

SHOPPING CENTERS TODAY

LESSONS LEARNED

By Curt Hazlett

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Sandy Sigal built his first shopping center at the tender age of 20 while he was working for a home builder that wanted to expand into retail development. With a background in computer programming, Sigal learned retail development by doing it — not so easy when one is not sure how to read construction plans.

Mistakes inevitably followed, including one that left a lasting impression. “I had the facade installed backwards so that the metal protruded and we were unable to set the signs,” Sigal said. “We ended up making that an architectural element and adding little rubber things to hold the signs up.”

That little improvisation is part of Sylmar Square, a supermarket-anchored open-air center in north Los Angeles County. “It’s still there,” he said. “And it looks OK.”

There were other bumps on the road to success, like the time he mistakenly counted vacancies as if they were income in place for a center he was buying. “We funded the loan, we closed the loan, and lo and behold — we had some extra income,” Sigal recalled. “We couldn’t figure out why it wasn’t there, only to find out in the early days of pro formas that it was stupid in, stupid out.”

Then there was the day that a parachuting Santa Claus missed the shopping center, wound up in a rough neighborhood a couple of blocks away and had to hitch a ride to the festivities on the hood of a Chevy.

“With every one of those situations came a learning opportunity and an opportunity to try something different,” said Sigal, now 46 and CEO and president of NewMark Merrill Cos., in Woodland Hills, Calif. These days he has experience to spare, having developed about 120 centers.

Mistakes — big and small, crucial and inconsequential — are an ever-present part of real estate development, a business that is as complex as it is exciting. Markets must be analyzed, land acquired, legal issues addressed and financing arranged, all before a crush of design and construction details must be dealt with. Decisions need to be made at every step, often under fierce deadline pressure. This can be fertile ground for screwups.

REITs and big private developers have layers of experienced hands to make the process easier, but entrepreneurial types usually have to learn their lessons the hard way. “I started in this business at 21 and failed,” said Bob Champion, now 54, the founder and president of Los Angeles-based Champion Real Estate Group. Unfazed, he went to work for a small development company and worked his way up from site locator to CEO. “So when I went out on my own the next time, it was after I worked for someone else and had learned the business from people who were brighter than me and more experienced than me,” Champion said.

Still, even then he made some errors. “When I was putting together one of my first development deals, I signed a lease with an anchor tenant that I needed for my pre-leasing requirement, and in this lease, which was something like 100 pages long, I negotiated a provision that said that if I didn’t start construction within a certain period of time the tenant could terminate,” Champion said. Two years later, when he was ready to close on the property and fund his construction loan, Champion discovered that the anchor tenant’s lease had in fact expired. He had forgotten about the provision. After much sweating and worry, “I was able to get an estoppel from the tenant and crafted it in such a way that they reaffirmed the lease notwithstanding the right to terminate.” Since then, he said, “I have always abstracted my leases with all material clauses spelled out so I don’t forget.”

His mistakes did not always turn out thus happily. Champion once bought a building to rehabilitate under the California historic-building code, which exempts builders from bringing certain properties up to code in conformity to the Americans With Disabilities Act. His legal adviser said the building qualified for the exemption, but a year later, city officials disagreed, forcing Champion to completely rebuild, which doubled the cost and made the deal unprofitable. When he circled back to

the law firm to complain, he was shocked to find that it had disbanded. The lesson: "Always use top attorneys and substantial firms for your work," he said.

But though inexperience can be costly, it can also lead to new and winning approaches. That was the case with Cocowalk, the first development project of Steiner + Associates, of Columbus, Ohio. Yaromir Steiner came to retail development from an altogether different background. Trained as a civil engineer in France, where he had also been a paratrooper, Steiner started his development career by tackling a project that others believed would be a failure.

The project was a two-acre tract in Miami on which French banks had foreclosed. Some \$10 million had already been sunk into the project, and "there was no way you could justify any shopping center on two acres at \$100 a square foot," Steiner said.

In this case, though, ignorance was bliss. "Having never done this before, we were not prejudiced, so we started to think about what we could do," Steiner said. "We said, 'Let's be logical about this, do the pro formas and ask questions and do the best we can.' And we invented a format that was very different. Inadvertently, we hit the jackpot."

Cocowalk is an open-air, leisure-oriented center that exceeded expectations right from the start, although Steiner says the developers were so green that it took nine months for them to realize how far their tenants' sales were above the national averages.

Some teachable moments have nothing to do with bricks and mortar. Before joining Regency Centers Corp. in 1998, Mary Lou Fiala spent nearly 19 years in retail, during which she learned an enduring lesson in management. Fiala was 27 when she was promoted to regional director of stores for a retail chain. "There were people who had spent their whole lives there and thought they would get the job, and they were angry," she said. "I was young and hadn't been in the business long, and I didn't see things nearly as well from other people's perspectives."

Fiala was devastated, she says, by their anger and suspicion. "It took probably two years for my peer group and the people who worked for me to understand that I was a good person and wasn't out to make my name, that I was trying to help," she said. Later, after she joined Macy's and was again promoted quickly, it was a different story. "I was so much more in tune with how it affected people, and I handled myself so differently. I was forthright and strong but much more empathetic, and I understood where things came from. I was much more supportive. It took some time, some growing up, but I never had that problem again," said Fiala, who retired at the end of 2009 as Regency's president and CEO.

One central question in all this is whether up-and-coming developers are fated to make blunders, or whether training and education can make their path easier. Champion believes education is the ticket. His company survived the savings-and-loan crisis in 1992 only because he owed too much to the banks to be allowed to fail, he says. "I promised myself that I wasn't going to make the same mistakes again. I found a master's program and went to it at night. I believe that education really saved me in this most recent crisis we've gone through."

The classes were offered through the University of Southern California's master's program in real estate development, and Champion became such a proponent that he has been an adjunct professor there for 16 years.

In Sandy Sigal's view, mistakes are not only inevitable, but often even invaluable. He came to the world of development in a circuitous fashion. He was given a computer for his bar mitzvah, and a year later he was writing programs for accounting departments, in the process out-earning his parents. When he turned 17 or 18 he decided he wanted to go into real estate. "I took a temporary programming assignment at a real estate company," he said. "After two weeks, they offered me a job in accounting, while I was still a freshman in college."

He moved up, and his first shopping center project followed a few years later. With each of his mistakes — the backward facade, the errant Santa and others — came the learning opportunities, he says. "Some of the most creative things we've ever done have been the result of mistakes we made and realizing that they were not really mistakes, but opportunities to do something in an unusual way."

After all, he muses, no one can easily say what is a mistake and what is not. "Is it a mistake when you put in this tenant versus that tenant? Is it a mistake when you paint something this color instead of that color? Whatever your business plan is the day you buy the project is not your business plan when you're done with the project. We just go with the flow and try to avoid the really stupid stuff. You do need a front door. But outside of the basics, things that were never supposed to work can work great. The beautiful thing about real estate is that you can be as creative as you want. People like things that look different."