



SCT

SHOPPING CENTERS TODAY

JUNE 2013
www.icsc.org



Master of all trades

Tighter budgets require property managers to adopt more roles

page 30

*MATTHEW K. HARDING, PRESIDENT,
LEVIN MANAGEMENT*



JOHN SEBRING, DIRECTOR OF PROPERTY MANAGEMENT
FOR THE SHOPPING CENTER GROUP, ATLANTA

PHOTO: DANIEL HENNINGER

MASTER OF ALL TRADES

TIGHTER BUDGETS REQUIRE THAT RETAIL PROPERTY MANAGERS FULFILL A FAR BROADER SET OF ROLES THAN IN THE PAST

By Joel Groover



WHEN MAJOR RETAIL CHAINS NEED TO SLASH costs, analyze competitors or find savvier ways to design stores, manage inventory control or do Internet marketing, they often turn to highly paid consultants. A struggling mom-and-pop can hardly afford to take that route, of course. But many are doing the next best thing: They are tapping the accumulated business expertise of their landlord's property management team. "Before the recession, property managers were perceived as the folks who kept the grass mowed and who responded to the roof leaks," said John Sebring, director of property management for The Shopping Center Group, an Atlanta-based retail advisory firm. "Today we have become business consultants by default. We're talking with tenants about things like inventory turns, merchandising, the presentation of your store and how you greet customers. It's a big shift."

The change began as a response to the high failure rate of small-shop retailers during the worst of the recession, Sebring says. "During the boom, the image was: 'You either succeed or fail; as property managers, we'd hate to see you fail, but it happens,'" he said. "But at one point in the downturn, the failure rate got so high that we had to slow it

down ... mom-and-pops are critical to shopping centers and local economies. [Property managers] needed to dig deeper and understand these tenants' businesses."

And by digging deeper into the ways of the small shops, property managers began to zero in on the waste and inefficiencies that were bogging things down. This was roughly parallel to what professional consultants were doing at the time to help the biggie chains clean up their

Herding tigers

With some 3,000 shopping centers to their credit, developers in China are clearly adept at rolling out projects on a short timetable. But in such a roar-ahead, quick-profit real estate culture, a careful approach to property management can easily wind up as a mere glance in the rearview mirror, says Colin Dowall, Jones Lang LaSalle's Shanghai-based head of retail-asset management for Greater China. "Things are changing for the better here, but China is still a relatively immature market," he said. "Only about 30 percent of shopping centers here are well managed from a performance perspective and from the perspective of the international and good-quality tenants that might want to move into these centers over the long term."

While landlords in the U.S. or Europe might sell off an anchor pad or outparcel on occasion, Chinese developers routinely auction huge chunks of newly constructed malls and High Streets to multiple bidders. These so-called strata-title arrangements can, when poorly executed, hamstring future efforts to manage the property as a cohesive whole, says Dowall. "The problem with strata-title is that these individual owners might not buy into the collective effort to help the center succeed as a business," he said. "I know of one shopping center here that has hundreds of owners."

In a worst-case scenario, the developer will have signed overly permissive sale agreements with various investors, al-



COLIN DOWALL, JONES LANG LASALLE'S HEAD OF RETAIL-ASSET MANAGEMENT FOR CHINA, IN SHANGHAI

lowing these new owners to ignore such concerns as tenant mix, visual appeal and marketing strategy, Dowall says. "Ultimately, this can really blight the look and feel of the center," he said. "Some centers in China are essentially unmanageable when it comes to insulating them against the competition and from func-

tional and financial obsolescence." In their efforts to capitalize on the country's residential boom, developers have sometimes treated retail as a bit of an afterthought. "Back during the first wave of the residential boom in particular, developers were not asking: 'How do we provide the best shopping experience

to our consumer?' It was more about the bragging rights," Dowall said. "The focus was on bringing luxury brands like Cartier or Gucci to new developments, without much concern about how the center would actually perform." But property management is starting to get more respect among commercial prop-

erty owners across China, Dowall says. For starters, rather than allowing developers to build merely residential projects to flip for a quick return, the government is now focused on promoting construction of true mixed-use projects, which call for professional planning, design, leasing and management, Dowall says. Meanwhile, Jones Lang LaSalle is getting more inquiries from property owners who want to boost the performance of their malls. "At one shopping center in Shanghai, a reduction on occupational costs to the tenants by about 20 percent enabled the developer to commission market research and, ultimately, reengineer the tenant lineup to better fit the catchment area," Dowall said. "As a result, the center has been much more successful and is now a better-performing asset."

Balance sheets. The point was not to be altruistic for its own sake, but to protect landlords' interests by supporting their more promising mom-and-pop stores. "If we could help those tenants save money on things like dumpsters, alarm systems or the insurance they had to carry, ultimately that would make it easier for them to pay us rent," Sebring said.

Toward the end of 2011, Sebring's team huddled with Roswell, Ga.-based Achievement Strategies to help

that counseling-services firm find new customers. Shopping Center Group followed up early in 2012 by arranging introductions with businesses and service agencies in its local network. "This tenant realized an immediate spike in business, and its cash flow had stabilized within six months," Sebring said. "It has since experienced a consistent flow of new and repeat customers."

Imagine Sew, an Atlanta uniform-and-tailoring shop that renewed its

owned by just one entity, the point is not to fundamentally change the way Chinese developers do business. Even strata-title properties can be managed well if the deal is structured carefully, Dowall asserts. "You might, for example, sell en bloc units on the High Street, backed by the mall element, but you would want to have a good sale agreement," he said. By retaining management rights to the property for 15 or 20 years, the developer could give the property manager the ability to enforce high standards among all the tenants. "You want to be able to police the property so that you have some buy-in from the different owners," Dowall said. "Don't sell the upper levels to multiple owners. Sell to one good-quality owner who is looking for a High Street investment. Find someone you can work with to manage the shopping center over the long term."

And Dowall sees plenty of opportunity for professional property managers in China. "Per capita, retail in China is still way behind the mature and developed countries, and a huge amount of supply is still coming online," he said. "But what we don't want are 'zombie malls' created as a result of overdevelopment, oversupply or poor management standards. Everyone wants this to be sustainable, which is precisely why we're seeing more interest here in long-term holds." — JG

PHOTO: YAXING HUANG

lease in April for an additional three years, worked with Shopping Center Group in 2011 to refine its business plan. Imagine Sew rescheduled its hours of operation to align better with local traffic patterns. The shop also developed a customer rewards program. Last February Shopping Center Group helped a wine and cheese retailer in Biloxi, Miss., reconfigure its sales floor to boost shelf capacity and create sampling areas. The property managers recommended reliable contractors, helped negotiate and finalize the contract, and even helped manage and coordinate the remodeling project.

Naturally, the role of property manager can vary dramatically, based on the evolving needs of the market. In fast-growing India demand has grown over the past several years for retail property managers with expertise in marketing, regulatory compliance, financial management and more, according to Anuj Puri, chairman of Jones Lang LaSalle India, which manages a portfolio of 46 malls comprising a total 15.3 million square feet. Among these properties is the Amanora Town Centre, in Pune, a 1.1 million-square-foot mall with such tenants as Big Bazaar, HomeTown, Inox Cinemas and Reliance TimeOut; and South City Mall, in Kolkata, a



PHOTO: DANIEL HENNINGER

SCOTT PRIGGE, ATLANTA-BASED SENIOR VICE PRESIDENT OF NATIONAL PROPERTY OPERATIONS AT REGENCY CENTERS

600,000-square-foot retail center anchored by Fame Cinemas, Shoppers Stop and Spencer's.

India's retail market is now worth about \$518 billion, according to Jones Lang LaSalle. "However, it can still be reckoned to be in a very nascent stage, given that the market share of [chain store] retail is estimated to be only around 8 percent," said Puri. "In other words, more than 90 percent of retail activity in the country is still being driven by unorganized sectors, including mom-and-pop stores."

Little wonder that the property managers on Puri's team are focused on giv-

ing mom-and-pops the help they need to succeed. "By using these stores to offer more local flavor, property managers are able to achieve a distinctive positioning at their retail developments," he said. "In turn, this provides the mom-and-pop stores with a platform to reach wider client audiences." The efforts of Puri's team include organizing pop-up flea markets packed with mall tenants that sell jewelry, handicrafts, apparel and food. The team also assists tenants with such things as advertising and communication, visual merchandising, quality control and cost containment.

Stateside, the role of the property

manager began to expand as part of rescue efforts geared toward ailing small-shop tenants. But now that the economy is on the upswing, managers are working to help already stable tenants do even better. "We have gone from being business consultants — helping tenants adjust their businesses to the demands of this new economy — to now helping those tenants enhance their businesses," said Scott Prigge, senior vice president of national property operations at Regency Centers. "We're helping tenants become better retailers in part by using those same skill sets that we learned when they were asking for rent relief.

It is a shift from putting out fires to being proactive again."

But part of the trick is to know which tenants to support, Prigge says. Certain mom-and-pops are facing long odds against e-commerce and other competitive pressures. Property managers must therefore avoid spending time and money on tenants that may be clueless about the Internet or are working with obsolete business models. "You want to work with tenants that 'get it,'" Prigge said. "For example, in today's market a stand-alone flower shop often will not be very successful. But flower shops that align themselves with I-800 Flowers and that maintain a robust

Property managers must avoid spending time and money on tenants that may be clueless about the Internet or are working with obsolete business models.

Keeping an eye on the bottom line

Faced with the challenge of keeping small-shop tenants afloat, property managers continue to hone their skills as de facto business consultants — experts with plenty of experience helping mom-and-pops take smarter approaches to marketing, merchandising and more. But of course, their traditional responsibilities — such things as collecting rent and common-area-maintenance fees, or managing contracts related to security, landscaping or sanitation — have not gone away. And when it comes to these fundamentals, even relatively small tweaks can make a big difference in the performance of the shopping center, says John Sebring, director of The Shopping Center Group's 26-person property management team. The Atlanta-based retail advisory firm expanded its property-management portfolio by about 1 million square feet last year; it now manages about 10 million square feet of retail space across 15 states — mostly power centers and grocery-anchored shopping centers.

Among the major factors affecting client net operating income are such basics as the manager's approach to collections, Sebring says. "It sounds simple, but budgets are more or less based on

100 percent on-time collections," he said. "The slippage of slow or nonpaying tenants definitely impacts income — not only the base rent, but also the pro rata portion of the center operating expenses, insurance and taxes." During the recession some landlords were lenient in collections, simply because keeping tenants in the center was more important to them than maintaining a tight hold on rental deadlines, Sebring says. With some tenants, though, a landlord may want to re-evaluate, he notes. "Tenant retention is really the buzzword right now, because everyone wants to hang onto tenants so badly," he said. "In reality, however, we only want to hang onto the tenants that actually pay rent." By helping tenants understand the ups and downs of their typical business cycles, Shopping Center Group's property managers are making landlords' more-viable operators better at income forecasting. The goal is to prevent the sudden closures that happen after too many missed payments.

Another potential NOI booster involves paying closer attention to rental start dates. Some leases do not stipulate exactly when rent payments are to begin, and

landlords should try to avoid this situation, says Sebring. "Knowing the exact rental start dates allows the landlord to more effectively forecast income," he said. "Specific language should indicate that rent payments start, say, on the day the tenant opens for business, or 90 days from the lease date." Along the same lines, even free-rent periods can be managed in ways that favor the landlord. "Instead of front-loading free-rent periods, landlords can offer an equivalent amount of free rent over the first 18 to 24 months," Sebring said. "That way, rental income is realized sooner, and risk is minimized." Such tweaks are all the more important, given rising costs. Cost rises related to insurance and property taxes are now a given in the Southeast. And in the Midwest and the Northeast, costs related to weather, particularly an increase in the frequency of winter storms, are forcing landlords to raise CAM charges. Required cleanups from major snow and ice events can cause jumps in labor costs, after all. "The property manager's role is expanding," said Sebring. "But in the end, mastery of these types of fundamentals is what really sets property managers apart." — JG

India's retail market is now worth about \$518 billion. More than 90 percent of retail activity in the country is still being driven by unorganized sectors, including mom-and-pop stores.



PHOTO: WILLIAM NEUMANN

MATTHEW K. HARDING, PRESIDENT OF LEVIN MANAGEMENT, AT ST. GEORGES CROSSING, IN WOODBRIDGE, N.J.

presence on the Internet happen to be seeing a big jump in their sales.”

The property manager’s role is changing in other ways as well. At Thompson Thrift Development, for one, the imperative to maintain occupancy levels throughout the portfolio has translated into greater responsibility — and a higher overall profile — for the property management team, according to Ashlee Boyd, a senior vice president who heads the company’s retail division. Unlike some developers, the Terre Haute, Ind.-based firm has continued to build new projects over the past few years, albeit on a smaller scale

than before, Boyd says. And these days Thompson Thrift consults the property management team from the very start of a new project. “We’re seeking their input on layout- and design-related issues, parking and even seemingly small details like dumpster locations,” he said. “When we eventually say, ‘Here is your project, now go manage it,’ it makes their life a lot easier if they’ve provided input on the front end.”

Thompson Thrift now asks members of its property management teams to scrutinize new leases in a process Boyd describes as “lease by committee.” The idea is to give multiple experts the

opportunity to raise red flags about key parts of any pending lease. “Of course, it’s imperative that everyone provides feedback in a timely fashion, so you don’t slow the leasing process,” he said. “But if you can catch something early, it can save you a lot of headaches down the road.”

Imagine a scenario in which the landlord aims to charge common-area-maintenance fees of \$3 per square foot. A sharp-eyed property manager might flag a clause in the lease that would cap CAM fees at \$2. “Nowadays tenants are very good at excluding certain charges,” Boyd said. “You have to be careful, because that \$1 of slippage could really impact the operating performance of your shopping center. Having property managers provide input into the lease can be very helpful.”

Meanwhile, owners today are more likely to seek advice from third-party management firms on ways to make a shopping center look more appealing, from minor landscaping tweaks to full-scale redevelopments, says Matthew K. Harding, president of Levin Management, a North Plainfield, N.J., retail real estate services firm. “It is increasingly important to make your property stand out from the competition,” Harding said. “You have to give tenants a reason to pick your location over another one in the immediate market. You also have to keep your existing tenants from moving down the block.”

“You have to give tenants a reason to pick your location over another one in the market. You also have to keep your existing tenants from moving down the block.”



PHOTO: JULIE HICKMAN

ASHLEE BOYD, SENIOR VICE PRESIDENT OF THOMPSON THRIFT DEVELOPMENT, IN INDIANAPOLIS

Changes related to the lineup, such as the arrival of a new anchor store, or the expansion of a longstanding one, could be a good opportunity to reboot the look and feel of the shopping center, Harding says. In 2011 Levin Management acted as construction manager on behalf of the landlord during a \$12 million renovation of the 175,400-square-foot Hamilton Plaza, in Hamilton Township, N.J. “ShopRite had a smaller, 50,000-square-foot store in the center, and so we worked with them to expand to a prototypical size of about 80,000 square feet,” Harding said. “That rightsized ShopRite and kept them recommitted to the property for a long period of time, which was great. But in conjunction with that, we renovated the whole shopping center and actually did a couple of pad sites.” Amid these changes, A.C. Moore, another longtime anchor,

opted to renovate its 20,400-square-foot store as well. This new look and feel helped attract new tenants like mattress retailer Sleepy’s, which joined the roster in December, and Petco, which signed on in April.

Meanwhile, the firm’s property managers continue to keep an eye on such basics as the CAM fees other tenants in the market typically pay. And like property managers everywhere, they are assisting some tenants with marketing and other parts of their business. “Property management does have a broader role today, and it is important for a [third-party firm] to be able to deliver the full set of services to an owner,” Harding said. “It has always been critical to provide a comprehensive approach to the operation of a retail property, but it is even more so today.”