REDNews visits with Mark Witcher:

About how his company will be handling their retail portfolio in 2017

Mark Witcher, Weingarten Realty, Divisional Vice President, Acquisitions & Dispositions

RN: In view of the number of store closings & downsizing in 2016, has your retail investment criteria changed this year? If so, how?

MW: Our criteria has not changed, as we're always looking for well anchored centers in dense, in-fill locations with high barriers to entry. If a target asset included an at-risk anchor, we'd account for that risk in our underwriting. In recent years, we have made the appropriate downtime & re-tenanting cost assumptions for some sporting goods, office supply & electronics retailers. In some cases, the older rents will be replaced at current market, providing an upside opportunity even after our cost to backfill the space.

RN: When evaluating retail, what are you looking for? Is it long term or lease-to-sell & what is your strategy for each?

MW: Weingarten is targeting supermarket anchored centers in markets that have strong population & job growth & in trade areas with high density/income levels, or superzips. The ability to grow the income stream by increasing occupancy, moving rents to market as they roll or adding GLA is also important. Often these centers are larger, which helps drive operating efficiencies. Over the past 15 years, we have transformed the portfolio by selling off smaller, non-core assets & secondary markets. We have replaced this income by acquiring higher quality centers in barrier-to-entry trade areas. In Houston, this recycling effort has raised the portfolio's 3 mile average demo to 113,000 population & $142,000 income. As a result, our portfolio is more recession resistant & able to produce sustained NOI growth.

RN: Do you anticipate financing to become more challenging?

MW: We are selling B quality assets across the country & have a front seat to the changing financing environment. Rising interest rates have made it more difficult for buyers to make a front-end assumption that is accurate sixty days later. In addition, new risk retention regulations in the CMBS arena have re-tightened underwriting standards. These conditions have made it more difficult for the B and lower quality retail buyers to obtain financing, but in spite of the headwinds most are finding debt options at rates that are still historically low.

RN: Have off-price retailers, restaurant & entertainment become the new norm in your retail centers? If so, has there been a need to refit or adjust footprints? If so, in what way?

MW: Maybe the old normal, as TJ Maxx and Ross (ready-to-wear discounters) are the #2 and #3 tenants in our portfolio. The full service & quick serve restaurant categories are strong, representing about a third of the new leases we inked in 2016. Thankfully, most retail centers are adaptable to the changing needs of retailers. We can no-front spaces, or combine two jr anchors to create a larger box. We recently completed the re-development of a 75,000 sf former grocery box, converting to a 45,000 sf Whole Foods and two jr anchors. So long as the economics make sense, landlords can accommodate the trends in either direction.

RN: Medical in retail centers became popular due to the Affordable Care Act (ObamaCare). Do you anticipate less medical in retail or a slow down due to the potentially changing US healthcare program?

MW: It's too early to tell what effect the proposed ObamaCare overhaul would have. Obviously, there's been a proliferation of medical uses in retail centers across the country, & changes in how the doctors/hospitals collect from government/insurance companies could have a negative effect on their long term viability. However, along with convenience, the medical trend is being driven by the fact people are living longer. The baby-boomer generation is approaching/already at retirement age. These consumers cannot go to the doctor on-line, so it makes sense we'd see more retailers catering to the older population.

RN: There are fewer boxes & fewer concepts now. Has it become more challenging to find retailers in today's market? Who are the most viable retailers?

MW: The lack of retail completions over the past five years created demand for vacancies in higher quality, well located centers. When vacancies came up, the space was quickly filled. Recently, the retail development pipeline has picked up in DFW and Houston, but anchors and jr anchors are having difficulty justifying rents that match the developer's pro-forma and higher land costs. At the same time, many anchors are downsizing to junior size, & there are fewer large users chasing the newly constructed & older generation/B quality spaces. Grocers are still expanding rapidly in Texas, chasing population & job growth. Fitness concepts, discount ready-to-wear, pet & sporting goods are also viable.

RN: How do you deal with struggling tenants? Do you anticipate more this year than last?

MW: Depending on the quality of the troubled tenant's space, we are able to mitigate by obtaining a re-capture agreement from the existing tenant, marketing the space & re-leasing in a matter of 6-12 months. Excluding the recent Sports Authority bankruptcy, our rent collection rates are near all-time highs, another by-product of an improved portfolio quality.