Distressed properties big in '10

By Thor Kamban Biberman, *The Daily Transcript, January 13, 2010*

2010 will be the year for acquiring distressed properties and retail will be an important part of the mix, said the senior managing director of **Pathfinder Partners LLC** on Wednesday.

Lorne Polger -- whose San Diego-based firm has acquired about $150 million of bank-owned property and defaulted loans since 2006 -- took part in an International Council of Shopping Centers breakfast at the Del Mar Marriott.

Polger said while shopping centers will go back to their lenders here, as well as in other parts of the country, "this island of San Diego isn't Ohio, Las Vegas or the western valley of Phoenix."

While retail vacancy has more or less doubled to roughly 6 percent during the past three years, the San Diego region is one of the country's healthier retail markets.

Nationally, Polger said while his and other firms scour the landscape for REO properties, **Deutsche Bank** (NYSE: DB) predicted last summer that as much as 50 percent of its Commercial Mortgage Backed Securities portfolio the lender services could eventually go into default.

Polger said while lenders aren't generally inclined to foreclose, property owners will have to come up with some cash to avoid the fate.

Polger said lenders will want to make these negotiations work, not only because most don't want the properties back, but because if a property fails, it has implications across the breadth of the loan portfolio.

So what does this mean for retail? Polger predicted there will be more bankruptcies over the next year and noted how **Rite-Aid, Home Depot, Macy's Cost Plus, Sears and Starbucks** have announced store closures in 2010.

"We are all looking to see what's going to happen with Blockbuster," said John Still, a **Flocke & Avoyer Commercial Real Estate** senior vice president. "It will have to evolve, or go away."

John Jennings a **Cushman & Wakefield** senior director, said it seems to him that each shopping center in the county has an average of four to six vacancies right now.

Polger suggested there has been a fundamental change in both San Diego's and the nation's buying habits.

"There has been a cultural shift in how we shop. We're not buying a new TV or a new car every year," Polger said.

The consensus at the session was the traffic reduction means nearly all the tenants have or will soon ask for rent reductions.

Colleen Nemeth, **Spectrum Property Management** real estate director, said she thought the rental rate reduction requests were over last year but they have kept coming.

"Some owners are seeing the need to work more with tenants, but getting a reduction of triple net lease commitments is harder," Nemeth said.

In addition to the rent, triple net leases require a tenant to pay some or all of the property expenses such as taxes, insurance and maintenance.

Tenants may be begging for rent relief but Donald Moser, a founding partner of **Retail Insite.** said he expects a lot more retail leasing this year than last.

"Last year we were in a free-fall," Moser said.

Moser said businesses such as **Fresh & Easy, Kohl's Frazier Farms, Dollar Tree, Party City and Panera Bread** among others, either already have, or soon will add, new locations here.

He said the big boxes, such as the former **Mervyn's, Circuit City and Linens 'N Things** spaces, are now between 65 to 70 percent full.

Even with closures such as Circuit City, what he referred to as A-plus spaces have managed to keep their rents up to reasonable levels.

Moser said the same cannot be said for inferior properties.

"If you're looking at B and especially C space, the bottom isn't there yet," Moser said.

These lower rents aren't good for landlords who want to hold onto their centers, but Still said smaller tenants in particular have opportunities they might not have had before.

These tenants may now be able to either relocate into a better center or perhaps expand, as space is available.

"The strong will survive and they will backfill space," Polger added.

Other tenants may just have to hold on tight to the business they have, and investors meanwhile are scrambling to pick up properties at bargain prices.

Phil Lyons, an investment sales and leasing specialist at **Grubb & Ellis|BRE Commercial**, expects there will be many more REO opportunities.

"**Wells Fargo's** REO department said there are a whole bunch of these properties coming down the pike," Lyons said.