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MARKETS | PROPERTY REPORT

Bargain Hunters Pounce on Weak Retail Properties

Most of the buyers say they have plans to improve operations and expect higher returns

Retailers have announced more than 3,000 store closures in the U.S. so far this year as a result of bankruptcy filings or shifts to e-commerce operations. PHOTO: SPENCER PLATT/GETTY IMAGES

By Esther Fung

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As investors flee the battered retail-p

through the wreckage.

GBT Realty Corp., a Brentwood, Tenn., property developer, is planning to raise a $500 million real-estate fund to purchase 80 to 100 retail buildings in the next decade.

Hendon Properties LLC, a real-estate development, management and brokerage firm based in Atlanta, is also looking to raise a fund to buy weak malls and open-air shopping centers.

"The opportunistic money is circling," says Jeff Edison, chief executive of Phillips Edison & Co., an owner and operator of more than 340 grocery-anchored shopping centers across the U.S. "They smell blood in the water."

So far this year, retailers have announced more than 3,000 store closures in the U.S. as a result of bankruptcy filings or shifts to e-commerce operations. The few chains that are still expanding, such as discount chain Burlington Stores Inc., are opening smaller stores in wealthier ZIP Codes.

The bifurcation between healthy properties in upscale regions and slumping ones in less-wealthy areas is creating bargains for some hardy investors.

While prices haven't fallen to distressed levels, in some cases the land value itself is worth the purchase price, the investors say. Yet most of the buyers say they have plans to improve operations and expect higher returns.

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"In some cases, the needle has swung too far and we want to take advantage of it," says Charlie Hendon, chief executive and president of Hendon Properties.

The firm plans to raise $10 million to
other institutional investors that wil
potential projects. Hendon previousl
Alabama investment firm Harbert M

GBT Realty, which builds neighborhood shopping centers, single-tenant buildings and strip centers, already has several target acquisitions in mind, mostly open-air and grocery-anchored centers. It also could buy anchor department store locations in malls directly from retailers and reposition them by bringing in new tenants, says Scott Porter, managing director of GBT's value-add division.

In general, the acquisitions will average around $10 million to $30 million, GBT says.

GBT already has an in-house leasing team with relationships in the retail community, says Chief Financial Officer Geren Moor. "We're looking for assets where we can add value, such as backfilling vacant spaces," says Mr. Moor. He added that the firm will continue with ground-up development operations, though such projects have tighter margins these days.

"There are mall investors with patient capital that can wait for the existing leases to ride out and bring in other uses to reposition the property," says Margaret Caldwell, managing director at JLL Capital Markets. "We are also seeing new investors that are interested in buying malls due to potentially high yields."

Time Equities Inc., a New York real-estate firm, recently purchased two Tennessee malls for $53.5 million, one in Morristown and the other in Maryville, making a bet it can revitalize the assets.

"The Tennessee portfolio presented the ideal opportunity to acquire two dominant middle market centers, both of which were priced attractively, have stable tenant rosters and showcase significant growth potential," says Ami Ziff, director of national retail for Time Equities.

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