The Retail Race

HEALTHY RETAIL DEVELOPMENT IN NORTHEAST OHIO FUELS COMPETITION AMONG DEVELOPERS.

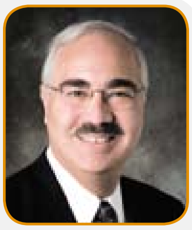
Build it and they will come. That adage rings true for developers and retailers who are finding that when they build new retail centers with the right mix of big-name national retailers and other small merchants, consumers will come, and many of them keep coming back.

Consistent consumer spending in retail has kept the U.S. economy strong and it's showing no signs of letting up anytime soon.

"Unlike the residential real estate market, the commercial and retail real estate markets are healthy," says Norman W. Gutmacher, partner with the Real Estate and Environmental Practice Group at Benesch, Friedlander, Coplan & Aronoff LLP in Cleveland. "Investors continue to pump money into these markets to get good returns at a perceived lower risk."

That's one of the reasons developers and owners keep constructing or redeveloping new lifestyle or open-air retail centers, frequently intermixed with office and residential space. Greater Cleveland has seen the recent openings of elaborate lifestyle centers such as Crocker Park in Westlake, Legacy Village in Lyndhurst, Eton Collection in Woodmere and First & Main in Hudson.

Jeffrey J. Wild



Norman W. Gutmacher

In addition to the familiar retail names you've seen at the local mall, the lifestyle centers feature new retailers that never had a presence in Northeast Ohio until now. What's more, several developers are just beginning to build, or are planning to construct, new urban lifestyle centers in downtown Cleveland stretching from the Flats to Lakeside Avenue.

Kevin D. Margolis

The lifestyle shopping centers are popular because they attract new retailers that cater to the changing and sophisticated tastes of today's consumers, explains Kevin D. Margolis, partner and chair of Benesch's Real Estate and Environmental Practice Group. The popularity of these new lifestyle centers, however, is creating more competition for traditional, suburban malls that have lost their allure among some shoppers.

"The shopping malls have to reinvent themselves to compete with the lifestyle centers," says Margolis. "We're already starting to see this in Northeast Ohio. The Beachwood Mall, for example, began a $15 million expansion earlier this year that will house several new retailers such as the H&M store, a popular Swedish clothing chain, and a full-service restaurant."

All of this new development has created fierce competition for anchor stores or well-known national retailers such as Bed, Bath and Beyond, Crate and Barrel and Abercrombie & Fitch. This means the large national tenants are sit-

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ting in the driver's seat when it comes to lease negotiations, says Jeffrey J. Wild, also a partner with the firm's Real Estate and Environmental Practice Group. To attract those must-have anchor retailers, developers often offer incentives such as lower monthly rent, free rent, generous construction allowances and fewer restrictions in leases.

Developers then make up for these incentives by charging smaller retailers higher rents. "The smaller retailers want to be located next to or near a Bed, Bath and Beyond or a Crate and Barrel because they sell to the same customer base," explains Wild.

Nevertheless, commercial developers are selective with small retailers because they want to make sure they'll fit in to the retail mix.

"One of the keys to success for developers is their creativity and their vision with respect to which smaller retailers they are going to attract to fill their centers," says Wild. "Many of the thriving stores in the new lifestyle centers are the ones that never had a prior presence in Northeast Ohio."

But one of the best ways developers can gain more leverage in negotiating with popular anchor retailers is to develop or redevelop prime real estate in areas surrounded by high-income households.

"I'm working with a client on the West Coast who is competing with another national developer for a major tenant," Wild says. "We know the key to convincing the tenant to go with my client's lifestyle center is not because of more favorable lease terms, but because of the surrounding high-income demographics that will drive the tenant's business."

Real estate developers also are returning to more traditional avenues of financing such as banks and insurance companies to finance new retail centers.

"Banks and insurance companies are pricing loans better and they are easier to work with when developers need to change financing options for their projects," says Gutmacher. "Before, developers were primarily using what's called conduit loans that are sold to investors in the open market. Even though these conduit loans have low interest rates, they can't be easily refinanced if a developer wants to expand a shopping center."

The future looks bright for commercial and retail real estate. The current strong economy, leveling gas prices and the upcoming holiday season are expected to pave a healthy and profitable road for developers as consumers will always be looking for new ways and places to spend their hard-earned dollars.