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Silver linings? Are there positive signs to be glimpsed amid the wreckage? Yes!

January 22, 2009 - Retail

The retail sector has been hit and hit hard during our "little" crisis.

As one pundit put it: "There's way too much space in our industry and way too much merchandise." Well put, bluntly, if somewhat inelegantly.

Overbuilt and battered by corporate bad news, slack consumer demand, difficult financing, and a lack of investor interest, much retail is on the ropes. All signs point to some further commercial malaise and more bank difficulties with retail and general commercial loans. A lot of folks out there that loaned and borrowed too much money will need working out.

We are undergoing something historic and it's not pleasant. Experiencing it is not quite like seeing something happening on CNN, far away and far removed.

Are there positive signs to be glimpsed amid the wreckage? More later.

Here's a dose of the reality.

Buyers/Sellers: Sellers that can are holding firm on prices that many buyers find to be extraordinarily unattractive. Observers expect movement by sellers tired of waiting (or unable to), resulting in deal-making to establish new price floors in retail markets.

Lenders: TARP has not quite trickled down, yet. We're waiting. Did we miss something here? Some say there is a thaw evident - it must be pretty small then. Many smaller banks are taking up the slack but they are limited in deal size. Further, the general feeling is that there are many commercial real estate loans in the process of going bad which potentially will strangle this spigot.

Cap Rates: Nationally, cap rates crept up in all retail sectors surveyed by PricewaterhouseCooper (Korpacz) and survey respondents expect further significant increases over the next year. Even absent strong transactional activity, cap rates are pushed by reluctant (or nonexistent) lenders and very risk averse buyers.

Rents/Vacancy: Reportedly, tent appreciation is on hold. Vacancy also increased. Unanchored locations and mom & pop stores are faring the worst.

In an environment where the pressure is off to open new stores, tenants are playing landlords off for more favorable buildout and terms.

Many observers note great pressure to get viable deals done before someone changes their mind or financing evaporates.

The Media: Is the media over-hyping what is really going on? Yes and no.

The media tends to grab for the juiciest pieces of any stories and sometimes the focus isn't quite right from the viewpoint of those close to the stories.

But the stories are real. The major failures and major closings are real.

Who would have thought Starbucks would be contracting - what can be happening there? Some foldups were not entirely unexpected as many retail forays were founded on pretty shaky assumptions and much "see no-hear no-speak no evil" easy credit.

Outlook: Some analysts report a "fuzzy" outlook for 2009 as indicators are not entirely clear. Final 2008 retail numbers show the year end was worse than expected. My hunch: 2009 may not live up to the faint expectations it's been given so far.

Good news: interest rates are down. Now to lenders to start lending. Further good news: property prices should embark on a search for more sustainable levels. This will provide opportunities for buyers with resources. Good news: if you're a tenant, some attractive leasing opportunities will be available. Time to drive a hard bargain. Good news: some observers believe that this "dip" will be steep, but relatively short, because many pieces of the road to recovery (liquidity, low cost money, some prospect of housing market recovery, among others) are in place or will soon be.

Massachusetts is better off than some places. Understored in many urbanized areas with a population comparatively better off, markets should tend to hold up more resiliently during this stormy period. The "adjusting" to new realities is just beginning. The process is likely to be lengthy and not linear. Adaptation and evolution are keys to surviving. The new reality will barely resemble the old.

William Pastuszek, MAI, SRA is principal of Shepherd Associates, Newton Mass.