

Retailers cut back on plans to grow

A slowdown that seems especially acute from Sarasota to Naples



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A tenant like Publix used to be a sure way to get a construction loan, but lenders now want more guarantees for shopping centers.

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Published: Wednesday, May 21, 2008 at 2:45 a.m.

Last Modified: Wednesday, May 21, 2008 at 10:30 a.m.

LAS VEGAS - It used to be enough for shopping center developers to invoke the names of anchors like Target or Publix to get a construction loan.

After all, such heavy hitters were sure to draw other retailers, right? True enough, in normal times.

But these days even the heavy hitters are not enough to fill a neighborhood shopping center, and lenders -- who are being squeezed by the credit market -- are requiring more than just one guarantee.

That is likely to produce a slowdown in construction of neighborhood markets, said Phillip Carroll, a vice president and southeast regional manager for commercial real estate lender Key Bank. And the problem seems to be particularly acute from Sarasota to Naples, where the housing market has been particularly hard and where places like North Port have seen a huge number of housing foreclosures, he said.

Key Bank, which opened offices in Florida, including in Tampa, seven years ago, largely issues construction loans for retail, commercial and industrial projects.

After the projects are completed, the bank generally helps its clients get permanent fixed-rate loans.

But because of the shutdown in the credit market, the banks are being forced to float the construction loans longer, limiting their ability to take on new projects.

"It is using up the capacity to make new loans, but that's OK because no one is starting up any new projects, anyway," Carroll said. "A lot of the projects that were in process are on hold now."

Even big players struggle

It is not just the credit market that has put the brakes on new construction. Declining retail sales have forced major retailers like Target and even Wal-Mart to scale back on new store openings.

Target, which reported Tuesday that its first-quarter profits were down 8 percent with the economy in a funk, said it would open 30 percent fewer stores than it had originally planned for the next year.

Wal-Mart, which posted first-quarter profits that were up 6.9 percent but was wary of the second quarter, also said it was scaling back on new store construction.

In Sarasota, the discount retailer is planning to renovate its Cattlemen Road store where it will tear down its garden center and replace it with space for more groceries.

While some of the discount retailers are scaling back expansion plans, other retailers have announced store closings.

As consumers stopped spending -- coping with high gas and food prices and feeling a loss of wealth as their home values dropped -- retailers including Ann Taylor Stores Corp., Talbots Inc. and the Disney Store have closed hundreds of sites.

Sharper Image Corp. filed for bankruptcy protection and plans to close nearly half its stores. Wilsons Leather is closing a majority of its 260 mall stores.

Survival of the strongest

Only the strongest markets and the strongest projects are still attracting retailers, Carroll said.

Projects like University Town Center, where Neiman Marcus, Nordstrom and Macy's are planned as anchors, will not have trouble filling space because those retailers plan long term and select only the best markets.

Other large projects in Southwest Florida are likewise barreling along, though with a horizon that might have them doing their heavy-lifting after the credit crisis has passed. But their promoters are well aware of the constraints on the retail business.

David J. Mullen, a partner in The Loop Punta Gorda, said that lending requirements for most retail developments have tightened considerably. Lenders are looking harder at the number of leases signed and for developers with a proven track record.

"Banks are looking more to quality," Mullen said. "They like working with us because of our track record in the market."

On Tuesday, The Loop received development of regional impact approval from the Charlotte County commissioners. The mixed-used town center, developed by The Wilder Cos. of Boston, is expected to start construction in the first quarter of 2009. The project is expected to be more than 2 million square feet: 1.2 million square feet of retail, 100,000 square feet of offices, 200 hotel rooms and 500 residences.

Neighborhood projects are on the other side of the spectrum, particularly those in places like North Port, which is showing a high foreclosure rate.

Those projects might have to be put on hold or built in phases unless they have more than half of the commercial space already leased before construction even begins.

"It's the secondary markets where the retailers are really cutting back," Carroll said.

Retail leasing in some of those properties has not stabilized in the past year and bankers are thus reluctant to lend money unless the projects have more guarantees.

Those developers who do not want to put their projects on hold are building in phases, meaning they can get loans for half of a project so long as they have enough leases signed in advance. That allows them to start construction while the credit market improves.

There are some positive signs that the credit market will begin to slowly rebound in the fall, Carroll said. Florida's growth has continued even though it is at a slower pace, he said.

One promising sign is that the commercial mortgage-backed securities are starting to sell again and while sales have been slow and pricing has been high, Carroll predicts that by the fall pricing will be better and will help to free up the credit market, something that may jump-start some projects now on hold.

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