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New shopping center leases could help grocer survive Chapter 11

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Bashas' Supermarkets Inc. is finding early success in reworking some of its shopping center leases — a key to the Chandler-based grocery chain's ability to emerge from Chapter 11 bankruptcy.

Bashas' has some leverage as it tries to cut real estate costs for its stores. Simply put, a landlord cannot let an anchor tenant exit a shopping center because the current economic situation would leave that crucial spot vacant. That, in turn, would

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decrease overall traffic to the center and hurt other tenants that benefit from being next to a large grocery or department store.

Bashas' bankruptcy attorney Michael McGrath of the law firm Mesch, Clark & Rothschild PC said the grocery chain entered Chapter 11 with 160 stores. Of those, 30 are slated for closure and 130 have leases that can be renegotiated, he said. The company filed for Chapter 11 bankruptcy protection in July and wants to rework leases to help lower costs.

"It's one of the critical factors," he said.

McGrath said Bashas' already has reworked some leases, but he cautioned that it still is early in the process.

"It's the second inning in a nine-inning game," he said.

But an official familiar with the bankruptcy, who asked not to be identified, said Bashas' was seeing success in renegotiating leases and was confident it would readjust more of them.

Jason Fessinger, a partner with Strategic Retail Group in Phoenix, said landlords should be quick to renegotiate if Bashas'

indicates it will close a store otherwise. If an anchor vacates a shopping center, it often trips co-tenancy clauses that let other businesses out of their leases.



Dioguardi

Mark Dioguardi, a real estate attorney with Scottsdale-based law firm Dioguardi Flynn LLP, agreed that landlords need to consider what could happen to their centers without a grocery store anchor. He noted the glut of retail space in the Phoenix market and the lack of new or expanding stores by other retailers.

"They have no choice but to do a deal with Bashas'," Dioguardi said.

The grocery chain filed for Chapter 11 earlier this year citing the recession, tough competition and ongoing fights with the United Food & Commercial Workers International Union. Bashas', which is not unionized, hopes to emerge from Chapter 11 next year, McGrath said.

The Chandler company operates Bashas', AJ's Fine Foods and Food City stores, as well as Sportsman's Fine Wines and Spirits. Bashas' is family-owned.

A number of landlords and their real

estate brokers refused to comment on Bashas' leases and whether they would lower their rental rates to keep the grocer as a tenant.

"The Pederson Group has four centers that are anchored by a Bashas' concept. However, it is the policy of the company not to discuss any confidential information contained in its tenant leases," said Pederson spokesman Tony Kingsbaker. The Phoenix-based company is one of the area's largest shopping center developers.

Commercial real estate firms Grubb & Ellis/BRE Commercial and CB Richard Ellis also declined comment.

"This is a circumstance where we need to respect the confidentiality interests of our clients, so we cannot comment," said Alison Melnychenko, spokeswoman for Grubb & Ellis.



Kingsbaker

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