Retail Merchandiser

Jan./Feb. 2011

50 1961-2011 Years

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STRATEGIES FOR GROWTH

A New Way to Play

By looking at its brands rather than their byproducts, Hasbro discovered new avenues of growth.

Category Insight
Toys Toys Toys!

The Look
Barnes & Noble

50th Anniversary Kick-Off
Influential Brands

Skilled Navigators

Attention to detail and a conservative approach to growth have helped this real estate firm steer through rough waters.

The real estate industry climate is still a bit challenging for Washington, DC-based real estate firm Combined Properties, but it's not as bad as it's been in the past. And although the company sees a light at the end of the tunnel for 2011 as lenders and partners start contacting it to work on new properties, it is still taking a conservative approach when looking at ways to grow.

Founded in 1984 by Chairman and CEO Ronald Haft, Combined Properties is a full-service real estate firm focused on the Metro DC and Southern California regions of the US. Its $1 billion portfolio includes 41 retail properties for which the company handles the finance, development, leasing, and asset management responsibilities.

PROFILE

Combined Properties
Kathy Roberson, president

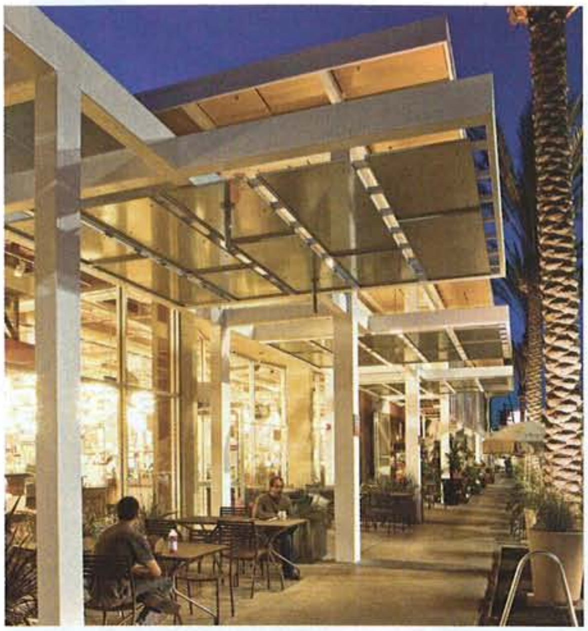
www.combined.biz
HQ Washington, DC
Properties 41
Employees 68

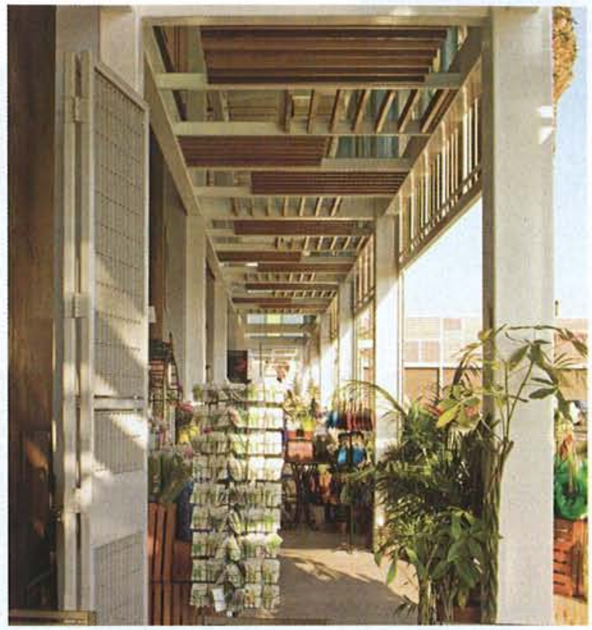
Kathy Roberson, president, said the company saw the recession coming and did its part to prepare, but like many businesses didn't realize quite how bad it would be. "We didn't see it coming as deep and as horrible as it was, but we knew it was coming because we got a lot of forewarning from our Wall Street lenders," she said. "Many of them told us things were going to get really bad, so we started to stockpile cash to prepare."

In late 2007/early 2008, Combined Properties shut down its growth program, started stockpiling cash, and refocused the company on what Roberson calls The Big Three: financing, leasing, and accounts receivable/bad debt management. "The capital markets completely shut down," she said. "Our portfolio leverage is in the 60% to 65% debt range, so we have debt that rolls every year, and we were concerned about being able to refinance."

Recession relief

Combined Properties worked closely with its lenders and in 2009 refinanced and extended all of its maturing debt. Because it had the capital, the company found itself in a strong position,





but it also saw its overall occupancy rate drop approximately 5% from the beginning of the recession through late 2009.

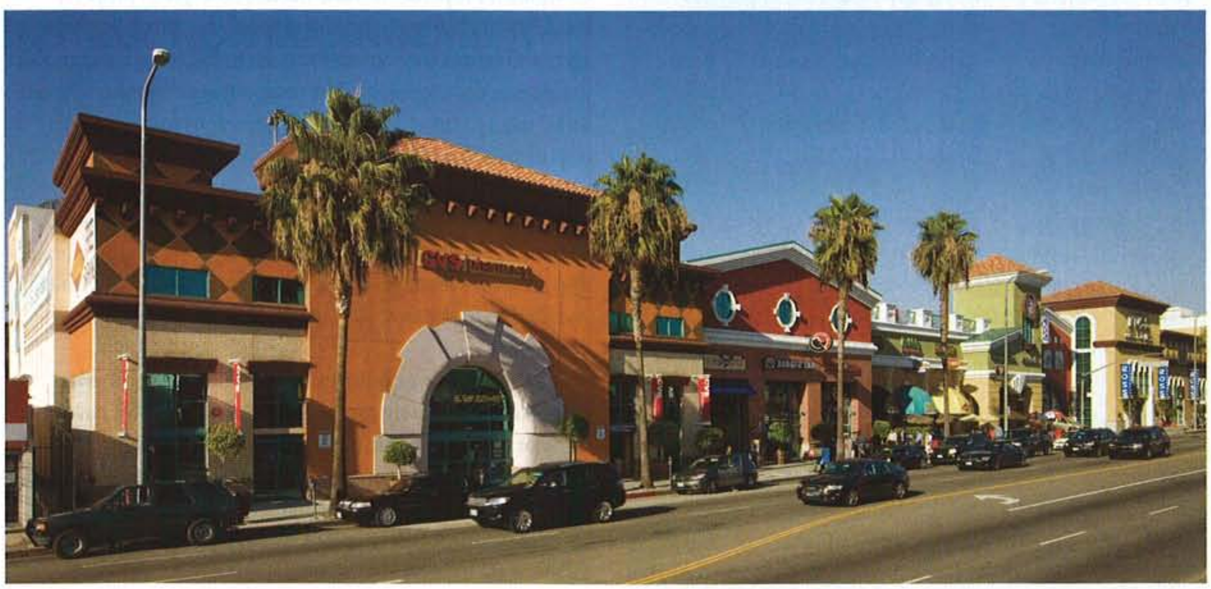
However, Roberson has started to see turnaround this year, and the company's occupancy rate is currently at 93%. She expects that rate to be around 95%by the second quarter of 2011. "Because we stockpiled cash from the beginning, we've been able to put the necessary tenant improvement dollars into new deals, pay brokerage commissions, and take care of all the things you need to do to get leasing done," she said. "We've also differentiated ourselves by paying attention to accounts receivable and bad debt management, which a lot of companies don't and can easily get out of control in times like these."

Anticipating the struggle its tenants would have during the recession, Combined Properties put extra emphasis on accounts receivable and bad debt management to make sure that revenue was collected and that the company was aware of which retailers were struggling.

Many of the mom-and-pop tenants at the company's properties began asking for rent relief, so Combined Properties developed detailed procedures on dealing with the requests. For tenants that showed the company their financials, had good long-standing payment histories, and had a viable business plan going forward, Roberson and her team worked to give them the short-term help they needed to get through.

Many requests were turned down, though, because it was clear the retailer wasn't going to make it, the retailers weren't showing Combined Properties any information, or the information they showed did not justify relief. This proactive approach to helping its tenants survive the economic crisis boded well for the company; its accounts receivable and bad debt total, as a percentage of its revenue, is less than 2%.

Combined Properties also worked with its contractors, cutting back services to reduce expenses for tenants and passing along cost reductions from contractors it had long-standing relationships



with. In exchange, the company promised those contractors work in the future, again, finding win-win solutions for managing through this recession.

"We view our lenders, joint-venture partners, tenants, contractors, and brokers as our partners during times like this," Roberson said. "We've focused on our relationships and keeping everything intact during some pretty tough times."

Full speed ahead

Combined Properties is a mid-sized player in a big-player world; in the real estate world, consolidation has increased as more and more companies go public. That means Combined Properties has formidable competition in both its Washington, DC and Southern California marketplaces.

To survive, the company has had to figure out its niche. Roberson said two things came to mind when looking at where Combined Properties fits in. First, the company is good with projects in which it can make a big impact on smaller properties. Second, the company is skilled at dealing with complexity, including getting entitlements in difficult jurisdictions. In 2005, for example, it purchased a shopping center in Venice Beach, Calif. called Lincoln and Rose Shopping Center.

The 75,000-square-foot property was built on a partial ground lease, had environmental issues, and was bought at a low cap rate. It was the perfect fit for Combined Properties, too small for the big players and too complex for the small players but still excellent real estate, Roberson said.

Combined implemented its vision for the property by buying out existing tenants, putting in new tenants at market rents, such as Whole Foods, relocating the existing CVS within the center, and completely renovating the center. After completion, the property won multiple prestigious industry awards for design, trendsetting, and demonstrating that a large positive impact on a community can be made with smaller scale projects.

"That shopping center speaks about what we do best," said Roberson. "Give us complexity. Give us good real estate. It doesn't have to be big for us to make an impact; we do well playing with good real estate on a smaller scale where we can really impact the community in a positive way."

Three years ago, Combined Properties turned its sights on improving its own headquarters by implementing a green initiative to reduce the amount of paper products it used. It asked its employees to bring in reusable water bottles rather than using throwaways, started using biodegradable products, and generated more information online versus in paper form. Now the company is taking its initiatives out to its portfolio, getting its employees LEED accredited so it has inhouse experts to advise the company and its tenants.

Combined Properties has also developed a "green property checklist" and "green tenant handbook" that property managers and tenant coordinators can use to implement sustainable practices at the properties. The company is developing a "green lease," incorporating sustainability provisions to discuss with new tenants during negotiations.

"We can be extremely in tune to the marketplace and what's happening," Roberson said. "It's not like trying to turn a huge ship around. We are on a little speedboat and can turn quickly and change to do what we need to do to be successful."

Being able to change quickly is one of the many benefits of remaining privately owned, said Roberson. "We have some of the best people in the industry," she said. "They are the reason we've gotten through this horrible recession and why we've been and will continue to be successful. They make my job easy and make me look good, but it's all about them."