

The Boston Globe

Mass. tops US in retail revival; Stores left vacant by recession are finding takers

Mon Jun 14 2010
Section: News
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Source: Globe Staff

Massachusetts is outpacing the rest of the country in attracting businesses to fill large vacant retail spaces, fueling optimism that the state's economic recovery is gaining momentum.

Merchants have signed leases for more than half of the roughly 2 million square feet abandoned by struggling and bankrupt chains such as Circuit City, Linens `N Things, and CompUSA, according to local data provided by several real estate brokers.

The state's success in luring major retailers has resulted in the arrival of new companies to the region, such as Savers and Ultimate Electronics, and allowed established merchants like Best Buy to strengthen their control of market niches.

In the Boston area, vacancy rates at shopping plazas dominated by big-box merchants dropped from 6.6 percent to 5.8 percent during the first quarter, marking the first such decline in eight quarters. By contrast, the amount of empty space at these so-called power centers across the United States increased slightly, to 7.9 percent, during the same period, according to Reis Inc., a New York real estate research firm.

Evidence of the Massachusetts retail resurgence can be seen throughout the region. In Plymouth, workers are transforming the skeleton of a Circuit City into a Best Buy that is scheduled to open in the fall. The Minnesota electronics giant has already taken over spaces formerly occupied by Circuit City in Millbury and Burlington.

Last week, Savers, a thrift store chain based in Washington, opened in a North Attleborough building vacated several years ago by CompUSA. Savers has two other openings planned this summer, in Framingham and Worcester, moving into spaces left empty by CompUSA and a Shaw's supermarket.

New England Development just scooped up Westgate Mall in Brockton for about \$32 million, only months after lenders bought the center at a foreclosure auction for \$51 million.

"Compared to other parts of the country, New England is one of the areas that these big boxes are really concentrating on and trying to open stores over the next few years," said Douglass E. Karp, executive vice president of New England Development, a Newton firm that builds and manages shopping centers, including Cambridgeside Galleria. "We're in talks with a few different retailers to take that anchor space in Westgate that was vacated."

Merchants are coming back to the state in part because the economy here is improving more quickly than in other regions of the country. The high price of land - sometimes cited by companies as a reason not to do business in the Commonwealth - has in this case proved helpful. In states such as Arizona and Florida, where land is cheaper, overdevelopment lured retailers into expanding too rapidly; when the stores failed in the recession, vast shopping centers became retail ghost towns. That kind of widespread economic devastation did not happen in Massachusetts.

Empty big-box stores are among the toughest to fill these days because they are so large (with some exceeding 50,000 square feet) and many of the companies that prompted their construction no longer exist. Linens `N Things and Circuit City were among the national retailers that filed for bankruptcy protection and liquidated hundreds of locations across the country in recent years.

Some landlords are addressing the challenge by splitting the massive spaces into smaller footprints. For example, T.J. Maxx and Panera Bread are expected to take over parts of the former Circuit City in Dorchester, according to Boston city officials.

Other shopping centers, struggling to find popular brand-name merchants to light up dark spaces, are striking deals with discount outlets they would not have considered palatable in better times, according to Mark Hickey, a real estate economist with CoStar Group Inc., a commercial real estate research firm.

"It solves temporary bleeding for landlords," Hickey said. "But Banana Republic and Gap are not going to get the same kind of customers with an Ocean State Job Lot or thrift store that they would have from Linens `N Things or Circuit City."

Savers is undoubtedly one of the beneficiaries of the downscale trend. Consumers, wary of the economic rebound's fragile nature, are still eager to scour thrift stores for deals, and there is plenty of cheap store space available. Merchants have seen rents reduced up to 30 percent at many shopping centers across the region, according to Robert Sheehan, vice president of research at KeyPoint Partners, a commercial real estate services firm in Burlington.

"The recession has created great opportunities for us and brought rental rates down to more reasonable and affordable rates," said David Cree, director of real estate for Savers. "We are working on seven deals in 2011 at sites that were vacated by these other

merchants."

But despite the prospect of more jobs and fewer real estate vacancies, some communities are not welcoming stores such as Savers. For instance, the company has run into some resistance in Brockton, which will not allow the business to operate in an area not zoned for thrift stores.

Wine Nation, a wine superstore, was denied a license by Braintree to open an outlet in a former Linens `N Things because of traffic concerns and questions over whether the town needed another store selling alcoholic beverages. The company has appealed the decision to the state Alcoholic Beverages Control Commission. Meanwhile, it is working to open an outlet in a vacant Linens `N Things in Millbury.

And while retailers in the state are taking advantage of affordable real estate, they still worry about the strength and longevity of an economic resurgence. Indeed, retailers reported mixed sales results in May, an indication that shoppers are still spending cautiously, or not at all.

Cardi's Furniture has expanded its empire with at least half a dozen stores over the past two years at locations once occupied by the likes of Tweeter, Mattress Discounters, and Expo Design Center, a home decorating chain closed by Home Depot. But that doesn't mean business is booming, said Peter Cardi, co-owner of the Swansea furniture chain that has 15 shops in Massachusetts and Rhode Island.

"There are glimmers of hope, but it's still a fight every day," Cardi said. "You have to be making sure you've got the right product at the right price and you're giving as much service as you can."

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The Globe And Mail

Great-West Life lets investors cash out

Mon Jun 14 2010

Page: B3

Section: Report On Business: Canadian

Byline: Steve Ladurantaye

REAL ESTATE REPORTER

Eighteen months after freezing out investors who wanted to pull out of a commercial real estate fund at the height of the financial crisis, Great-West Life may finally allow them to take their money and run.

But how much money each one receives depends on how eager they are, as a group, to get out of the Great-West Life Real Estate Fund, because the fund's main assets are buildings that can't be readily converted into cash.

The fund's managers suspended redemptions in December, 2008, on the fund, which has 155 properties with a stated gross market value of \$3.37-billion as of March 31. The fund's managers have been in selling mode since, and had \$425-million in cash at the end of the first quarter.

If investors want to pull out considerably more than that, the fund would again find itself unable to meet those requests. To prevent insolvency in the fund, Great-West might allow each person to withdraw only a percentage of the money they have tied up.

The fund's uncertain footing is a stark reminder of the fragility of the country's commercial real estate market. With vacancy rates climbing and rental rates slipping, office towers and retail complexes are generally worth less today than before the crisis took hold. The saga also illustrates what some say is a crucial flaw of applying mutual funds and segregated funds - which are meant to be relatively liquid investments - to real estate, which is not.

Putting assets that are hard to sell into a fund structure creates the potential for such freezes, and that's one reason that there are only a handful of such funds in Canada said Dan Hallett, a fund analyst at Highview Financial Group.

During the last real estate downturn in the early 1990s, some funds converted to real estate investment trusts to eliminate the problem. Because REITs are publicly traded, an investor who wants money back can sell units to another investor, meaning an REIT doesn't have to sell assets to fund redemptions.

While selling may not have been the fund's preference, George Carras, of RealNet Canada Inc., said the fund is lucky the Canadian real estate market held up as well as it did through the recession. While values and volumes of sales decreased, there was no wave of distressed sales to drive prices down.

And the fund's ability to sell properties in British

Columbia markets that fared better through the recession - instead of properties in other parts of Canada where property values suffered - shows that it was well diversified and prepared to move quickly.

"You never want to sell into a down market, but if you have to then it makes sense to sell properties in some of the stronger markets," said Mr. Carras, who added it was possible the funds could also convert into REITs to solve their redemption issues.

Great West Realty Advisors also suspended redemptions of the smaller \$1.5-billion London Life Real Estate Fund in December 2008, although its unit holders were able to access up to 60 per cent of their investment the same month.

Only 20 per cent of the London Life fund's investors wanted their money moved out of the fund, the company said, but didn't specify what percentage of the fund's assets they held. Ninety per cent of those who wanted to move their money opted to transfer their money into another of the company's funds.

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MARKETWIRE

Evton Capital Partners Purchase Commercial Property at 5075 Yonge Street

Mon Jun 14 2010, 7:00am ET
Dateline: TORONTO, ONTARIO

Acquisition Will Continue to Strengthen Evton Real Estate Fund LP

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TORONTO, ONTARIO--(Marketwire - June 14, 2010) - Evton Capital Partners, managers of Evton Real Estate Fund LP, today announced the acquisition of 5075 Yonge Street in Toronto.

The ten-storey, 85,586-square-foot commercial property was purchased by the Fund for \$20 million. Based in the heart of the city's North Yonge corridor - an area burgeoning with new construction - the property will increase the assets of the Fund to approximately \$77 million.

"We're excited about the prospects for 5075 Yonge Street," said Michael Bunston, partner and co-founder of Evton Capital Partners. "The acquisition is fully in line with our strategy of focusing on non-core institutional B-class commercial properties in southern Ontario and the GTA, where we believe we can create future value. Ownership further strengthens our belief in the Fund's long term success."

The property is currently 98.6 per cent leased, with anchor tenant The Bank of Nova Scotia occupying a significant amount of street level retail space.

ABOUT EVTON CAPITAL PARTNERS

Evton Capital Partners is a commercial real estate investment and property management firm based in Toronto. Since its inception in 1995, the company has completed over \$200 million in commercial real estate transactions in Ontario and Alberta. Evton is focused on acquiring private Canadian real estate investment opportunities for high-net-worth investors. Through selective and managed growth the Evton Real Estate Fund LP has accumulated over \$77 million in assets under management since its inception in 2005. Past performance is not a guarantee of future returns. For more information please visit www.evton.com.

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INDUSTRY: RECR, RERR

SUBJECT: RLE

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The Globe And Mail

Austerity is ill-timed: Real threat is deflation

Mon Jun 14 2010
Page: B1
Section: Report On Business Column
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Politicians across the developed world are rushing to embrace the New Austerity as if it were a beloved relative just returned from a long trek in the wilderness.

After depleting public coffers and borrowing heavily to keep the financial system and their own economies from collapsing, governments appear eager to put a cork on public spending before the inflation genie climbs out of the bottle and investors shun their bonds.

Even new Japanese Prime Minister Naoto Kan is talking up major fiscal reform in a country that has been waging a remarkably unsuccessful war on growth-sapping deflation for much of the past two decades.

Following the lead of some of his European counterparts, Mr. Kan evoked the image of downtrodden Greece, every leader's favourite canary in the debt mine, as well as that mysterious community of investors that is supposed to be clamouring for iron financial discipline.

"We cannot sustain public finance that overly relies on issuing bonds," the prime minister told parliament in his maiden policy address.

"As we can see from the euro-zone confusion that started in Greece, there is a risk of default if growing public debt is neglected and if trust is lost in the bond market," Mr. Kan said.

In his eagerness to join the frugality club, Mr. Kan forgot to mention that Japan is no Greece or Spain or even Britain, for that matter. It runs a healthy trade surplus (even with China), it's a net creditor and it finances most of its massive public debt in the domestic market. What's more, previous efforts at containing government spending have only made things worse.

An austerity plan in the face of prolonged deflation sounds a bit wonky. And some observers fear cost-slashing governments elsewhere could end up in the same boat as Japan.

The whole austerity kick is coming at the wrong time for the world economy, insists Robert Kessler, a well-placed member of the international bond world. "In a serious recession, if you don't stimulate GDP, then you have none. Suddenly, you're going from some [growth] to nothing, because there won't be any stimulus out there."

Mr. Kessler, whose eponymous Kessler Investment Advisors of Denver devises and runs U.S. Treasury portfolios for large corporations and financial institutions around the world, has waged a long battle against the inflation-is-high crowd. Last October, he issued a blistering rebuttal of a cover story in Barron's that warned inflation was coming back with a vengeance and urged the Federal Reserve to jack up rates to keep the U.S. dollar from crumbling. Low interest rates by themselves do not trigger price inflation or asset bubbles or hurt the value of the greenback, Mr. Kessler fumed.

Deflation, he argues today, remains the real threat, as the current "balance-sheet recession" plays out. The description was popularized by influential Japanese economist Richard Koo. In this scenario, corporations and consumers follow a credit binge with a laser-like focus on reducing debt. This deleveraging process can take a decade or more. Banks sit on their money, borrowing dries up and demand shrinks, leaving public-sector spending as the only alternative. In Japan, heavy deficit-spending prevented a full-blown depression that could have seen the Japanese economy shrink by as much as 50 per cent. But Mr. Koo contends the government made a critical error by attacking its deficit in 1997 and again in 2001, prolonging the slump.

And now, as a similar spectre looms in southern Europe and elsewhere, the inflationistas are once again giving ground. One signal of the shift in attitude: Yields on 10-year U.S. Treasuries have slid to 3.23 per cent from nearly 4 per cent just two months ago.

Mr. Kessler, a long-time bull when it comes U.S. government bonds - "the most maligned asset class in the marketplace" - still regards them as a screaming buy, and not merely because of their status as the safest of havens. "Up until about a month ago, you had virtually every economist saying that the average rate of a [10-year] Treasury at the end of the year would be 4.14. And everyone said that you wouldn't want to buy a Treasury. ... The reason they end up being a stupendous buy is because the whole concept of a credit recession is deleveraging. The whole concept is deflation. And that's all we're seeing."

The prevailing wisdom has been that if governments don't pay down deficits really fast, the effect is bound to be inflationary, Mr. Kessler says. "There is absolutely not an iota of truth in that statement. Deficit spending usually comes when a country is in terrible shape, so why would inflation or interest rates be an issue?"

A gaggle of top economists now agrees that, at least in the short term, deflation poses the biggest threat to recovery in the advanced economies.

Mr. Kessler's advice to G20 policy-makers: Stop focusing on the wrong stuff and comparing this slowdown to others of recent vintage. "Those were not credit recessions. This is straightforward economics, and the pity of it is that there's no easy fix. They could say everyone will have to tighten their belts and change their lifestyle; and once [public] debts are paid down, you're going to have a better country. Okay, so call me in 10 years."

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