (Bill No. 100720) creating a Commercial Advertising District in Center City. The retailers on Market Street between 7th and 13th streets have permission to install a lighted or wrap billboard on their buildings, which will create a Times Square-type environment and attract more shoppers.

New Jersey has typically been a difficult place to develop due to government regulations, but New Jersey Governor Chris Christie has pushed state agencies in moving stalled commercial development projects off the ground to help with the state's employment challenges. Christie also recently helped to restart construction efforts for an Atlantic City casino, and the \$2.5 billion Revel casino project is now expecting a 2012 completion thanks in part to a \$261 million tax incentive from the state.

GROUND-UP & REDEVELOPMENT PROJECTS

Retail markets in Pennsylvania and New Jersey, like most states in the U.S., have experienced a lull in ground-up construction. However, that fact has not stopped retailers from expanding their presence into these markets. New construction is still happening, albeit with less velocity than in the past.

"There's not much getting in the ground," says Jim DePetris, CEO of Legend Properties. "However, there are signs that there are projects that are catching wind and gaining momentum."

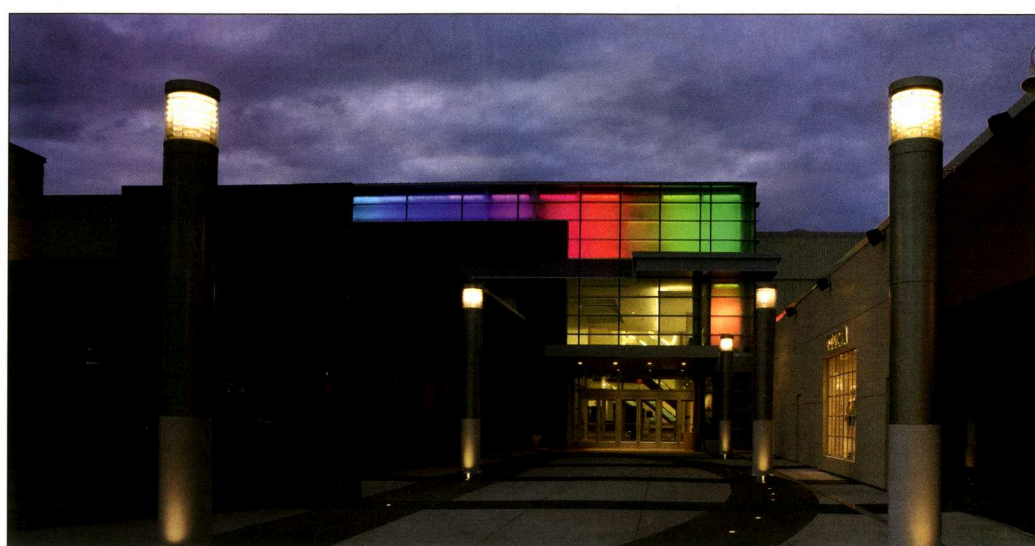
With that said, several developments are under way in the region, which are detailed in the sidebar above.

In the wake of less ground-up construction, the markets have seen a considerable number of redevelopment projects.

"In New Jersey and Pennsylvania, we're seeing a focus on renovating existing projects rather than ground-up development," says Harding.

Among these renovations is Bakers Square, a 220,000-square-foot redevelopment in the Hunting Park West section of Philadelphia. Metro Development Co. has broken ground on the project. It is part of the Philadelphia City Planning Commissions Redevelopment Initiative, which is a campaign to redevelop antiquated properties within the impoverished areas of Philadelphia. The development is a conversion from the site's former Tasty Baking Co. production facility.

Some other redevelopments include



Cherry Hill Mall, a PREIT property in Cherry Hill, New Jersey, has recently added tenants like Michael Kors, True Religion and Hugo Boss. The property's anchors include Nordstrom, JC Penney and Macy's. The mall was renovated in 2009.