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Retail Guide: Discount Retailers

They're not high-end stores, but they're attractive in these times

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By: Polyana da Costa

Discount retailers and fast-food chains may not have the glamour or pay as much rent as high-end stores, but they represent stable income and new lease opportunities — and those are golden to landlords in a struggling market.

While many stores are announcing closures and layoffs, discount retailers such as Dollar General, Family Dollar, Ross, Marshalls, T.J. Maxx, Beall's Outlets and fast-food restaurants such as Subway, Dunkin' Donuts and Five Guys Burgers and Fries are expanding and taking advantage of lower rental rates in South Florida.

Matt Martinez, principal of Beacon Hill Property Group in Miami, said he has represented tenants on more than 30 new leases over the past six months in Miami-Dade and Broward for companies catering to more price-conscious shoppers.

"We are working with a host of companies under this more affordable alternative category," he said. "These types of retailers are doing extremely well. In fact, for some of these companies, this is the best they have ever done."

And because rental rates have reached their lowest point in years — on average 20 percent to 25 percent lower than they were a couple of years ago — these niche retailers are managing to lock in long-term leases at lower rates.

"They are getting some great incentives from landlords in tenant improvement money and concessions," he said.

"These tenants have more power to negotiate now."

A couple of years ago, Martinez recalled, some landlords and developers would turn down discount retailers.

"Before they would say, 'I understand this is a high-credit tenant who will pay the rent but we are not interested because they are not a high-profile tenant,'" said Martinez, who didn't want to name the landlords.

"Now they have been calling me back and reconsidering their tenant profile and their terms because high-end retailers are not expanding."

Charlie Koniver, a leasing representative for Equity One, the North Miami Beach-based retail REIT, said landlords will continue to see an uptick in demand from discount retailers.

"The Dollar Tree, Family Dollar, Dollar General-type of retailer is very active today," he said. "It's a great benefit to us because it fills the vacancy and brings people to the shopping centers."

Konover said in some cases, Equity One needs consent from the anchor-tenants to lease space to a discount retailer that would be considered competition. For example, a center anchored by Publix or Winn-Dixie might need the grocery chain to approve a Dollar General in its center, he said.

LEASE ACTIVITY

In Palm Beach County, six of the largest new-lease transactions of 2009 involved discount retailers that took a total of about 93,000 square feet, according to a year-end report by Colliers Abood Wood-Fay. Four were Dollar Tree stores. The Chesapeake, Va., company operates more than 3,800 outlets in the U.S.

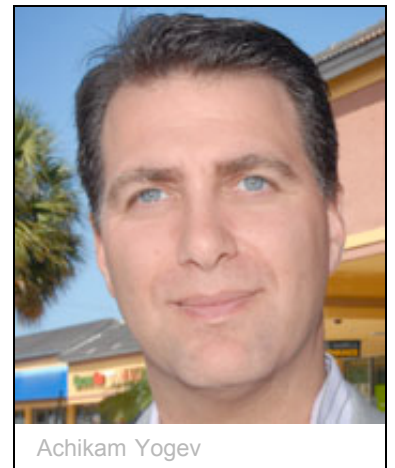
A Dollar Tree spokeswoman said Florida is one of its largest markets. The company opened 28 stores here last year and operates 235 stores in the state.

Achikam Yogev, a retail leasing specialist at Colliers, said he has represented Dollar Tree competitor Family Dollar in several recent leases, including one that is pending in Hollywood.

"Both Dollar Tree and Family Dollar are very attracted to South Florida," Yogev said. "This is their target market."

And these retailers know how to take advantage of the market.

Yogev said retailers such as Family Dollar are finding lease deals in the low teens per square foot, compared to rents once in



the low 20s, he said.

While any new tenant benefits the landlord and overall market, discount retailers are not suitable for all retail landlords, said Michael Zimmerman, director of the national retail group at Marcus & Millichap in Fort Lauderdale.

“In the centers I work with, there are definitely more discount retailers than there were two years ago,” he said. “But the question is, what kind of rents can they pay or are willing to pay? For many landlords, it’s not profitable to bring in a tenant for \$9, \$10 per square foot.”

The rate and amount of space that discount retailers are looking for varies.

Martinez said he recently talked to Dollar General representatives who expressed interest in properties in Opa-locka and Hialeah. They were looking for rental rates between \$10 to \$20 per square feet.

The company, which recently announced plans to open 600 stores nationwide, said it will open a new store in Miramar next month and continues to look for opportunities in South Florida.

“They look for something on the lower-end of the spectrum. They are limited in terms of where they will be able to fill vacancies,” he said.

“But I’m also representing a Boston brand — food related in the affordable market — that plans to open a store on Lincoln Road where rents vary from \$80 to \$150 per square foot.”

Martinez said many landlords are “simply trying to stop the bleeding,” and will take any tenants they can.

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