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OCTOBER 2016

A NEW LANDSCAPE FOR RETAIL

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shows that retail is navigating a new course.



Chicago's Retail Renewal
Dallas Area Sees Strong Activity
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Pine Tree's Buying Spree

Pine Tree Sees Continued Growth

Pine Tree makes a name for itself acquiring core, grocery-anchored centers.

Randall Shearin

Since starting in 1995, Pine Tree has made headway in the competitive grocery-anchored center business as one of the few medium-size companies investing in the sector. The company's size is growing, thanks to its appetite for strong centers and its long-standing track record of results for its investors. The company launched in 1995 as a developer, focusing on building shopping centers in the Midwest. Between 1995 and 2002, the company developed more than 30 centers, building a strong track record and team of professionals. In 2002, Pine Tree, which is based in the north Chicago suburbs, expanded to acquire centers, developing several new capital relationships. Pine Tree began working with smaller private equity firms and moved to larger capital players as it progressed.

"At that point, we really shifted to become more of an institutional player since the capital required to acquire was greater than what we needed as a developer," says Peter Borzak, CEO and founder of the company.

Between 2002 and 2008, the company continued to develop, while acquiring centers that covered a broad spectrum. During that time, the company partnered with REITs, pension funds and insurance companies to acquire centers. Some acquisitions required re-leasing and redevelopment, while others were stabilized. Since 2010, the company has focused entirely on acquisitions. About half of the centers that the company acquires will require some capital improvement to add value. Since the beginning of 2014, Pine Tree has acquired \$640 million worth of shopping centers.

"The risk profile we have with each deal determines which financial partner we work with," says Borzak.



Hazel Dell Towne Center — located in Vancouver, Washington — is home to a variety of tenants including Kohl's, Bed Bath & Beyond, Petco, Office Depot, Party City, Payless ShoeSource and Supercuts.

ACQUISITION PROGRAM

Pine Tree has quietly made a niche for itself as one of a handful of players who are acquiring core centers in suburban primary and strong secondary markets and selling them to larger institutions as they become core properties with stable cash flow and strong tenants. It has gained a reputation for buying centers that have room to grow, and selling centers that are considered sought after, core assets to other investors. As Pine Tree's investor base has grown, its geographic reach has expanded from the Midwest to across the nation and the company has

been able to acquire more prominent centers in larger MSAs.

The typical Pine Tree acquisition is a property larger than 100,000 square feet and greater than \$20 million. The company acquires in all major metro markets, most recently concentrating on Florida, Texas, Colorado and Northern California. In the Dallas/Fort Worth market of Texas, the company closed on a portfolio of 11 centers anchored by Tom Thumb in November 2015. Included in that transaction were Heritage Heights in Colleyville; Flower Mound Crossing and The Highlands in Flower Mound; Park

West Plaza in Southlake; Cross Timbers Court in Lewisville; Josey Oaks Crossing in Carrollton; Hunter's Glen Crossing, Sun Creek Village and 14th Street Market in Plano; Shiloh Square in Garland; and Pioneer Plaza in Mesquite. That large acquisition came shortly after Pine Tree acquired the 217,000-square-foot Pine Creek shopping center in Grass Valley, California, a suburb of Sacramento, in November 2015. Pine Creek shopping center is anchored by Raley's, JC Penney, Petco and Dollar Tree.

Because it is working with capital partners who have healthy appetites, Pine Tree has continued to march forward with acquisitions in 2016. In April, the company acquired Town Square Shopping Center, a 139,000-square-foot in the Chicago suburb of Schererville, Indiana, anchored by Old Navy, Bed Bath & Beyond, TJ Maxx and Shoe Carnival. The center was acquired for approximately \$22 million. Pine Tree has a number of retailers interested in the market. In July, Pine Tree closed on the \$50 million acquisition of the 300,000-square-foot Metro Crossing shopping center in the Omaha suburb of Council Bluffs, Iowa. Acquired from Kimco, the center is anchored by Dick's Sporting Goods, Hobby Lobby, TJ Maxx, Bed Bath & Beyond, Dollar Tree and Ulta. The center has several outparcels that can be developed for additional income.

When Pine Tree underwrites a deal, it does so with a hold period in mind. That period ranges in time, depending on the plans that the company has to stabilize or add value to the center.

"For value-add or core-plus centers, that may mean three, five or seven years," says Erin Bremen, executive vice president, asset management and due diligence. "For some of our core-plus centers, we may underwrite a 10-year hold, depending on the financing. We use a lot of factors that come into play, but we consider selling or holding each property more or less on an annual basis.

PROGRAMMATIC UNDERWRITING

Because Pine Tree has been acquiring at such a fast pace, it has a programmatic approach to due diligence. The company reviews all the leases and prepares lease abstracts internally. It prepares a complex



Sparks Galleria is a 633,498-square-foot shopping center located in Sparks, Nevada. The property is shadow-anchored by Costco and Home Depot.



Poplar-Prairie Stone Crossing is located in the Chicago suburb of Hoffman Estates, Illinois.

encumbrance matrix that shows if there are any lease violations or if there are voids for tenants, like restaurants or other uses. The company also determines how it will finance the acquisition during its due diligence, meeting with its preferred

capital partner several times during the period.

Its acquisition process is relatively swift as well. A committee meets every week to discuss pending and potential opportunities. Pine Tree pursues only a small



The 221,239-square-foot Village of Blaine shopping center is anchored by a 70,643 Cub Foods. The property is located in the Minneapolis suburb of Blaine, Minnesota.

amount of deals that it is presented.

"We have been fortunate to acquire most of the properties that we have taken a strong interest in," says Todd Zinsmaster, executive vice president, acquisitions and development. The company does not set acquisition goals because it does not want to be in the position of having to buy properties.

"The quality of the opportunities available will really guide how much we will acquire in any given period of time," says Zinsmaster. "We try not to set goals that pressure us to transact."

While asset management, property management and leasing are handled in-house, Pine Tree works with a number of preferred leasing agents in the different markets where it owns centers to minimize having local staff. Once Pine Tree has closed on a property, it has a welcome brochure, created by the company's marketing department, that it sends to tenants that introduces them to the company and their property manager.

The brochure also contains information that lets tenants know all the property's vendors and how they can contact those who can assist with issues.

"Because we are managing from afar, we really count on our tenants and our vendors to be the eyes and ears of the property and keep an eye on things," says Jennifer Costa, vice president, property management. Because of the large number of properties Pine Tree has in Texas, it has a property management office in Dallas. Pine Tree has also added to its corporate property management staff this year since it acquired so many centers in 2015.

EMBRACING TECHNOLOGY

Pine Tree is known as an owner who works hands-on with tenants to drive sales. It has been creative in positioning tenants to further sales, as well as recommending strategies for them to further capture the market. Tenant relations have vastly improved through technology over

the past few years. The company has also been working on new technologies to embrace technology and translate how that can aid tenants' sales.

"We've been taking the best of what omnichannel retailers have available and creating seamless retail experiences at the shopping center level," says Graham Grochocinski, senior vice president, brand, creative and omnichannel. "While this includes social media and adding WiFi at our centers, it combines that with our traditional marketing techniques of flyers, banners and events."

As one example of how this is translating to better marketing for the center level, at Pine Tree's properties, one has to enter their email address to access free WiFi. Doing so allows the company to build a database of customers who have shopped at the centers — and who are obviously technologically savvy.

HEAVY LIFTING

Since Pine Tree is adding value to many of its centers to stabilize them and create core growth, it develops a plan for each center in its portfolio. That plan is often developed before the company closes on the center and is modified as discoveries are made in due diligence.

"We are not afraid of any type of strategy to make a center work," says Borzak. "We're not afraid of rolling up our sleeves and doing some heavy lifting, including development and redevelopment. We're also trying to be on the front end of the industry by adopting technology and understanding the way that the retail model is evolving."

In the case when Pine Tree acquires a property that needs some redevelopment, it generally gets a plan together very quickly. When it acquired Arvada Marketplace-Connection in suburban Denver in October 2015, the company went to the closing table with a plan for redevelopment.

"We knew that we were going to tear down part of the center and re-tenant it with high volume, higher rent restaurant chains," says Tim Roe, executive vice president, senior director of leasing. "It is now a year later and we are in the process of carrying that plan forward."

Pine Tree has done a lot of work on big boxes at a number of its centers in recent

years as retailers downsized, or the space was re-leased to retailers requiring smaller sizes. Like other owners, it has had to react to the changes in the retail landscape. At its 273,000-square-foot Times Square Marketplace in Mount Vernon, Illinois, Pine Tree divided an old Sears space into spaces for Ross Dress For Less, Hobby Lobby and Big Lots.

In an economy when retail tenants are much more fluid than years past, Pine Tree keeps a close eye on all of its centers. However, because the company is buying centers in markets with a steady demand, and not a lot of new retail space has been developed, it has been able to attract new tenants to its centers.

"A-locations in very good markets are back at strong rents that owners were getting before the downturn," says Roe. "In some markets, we are also seeing more than one tenant vying for the same space."

Working on one center can often inspire changes at other centers in the Pine Tree portfolio. The company has been able to introduce retailers who were leasing space at one center to others in the Pine Tree portfolio with similar demographics, all be they in entirely different locations.

"Leasing does not change whether it is in the Southeast or the Pacific Northwest," says Roe. "We are able to work nationwide from our base outside Chicago. We do a number of multiple deals with national retailers, which has helped our efforts tremendously."

DISPOSITIONS

Since the company acquires with investors, it does have stabilization periods and hold periods it adheres to. As a result, Pine Tree also sells centers when the time is right. Since the beginning of 2014, Pine Tree has sold \$140 million worth of shopping centers to other owners. In 2016, the company has sold several properties this year totaling \$40 million. The company sold some properties that it acquired in the Tom Thumb portfolio in Texas that were shadow-anchored.

Because it is known as an acquirer with a strong appetite, Pine Tree is often called directly by owners who want to sell their centers. At the recent ICSC Western States Dealmaking, Pine Tree executives

met with two potential sellers who were interested in selling centers. It also sold a center it co-developed with IRC Retail Centers. The company had two active listings at the time of this writing.

"Once we've achieved our stabilized occupancy and our leasing goals with a property, we review it for future potential as well as measure it against the macro economic factors in the market," says Costa.

With space tight, Pine Tree has not ruled out a return to ground up retail development. The company partnered with another Chicago-area firm, IBT Group, in 2014 to develop a few retail projects. However, it expects new development to be more opportunistic than obvious.

"We are really keeping our focus on acquisitions with an eye on development," says Lee Pearson, executive vice president, design and construction. **SCB**

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