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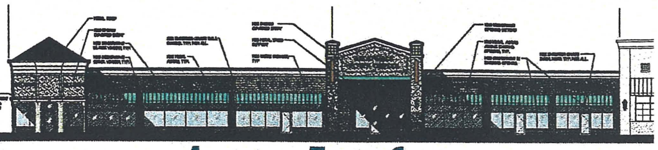
number of problems that were caused by existing growth that were never satisfied with new roads."

Together with joint venture partner, The Goldenberg Group, Ironwood decided to take on the project and began the arduous task of making the necessary changes to the roads around the site.

"There was a great demand for retail by retailers and by the township as well. The township was aware of the fact that they were understored, and a study that was provided by the county identified a number of retail sales that were leaving the region just because there were not enough businesses/services locally," explains Fogel. It was a win/win for everyone. If we did not have everyone from the county, township and state supporting the project we would not have been able to secure the funding for the road improvements."

Exeter Commons features a 132,000-square-foot Target and an 81,000-square-foot Giant Foods. Target opened at the end of July and the Giant Foods Store opened in August. The center will also include a 171,000-square-foot Lowe's Home Improvement Store, which also opened its doors in August. Other tenants include Wells Fargo/Wachovia, Red Robin, Chick-Fil-A, Affinity Bank and a 1,600-square-foot SONIC Drive-In. Upon full completion, the project will be the largest shopping center in Exeter Township.

The center was also slated to include a 20,000-square-foot Circuit City, but the lease was terminated prior to the electronics retailer's bankruptcy. Aside from this box, Exeter Commons was all but leased up. To fill the space quickly, Ironwood sliced the box space into three small spaces. Fogel notes that two of the spaces are already under lease negotiations.



ALLENDALE TOWN CENTER

RARITAN CENTER

Ironwood is also working on a new project in Tilden, Pennsylvania — Tilden Ridge. The firm recently purchased 63 acres of land for the construction of the 400,000-square-foot regional shopping center.

Ironwood was attracted to the Tilden site because of the success that the new Cabela's was having. Tilden Ridge will be located at a popular and busy interchange next to the Cabela's site, which is claiming to bring 7 million people per year to the store and is one of the outdoor retailer's strongest stores.

Slated for a fall 2010 opening, the center will feature a 152,000-square-foot Wal-Mart, a 156,000-square-foot Lowe's Home Improvement Store, 60,000 square feet of inline retail and five free-standing parcels. The site is situated at the intersection of Route 61 and 78. Glenn Marvin of Metro Commercial Real Estate is handling the leasing for the center.

Although the Tilden project did not pose as many challenges as Exeter Commons, Ironwood did have to meet certain requirements set by the township.

"One of the most important features of the project from the town's perspective was the aesthetics," explains Fogel.

This concern resulted in a very unusual and unique design for the Wal-Mart.

"They [the township] really were in love with the design of the Cabela's store and thought it was extremely attractive and situated really nicely in their town. And they wanted our tenants to mimic that image," says Fogel. "Wal-Mart came up with a design that we had certainly not ever seen."

The new Wal-Mart store features earth tones, stone, wooden structures and other design elements that would be complementary to an outdoor woodland setting.

The Lowe's prototype was also changed to follow the aesthetic requirements of the town. Stone was added and the retailer made changes to some of the materials and colors they generally use, so the new 156,000-square-foot box could also blend in with the theme of the center.

Aside from the unique design and the fact that construction is moving forward at such a difficult time, Fogel points out that the project is also unique in the fact that Tilden Ridge has not been financed by any sort subsidy or public financing.

"In this market, we are very proud to be able to bring this project to fruition without needing tremendous amounts of public funding," says Fogel.

Although Ironwood has two successful projects going in the area right now, Fogel does not feel that recovery is just around the corner for the retail sector.

"Certain retailers are still doing ok, but they are not projecting the type of growth that we have seen over the last 10 years," he says. "Some retailers like Wal-Mart and Lowe's are still doing deals but very, very few deals."

Since new development has taken a slide, Fogel notes that moving forward many retail developers are focusing more on the redevelopment of existing centers. This refocus is also due to the fact that much of the Philadelphia region has become saturated with large-scale retail centers.

John Azarian of New Jersey-based The Azarian Group, which owns, manages, and develops retail centers throughout New Jersey, agrees. He notes that his team is turning their focus this year to renovation. His company is currently working on three major renovations that are slated to be complete in the next 12 months with two other projects set to start in early 2010.

"I think it is a great time to strengthen your existing holdings, invest in those holdings and make them strong for the turn around and to keep your properties viable," he says.

In the New Jersey area, Azarian is currently working on renovating Allendale Shopping Plaza in Allendale, New Jersey. The 90,000-square-foot shopping center will feature a 5,000-square-foot expansion upon completion. In Sayreville, New Jersey, the firm is renovating Raritan Center, a 75,000-square-foot retail center that will feature the addition of a new 10,000-square-foot pad. Both renovations not only include expansions, but extensive interior and exterior renovations that include new facades, sidewalks, parking lots, landscaping, lamp poles and curbing.

LEASING

Retail leasing has certainly taken a hit all over the country as retailers scale back expansion plans due to the tumble in the economy. In the Philadelphia/New Jersey area, dense demographics has helped bolster activity, but interest from national retailers has still lagged despite the area's excellent fundamentals. On a positive note, however, Azarian explains that while activity has dipped on the national side, the mom and pop type retailers are picking up much of that slack.

"We have had a tremendous up tick in leasing activity over the last 2 or 3 months and we have been signing on the average at least one lease per week in various properties, but all of that activity is from mom and pops and not from any of the nationals," he says.

The uptick in activity from mom and pop retailers most likely stems from the fact that the majority of the activity is taking place in smaller neighborhood strip centers. Azarian, who owns and manages retail strip centers ranging from 10,000 square feet to 130,000 square feet, says that the type of tenant that he has been signing leases with has varied from week to week, ranging from a carpet store, a fitness facility, a personal training retailer, an upscale Italian deli, as well as medical and office space.

Although Azarian is still leasing out his space, he does note that while rental rates have stayed the same he has had to increase concessions. But, he has not had many tenants trying to renegotiate rents.

"The retailers that I am hearing from are the ones that are saying they have been affected by the economy, but they are really in the minority," he remarks. "For the most part no news is good news."

Aside from the slow down and change in leasing dynamics, Azarian does believe that the retail sector is starting to recover.

"I am generally a positive and optimistic person and I believe that we are definitely coming out of it. I don't think it was as bad as everyone said it was," he notes. I think we are definitely in the turn around."

Investment Sales

Along with development and leasing, retail investment sales are on the decline as well. Joe French of Sperry Van Ness, who focuses on retail investment sales in the Metro Philadelphia market, says that the sale of strip centers has dropped 90 percent over last year's volume and the sale of malls has dropped 79 percent compared to last year.

"Things have come to a halt, but there is a fair amount of product on the market," says French. "Probably more than there was in 2008, but the problem is that sellers and buyers cannot get together on price."

However, Chris Munley of Marcus & Millichap, who covers Central and Southern New Jersey, has seen some uptick in sales, but this has been from a very specific product type and price range — smaller strip centers priced $10 million or less. Munley recently listed a property — a 20,000-square-foot strip center in the Princeton submarket — that within two weeks on the market already had 16 offers with several of those offers at list price.

"The interest and activity was unbelievably high and it was something we have not seen in 2 years," says Munley.

While interest in small strip centers in prime locations is certainly increasing, it is also an indicator of where the market is still lagging behind — larger retail centers. French notes that this not due to lack of supply or demand, but a lack of financing. Currently, buyers are able to obtain loans for up to roughly $10 million from their local or regional banks, but more than that can prove to be difficult.

"Deals in the $5 to $10 million range — we can do those all day long," says Munley. "We have a tremendous amount of interest, people have enough cash for a down payment and they have a strong enough banking relationship where the banks are not over extending themselves."

French notes that much more stringent underwriting standards is also hindering buyers and sellers from moving forward with some deals.

"Lenders are not just dealing with cash flow and cap rates — they are looking at the legs of the deal and where they think the income revenue is going to be over the next 4 to 5 years," he explains. "They may say a particular deal is a 9 cap, but based on the income in place it is really at 10.5 to 11 cap with the underwriting in place."

French says that lenders are looking far into the future when underwriting a transaction. For example, if a center has a Blockbuster or a Rite Aid, which many feel are struggling in the current economy, a bank may remove the income for those stores or reduce it because it may fear those tenants may not be there a year or two down the road.

Munley agrees that stricter underwriting has completely changed the dynamics of a deal and leasing has a lot to do with it.

"It is just the simple fact that a lot of tenants have gone out of business and there are not enough retailers to fill those spaces. That is really where the perception is coming from," he says. "If someone financed incorrectly — they may have a 90 percent loan in place and it was a fully occupied deal, but they lost a major tenant because they went bankrupt — they are now underwater on their debt payments. If that is the case, the problem that we are seeing is that those rent levels that were set previously, you are not going to get that today."

"Right now it is all about the underwriting. Any property makes sense at some number. It just needs to be underwritten correctly," he adds.

Because of this, Munley explains that the price per square foot of a property is becoming just as important as the cap rate.

"We are really looking at price per pound now and buyers are not going to pay for more than what they think the bricks and sticks are worth," notes Munley.

Those that are buying retail properties have changed as well. Institutional buyers are out and private buyers are in. French notes that one reason some institutional buyers are out of the investment sales market at the moment has more to do with refinancing existing assets than purchasing new ones.

"Some institutional buyers are having problems with what they already have. They are not necessarily in financial trouble but they are trying to deal with debt that is coming due — that is a real problem," says French. "They have to figure out how to refinance that debt."

French adds that even if a lender will give an extension on a loan they are asking for more equity to be put into the deal.

"That presents a problem. You have a $100 million deal with $75 million worth of debt on it and the lender wants the owner to put up another $10 or $15 million. If the owner has several of those types of transactions coming due, they will have a real problem because they may not have that money," he says.

Munley points out that many private investors are able to bypass the issue of finding available financing all together by paying cash.

"Many buyers are trying to use that as an advantage over the competition by showing that they can close all cash and they do not need a banking relationship to get it done," Munley says. "The Princeton deal that I mentioned had four all cash offers."

He adds, "The private money is being very, very aggressive. They realize that it is a great time to be a buyer, but they also realize it is a decent time to be a seller because if you can get in a cash position there are going to be more opportunities that arise."

Despite the economy and general outlook of the consumer, there are several key reason that sales are bouncing back for prime retail properties.

"When you look at some of these stronger markets, there is still going to be tenants there and there is still going to be retail there because there are consumers that have needs that still need to be met," says Munley.

"Also, investors need to put their money somewhere and they don't want to keep it in the bank making 1 to 2 percent when they can put it in real estate and get some tax appreciation and benefits and make upwards of 10 percent on their money," Munley adds. ❑