INSIDER INSIGHTS

Advising Retailers on Survival Strategies

By Steve Adams | Banker & Tradesman Staff | Apr 26, 2020 | Reprints | Unlock Link | Print

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Founder and president, Graffito SP
Age: 39
Industry experience: 21 years

Retail brokerage is evolving beyond the traditional matchmaking between landlords and tenants, encompassing placemaking and public realm strategies. Jesse Baerkahn founded Graffito SP in 2007 to work with Kendall Square landlords on attracting distinctive retail tenants to the once-forbidding streetscape of the biotech hub. The Boston-based brokerage is advising on some of the region's biggest future developments, including the Suffolk Downs redevelopment in East Boston and The Chiofaro Cos.' Pinnacle proposed skyscraper at Central Wharf. Since the onset of the COVID-19 pandemic, Graffito has taken a high-profile role on social media detailing the decisions facing retail tenants and landlords.

Q: What was your vision and business model for Graffito SP?
A: Our vision has always been to serve as valuable, informed translators between local actors – chefs, retailers, nonprofits, makers – and large neighborhood-scale developers. While we do deals often with national and regional tenants, it's the local tenants that add the most value to our urban neighborhoods. Our reach has expanded from these retail transactions and the built-form to the public realm, touching urban design, placemaking, programming and branding. It's really hard to get these neighborhoods to their full potential without these various elements.

Q: What are some of the common threads in retailers' discussions with landlords in the COVID-19 era?
A: There's a dance landlords play with their lenders and partners, a similar dance tenants play with their creditors and suppliers, and through it all the tenants and landlords have to find common ground given their respective obligations and circumstances. There's a lot of shared pain here at the moment, but still upside to be found when parties can look forward together. All of this is playing out in real time. The toolbox for landlords that want to grant relief is deferrals, restructuring, rent reduction and abatements. Some are going to defer rent into 2021, and other landlords are going to defer rent to the back of the term. So, even with a simple concept like deferment, there are different approaches. It's the smarter landlords though that are realizing things aren't getting much prettier for many, many months. And it's the smarter tenants that are being fully transparent and collaborative with their landlords.

Q: What retail categories are remaining resilient and which are most vulnerable?
A: We're seeing the most resiliency in the essentials: grocery, pharmacy and household goods, pet supplies and liquor. Those are the five that come to mind. "Most vulnerable" right now is a very long list. Call it every retailer that is not "essential" and depends on in-store purchases. Restaurants, fitness, beauty, wellness, fashion and apparel, all the typical Main Street businesses.

Q: How do you expect that restaurant formats will change in the recovery?
A: The ramp-up and reopenings will be really interesting. It's a given at this point that occupancy counts are going to be reduced by public authorities in the near term. Revenues will be lower, and this impacts the scaling up from a staffing perspective. The major pain points are occupancy limits, labor and supply chain. For example, are distributors in a position to supply the goods restaurants need? Recovery will touch design, too. How many kitchens are designed for line cooks to be 6 feet apart from one another? In the front of house, how will people queue for pick-up? With all of these things there's going to be a lot of in the moment problem-solving. There's also going to be an immediate need to update consumers regularly on changes. Are you open for lunch? Dinner? What about delivery? Can more than four people sit together in–house? Consumers for their own safety are going to want clear communications. That's going to be a burden for restaurants on top of all else, and how do they do it in the right tone?

Q: Will the traditional retail lease need to be restructured?
A: In the short-term, yes. We are in a situation where revenues will be down significantly for retailers in 2020. That's going to affect the rent a tenant can pay. Then there are the medium–term issues – call it 2021 to 2023. A lot of retailers are going to be saddled with more debt and until we have a vaccine there is no telling how consumers will respond And even then, it's hard to predict how spending patterns will change looking a few years out post–recession. Retailers will need to pivot quickly to survive, and leases do need to be tweaked to accommodate for this. For example, if tenants are locked into super narrowly tailored uses provisions, it's harder to pivot. This is where the small, local, owner-operated businesses and mom-and-pops have an advantage. They can pivot faster. The formulaic businesses that resist change are going to have the hardest time.

Q: This was shaping up as the year of the food hall in Boston. How does that model co-exist with social distancing?
A: Not so well. Certainly the food hall model will be challenged. Challenges will be similar to the uphill battle we'll see with live sporting events and performance venues. Just like these uses, food halls will need to have really clear and strict policies around occupancy counts, cleaning protocols and the use of shared and common spaces. The challenge though is that these places all rely on high volumes and compression of people into tight spaces, so the business model will be stressed for sure. The good news though is that many of the food halls set to reopen or open anew in Boston are well located. Just like everyone else they'll need to be creative, pivot, and think strategically about shifting approaches for things like take-away and delivery.

Five Favorite Currently Closed Restaurants Baerkahn Misses Most:

1. Amateras Ramen, Leather District
2. Revival Kitchen & Cafe, Alewife
3. George Howell Coffee Co., Newtonville
4. Branchline, Watertown
5. Cafe Sushi, Harvard Square