

Retail Centers Vary The Mix

Alternative businesses are helping to pay the bills

By DAVID KAPLAN

At first glance the power center in League City seems typical. The vast landscaped project at Interstate 45 and FM 646 has a SuperTarget, Home Depot and PetSmart.

But one soon-to-open business there is unusual: In a space previously housing Circuit City will be the Arms Room, a gun store/shooting range where customers can fire a submachine gun. Owner Bill James noted: "Everyone on the sales floor will be packing heat."

Around Houston more unconventional tenants are popping up in traditional retail centers.

In an upscale part of town near Memorial, at San Felipe and Voss, a Kroger-anchored shopping center with a Spanish tile roof once housed a Gap in a prominent corner location. Now there is a 24-hour medical emergency center in that spot.

In fact, a number of emergency centers have begun leasing in retail centers around town.

"In every industry, people choose between what they know they can have today and what they hope they can have tomorrow, and property owners are no exception," observed Kenneth Katz, a principal at Baker Katz, a commercial retail brokerage firm.

Some developers resist the urge to bring in alternative tenants to their centers and say it's best to wait for the right traditional retailer. Others argue, given the downsizing in retail and changing consumer lifestyles, that this is a good time to bring in nontraditional tenants.

"The highest and best use of a center may be different today than it was 15 years ago," said Jay Sears, co-founder and principal of NewQuest, Houston-based shopping center developers, brokers and managers.

Consolidation in the retail industry means there aren't as

many conventional options for developers, he said, and he is more than willing to bring health clubs, children's play areas, theaters and dentists to his centers: "As long as people go to our projects for something."

At NewQuest's Westheimer Market Place center at Dairy Ashford, for example, a former Randalls supermarket became a 24 Hour Fitness, a PetSmart became a Goodwill Select and a Sears Hardware became a Monkey Joe's children's play space.

"All three are doing well," he said, and the 140,000-square-foot center is 96 percent leased.

Holding out

Another local center owner prefers to hold out for what he considers to be ideal tenants.

"It is very tempting to bring in alternative tenants, but I'm just going to be patient," said Jonathan Kagan, owner of a retail center at Richmond and Kirby, a high-end area. He has owned it for six years, and after remodeling it 2½ years ago, has been slowly leasing it.

"We could have easily filled it up by now, but we waited for the kind of tenants we wanted," he said.

Kagan now has Kaba Robata restaurant, Dessert Gallery, Michelle Y Williams Gallery, Texas Community Bank and soon-to-arrive Snap Kitchen, an upscale healthy takeout meal store. The center is about 70 percent leased.

"I don't want to knock anyone for turning to alternative uses," Kagan said. Sometimes a developer has financial needs, he said — a bank note due, for example. But in other instances, depending on where the center is located, Kagan suggested it's best to wait for a quality retail tenant to avoid regrets when the economy bounces back.

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Weakness in market

The retail market in Houston has been generally weak.

In his annual retail forecast given in March, Ed Wulfe, president of Wulfe & Co., projected only 950,000 square feet of new retail space, the smallest amount in 20 years. He projects a 69 percent decline from the 3.1 million square feet completed last year.

Multitenant retail occupancy is down slightly at 83.2 percent.

The plus side

More retail developers are repositioning themselves by adding medical, educational and other tenants, said Jeff Green, president of Jeff Green Partners, retail feasibility consultants in Mill Valley, Calif. He is working in several states with shopping center developers and medical users.

Wulfe is considering whether to bring an emergency clinic to a property. On the downside, it may not generate much cross-shopping, he said. On the plus side, it does lease space and clinic patients may see the center for the first time and come back one day.

Medical instead of retail

What concerns Katz about medical users and other nontraditional tenants in centers, he said, is when they locate in a prime or anchor position, which tends to garner more attention. He believes a pure retail tenant works best in such a space.

"I wouldn't say that medical users are bad or don't have a place in retail centers," Katz said. "Certain kinds can generate a lot of traffic."

An Elite Care 24-hour Emergency Center opened in Rice Village one year ago.

"A number of years back we probably wouldn't have considered an emergency clinic, but times have changed," said Tommy Friedlander, president of RPI Management Co., a strip center developer and manager. It actually works well for a number of his tenants, including CVS and TCBY Yogurt, he said. An Elite Care patient can fill a prescription

at CVS. "Or, your son hurts his arm and you buy him a yogurt," Friedlander said.

"When we first heard about it, we thought it was crazy, but they're great neighbors," said Irene Pearlman, owner of Doodles Baby Gifts and More, which shares the center on Rice Boulevard with Elite Care. An unexpected benefit is that the emergency clinic doesn't take up as much parking, Pearlman said.

Ideas in flux

The whole notion of what makes a good tenant mix is in a state of flux, partly because of a greater consumer focus on value, Wulfe said. Even affluent consumers now shop at discount stores like TJ Maxx, he noted.

Property Commerce, the developer of the League Center in League City, could not be reached for comment. Instead of leasing, James said he bought his space for the Arms Room from Property Commerce.

A spokeswoman for James' next-door neighbor PetSmart said the company does not comment on other tenants.

James believes his gun store, shooting range and school will benefit the power center because he can draw his loyal customers who live as far as 35 miles away.