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For once, a buyer's market for small retailers

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By Deborah L. Cohen

CHICAGO (Reuters.com) -- A year ago, Ron Gimbel might have wrestled with some pretty big players to find good commercial real estate for his collection of franchised pizzerias, taking a back seat to well-muscled competitors such as Starbucks.

But since then a real estate slump intervened, prompting some nation-wide retailers to pull back and creating a buyers market for those ready to expand.

Last Wednesday, Gimbel opened his second Indianapolis-area store in a newly-developed strip mall, across the street from a Meijer's supermarket and just a stone's throw from a busy thoroughfare, a budding commercial corridor, several major hotels and an expanding residential community.

"It's just got great traffic, back and front," says Gimbel, who is building for Monical's Pizza, a regional family-style chain based in Kankakee, Illinois, that operates some 60 restaurants. "No doubt we're in a more favorable position to negotiate - if you drive around, there's a lot of space out there, a lot of signs up."

For many smaller operators of restaurants and retail establishments around the country, it's the same story. Faced with escalating commodity, fuel and transport costs and a tightening economy, major retail players such as Starbucks, Caribou Coffee and Home Depot are reining in growth.

According to Boston-based Property & Portfolio Research, which tracks the commercial real estate sector, total retail store closing for 2008 are expected to reach 6,000, up sharply from 4,600 last year. Overall, landlords are expected to give back the 1.7 percent growth in rents they enjoyed last year.

That leaves openings for smaller chains and independents to find coveted sites, more favorable terms on leases and a host of unlikely incentives such as free rent for the first months and increased tenant improvement dollars for build-outs to lure them into vacant or overdeveloped properties.

"There are a number of chains which are simply not pursuing deals and have no intention of it in the foreseeable future," says Steve Frishman, a partner with Oak Brook, Illinois-based MidAmerica Real Estate Group. "I've told all my clients, if you think your concept is going to be out there, there is not a better time to get the real estate."

MidAmerica has been able to secure premium spots for smaller operators such as Argo Tea, a Chicago chain of about a dozen teahouses that has opened stores on prime corners in well-trafficked city neighborhoods such as Lincoln Park, the Gold Coast and the Loop.

"A good many of the developers, especially if they have construction loans out on their property, are under pressure to get deals done, rather than hold on for the last dollar," says Frishman, who has seen some prime Chicago sites drop to \$30 per square foot from \$40 in recent months. "The deal velocity has slowed down."

Entrepreneurs are homing in on opportunities such as these. Dan Rowe, the

founder and CEO of Fransmart, an Alexandria, Virginia-based developer of startup franchised restaurant chains, says he now spends nearly all of his time scouting for so-called Class A locations - end-caps in suburban strip malls and highly desirable sites on busy city streets - for his clients.

"In this market, it's a perfect time to be a tenant, even a small tenant," says Rowe. "We haven't had pickings like this in ten plus years."

Fransmart recently helped Elevation Burger, an upscale hamburger concept serving organic burgers, sign a deal for its second store in National Harbor, a sprawling retail development on the Potomac River just outside Washington, D.C. The site is home to the largest convention center on the East Coast.

Elevation Burger, which will be the only hamburger restaurant at the site and have better-known neighbors such as McCormick & Schmick's and Ben and Jerry's, also got some \$150,000 in cash as an incentive to take the space, Rowe says. "Landlords are hurting and throwing their rule books out the window and getting very creative and flexible just to get deals signed," he says.

(Deborah Cohen covers small business for Reuters.com. She can be reached at smallbusinessbigissues@yahoo.com).

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