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Wal-Mart shows sales strength as economy slows

Wal-Mart saw profits rise 17 percent in its fiscal second quarter, which ended July 31. Net sales rose 10 percent to \$101.6 billion, from \$92 billion a year ago, and its same-store sales in the U.S. grew 4.5 percent (excluding fuel sales) year on year.

These glowing numbers encouraged the company to raise its full-year earnings forecast, but at the same time, it cautioned that sales would be slower in the third quarter — somewhere between 1 and 2 percent — as the money from the tax rebates that helped drive sales in the second quarter gets used up. Wal-Mart executives said during an earnings call that improvements in inventory management and merchandising flow contributed to these results; the company met its goal of increasing inventory at a rate of half its sales growth in the U.S. "Our underlying operating results are far stronger than our reported results would indicate," said CFO Thomas M. Schoewe. "It's clear that the improvements that we've made in the business, along with the sales generated by the economic stimulus checks, contributed to our U.S. businesses' outperforming our comp guidance for the quarter."



Wal-Mart also announced plans to expand in Brazil, which represents Latin America's largest economy. The company already operates 318 stores in that country and plans to open about 90 more there beginning next year. Wal-Mart says it will spend up to \$1.1 billion on this expansion, its most significant investment anywhere since entering Brazil in 1995.

Meanwhile, Wal-Mart seems to be aiming to build its **Marketside** convenience store concept, which is slated for a 10-store launch in Arizona in the fall, into an approximately \$10 billion business with up to 1,500 stores. Wal-Mart has downplayed the Marketside openings as a pilot program, but job ads on the retailer's Web site suggest bigger intentions. The 15,000-square-foot units (about one-tenth the size of regular Wal-Mart stores) will compete with **Tesco's** newly launched **Fresh & Easy** concept.

CVS buy alters West Coast drugstore landscape

CVS Caremark Corp. agreed to buy **Longs**, a Walnut Creek, Calif.-based drugstore chain, for \$2.9 billion, including the assumption of \$200 million in debt. The acquisition gives Woonsocket, R.I.-based CVS — already the country's largest pharmacy, with \$85 billion in annual revenue and over 6,300 stores — an additional 521 stores across four states. Perhaps more important, the deal strengthens the chain's position on the West Coast, where it has been absent from 10 of the top 100 drugstore markets in the U.S., says Thomas M. Ryan, president and CEO of CVS Caremark. The acquisition gives CVS a total of 830 stores in California, 219 more there than its closest competitor, **Rite Aid**.

The Longs buy also provides CVS with real estate, because Longs owns about 200 of its own stores, as well as three distribution centers and three offices and an entrance into the tricky and costly Hawaiian market. The Longs stores in Hawaii will retain their name for the foreseeable future, but the stores in Arizona, California and Nevada will all be reformatted under the CVS banner.

The price amounts to \$71.50 a share, a 32 percent premium over Longs' closing price on the day of sale, which drew criticism from some analysts. But both Moody's Investors Service and Standard & Poor's reaffirmed positive ratings for CVS. "The affirmation reflects the fact that Longs will provide CVS with a meaningful presence in California, a market in which CVS is currently under-penetrated, and CVS's history of successfully integrating acquisitions," wrote Margaret Taylor, a Moody's analyst. Plus, CVS pegged the value of Longs' real estate alone at about \$1 billion. The retailer plans to cash in on that real estate in coming years through sale-leasebacks, it said.

Meanwhile, CVS second-quarter revenues rose 2.1 percent year over year, to \$21.1 billion. Same-store sales at its pharmacy, meanwhile, grew 3.7 percent, while front-end comparable-store sales increased 2.9 percent. CVS has integrated with **Caremark**, a prescription benefits provider. That side of the business will grow through the Longs buy too, as that chain owns **RxAmerica**, a prescription benefits management program with about 8 million members.

Limited Too switches to value-conscious Justice brand

Even tweens are cutting back on spending in this economy. This month **Tween Brands** announced plans to convert 560 **Limited Too** stores across the U.S. to the more value-oriented **Justice** brand. Both brands sell fashion basics and lifestyle items to girls 7 to 14. Upon completion of the conversion by the end of the first quarter of 2009, the Justice chain will have about 900 stores nationwide. If



currently operates 310 stores and has typically posted double-digit same-store sales increases over the past 14 quarters. After the conversion, Tween Brands will no longer operate any Limited Too stores in the U.S., but it will continue to sell Limited Too brand products at some Justice stores. Tween Brands also plans to close 26 underperforming Limited Too stores by the beginning of 2009 and monitor an additional 90 former Limited Too units for possible off-mall relocation under the Justice brand. In previous conversions from Limited Too, the Justice stores have done equal volume or greater, and in a few cases, significantly more. "Especially in these tough economic times," said Tween Brands Chairman and CEO Michael W. Rayden in a press release, "our customers are seeking the more value-oriented apparel available at Justice, which is priced on average about 20-25 percent lower than Limited Too."



Americans cut back on grocery trips

American consumers are visiting supermarkets less and less frequently, according to a report by the Food Marketing Institute. Shoppers averaged fewer than two trips per week in 2007, the first time that has happened in the yearly report's history. So far this year the number of shopping trips remains down, at 1.9 trips per week, on average. An increasing percentage of shoppers purchase groceries only once every two weeks, up from 10 percent in 2005 to 18 percent this year. Similarly, the number of people who shop every few days is down sharply. Some 27 percent of shoppers recorded three or four visits per week in 2005, but that is down to just 19 percent this year. Fuel prices are a likely culprit, according to Todd Hale, senior vice president of consumer and shopper insights at Nielsen Consumer Panel Services, a research firm. Shopping activity per household was low between March 29 and May 2008, relative to the previous three years, he says. And that is when the price of gas jumped from \$3.25 per gallon to \$4, according to Gasbuddy.com. "It is clear that shoppers are carefully weighing the pros and cons of making additional trips, considering money-saving opportunities against the cost of gas," said Anne Marie Roerink, the Food Marketing Institute's director of research, in a press release. "Retailers must try to maximize the shopper experience and basket size for each trip."



Slowdown moves more developers to enter outlet sector

Some developers are hoping that the outlet industry proves a safe port in the current economic storm. Drawn by that sector's supposed resistance to recession, about a dozen developers that have never opened an outlet center are currently planning such projects. Some 3.8 million square feet of outlet centers are scheduled for completion between 2009 and 2010, according to the *Value Retail News/Global Outlet Project Directory*. The industry has not seen this many newcomers since its boom in 1989, when 43 centers opened.

Even firms without much shopping center experience are seeing the value in outlets. **Las Vegas Sands Corp.**, operator of that city's mammoth **Venetian** and **Palazzo** resorts, is building **The Shops at the Sands**, an outlet center adjacent to the firm's **Sands Casino Resort Bethlehem** (Pa.). "Market research for our overall project told us to provide outlets," said Robert DeSalvio, president of the Sands Casino Resort Bethlehem. "When we talked to the customers who come to our resorts about what they want in our new project in Bethlehem, Pennsylvania, they told us they want great brands at reasonable pricing. Outlets are the perfect blend of wonderful brands with wonderful value. Another reason is just looking at **Chelsea Property Group's** first-quarter numbers, which were up more than 5 percent. That just proved to us that premium outlets are holding their own and growing." Many say the economy is not the only factor driving their decision to branch out from traditional retail development.

Some have simply found that outlets are the best use of land they have already purchased. Columbus, Ohio-based **Continental Real Estate Cos.** is working on its first outlet venture, **Designer Outlets of MidAmerica**, in Council Bluffs, Iowa. "What's unique about our location in Council Bluffs and Omaha is that there are a high number of tourist attractions within five miles of our site," said Brett Robinson, the firm's Dallas-based vice president of retail development. "Usually, outlet centers spur new development and attractions, but in this case, the outlet center was the only piece not there yet. Additionally, there is a tremendous void of outlet shopping in western Iowa and Nebraska, and I-80 and I-29 merge for a few miles in front of our site, so the concept is perfect for our plans."

Cassandra Properties is dipping a toe into the outlet waters too, with its planned **Waterfront Commons**, in Staten Island, N.Y. "We wanted to give the community of Staten Island a fun lifestyle project that was something different from the big-box route that so many other developers have taken on the island," said Thomas Kerbleski, a Cassandra broker. "Sure, we could fill up our property with a couple of big boxes, but then what have you got? They take up space, and you've got one or two stores. We wanted 60 or 70 stores. We want to cater to the luxury shopper who lives here and provide a niche, upscale experience that complements the local regional mall and is still a neighborhood center."

TRANSACTIONS

Westinvest InterSelect, a fund of Frankfurt, Germany-based **Deka Immobilien**, paid \$325 million to acquire **Akropolis-Kaunas**, a 640,000-square-foot mall in Kaunas, Lithuania, from Lithuanian developer **Akropolis**.

Los Angeles-based **Cathedral Ocotillo** acquired **Tableland Village II**, a 39,618-square-foot, multitenant retail center in Mesa, Ariz., from Santa Ana, Calif.-based **Tableland II** for \$6.97 million.

YKS Village, of Los Angeles, purchased **University Village West**, a 9,510-square-foot, multitenant open-air center, from Irvine, Calif.-based **951 Dudes** for \$5.75 million.

Los Angeles-based **Helm** paid \$3.85 million for **Starbucks Retail Center**, a 5,939-square-foot, five-tenant property in Victorville, Calif. The sellers were Deerfield, Ill.-based **MJK/7th** and **Greentree Real Estate Holding**.

THE COMMON AREA

Vornado Realty Trust formed a partnership with **Reliance Retail**, an arm of India's largest public company, **Reliance Industries**, to build and operate shopping centers in that country. The \$500 million, 50-50 venture will develop centers as large as 1 million square feet. Reliance, which owns and operates approximately 700 stores across India, will operate the hypermarkets that will anchor the centers.

Best Buy, the largest electronics retailer in the U.S., is rolling out a vending machine kiosk called **Best Buy Express**. The concept is to launch at 12 major U.S. airports on Sept. 1. Best Buy's partner in the venture is **Zoom Systems**, a San Francisco-based vending machine company. The target cities are Atlanta, Boston, Dallas, Houston, Las Vegas, Los Angeles, Minneapolis and San Francisco. The machines will stock cell phone and computer accessories, digital cameras, headphones and travel adapters, among other gadgets.

The Federal Trade Commission is set to hold hearings in its reopened antitrust investigation into the **Whole Foods** acquisition of **Wild Oats Markets**. A preliminary hearing with Whole Foods' lawyers is set for Sept. 8. Austin, Texas-based Whole Foods paid \$565 million for Boulder, Colo.-based Wild Oats in August 2007. The reopened investigation is the latest setback for Whole Foods, which announced last week that it would open fewer stores through early 2010 than it had planned after experiencing a net-income decline of 31 percent for the third quarter. The company was forced to re-evaluate its inspection procedures after the chain recalled beef that had made customers sick.

Safeway announced that it would license its successful private-label organic and health food brands to competing retailers outside its 1,700-store network. The **O Organics** and **Eating Right** brands, which Safeway expects to surpass \$600 million in sales this year, will soon hit the shelves at grocery stores nationwide, through the Pleasanton, Calif.-based chain's **Lucerne Foods** division.

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