CRAIN'S CHICAGO BUSINESS

His Grocery List is Never Complete

By: Micah Maidenberg **April 10, 2014**

The retail property company Michael Carroll leads owns the biggest portfolio of grocery-anchored shopping centers in the U.S. The trick for the firm is figuring which grocers have staying power and which could go the way of Dominick's.

Since 2009, Mr. Carroll, 45, has been CEO of New York-based Brixmor Property Group Inc. and its predecessor company, the U.S. unit of Australian firm Centro Properties Group. He retained the CEO slot in 2011, when private-equity behemoth Blackstone Group LP acquired Centro's U.S. unit, a $9 billion deal that included 585 retail properties.

In October, Brixmor sold shares in an initial public offering, with New York-based Blackstone retaining a majority stake in the firm, about 72 percent as of a week ago. Brixmor owns more than 520 shopping centers across the country, according to its annual report, including 24 in Illinois, 16 of which are in the Chicago suburbs. The firm's local holdings were 94 percent leased at the end of last year.

Brixmor mostly dodged the Dominick's bullet — two of the firm's properties in the region, Elk Grove Town Center and Long Meadow Commons in Mundelein — were anchored by the grocer, whose parent company pulled the plug on the chain last year. Joe Caputo & Sons Fruit Market has agreed to take over the Elk Grove Village location.

Losing a grocery anchor "provides a moment of clarity. It definitely does. But ultimately, you fall back on do you have well-located real estate or not," he said.

Another key: knowing the grocer tenants well.

"We really have to understand who the operators are and we have to be aligned with the top operators in the market as a whole. Or there has to be some specialty element to what they do," Mr. Carroll said.

A native of Toledo, Ohio, Mr. Carroll earned a bachelor's degree in business administration in 1992 from Bowling Green State University and then took a leasing position with a predecessor firm of the retail REIT New Plan Excel Realty Trust Inc.
He earned an MBA in 1994 from the University of Toledo, attending school at night while working for New Plan during the day. Over the years Mr. Carroll held a wide range of roles at the firm.

In 2007, after Centro acquired New Plan, Mr. Carroll served as chief operating officer of the firm's U.S. operation, moving into the CEO slot in February 2009. Brixmor has performed well for its investors since the IPO. Its shares, including dividends, returned 8.9 between the offering and yesterday, vs. 2.5 percent for the Bloomberg REIT Shopping Center Index, according to Bloomberg L.P.
In a recent interview, Mr. Carroll discussed the Chicago market, new development and other retail-property issues. Here are edited excerpts from that discussion:

CRAIN'S: How does the Chicago-area retail market compare with other metropolitan areas where you have a significant presence?

MR. CARROLL: I think Chicago was hit harder, from a shopping center standpoint. We suffered a lot of vacancies through the downturn, but we're coming back from that. Our velocity here has been really, really strong. We've done more of that mid-size anchor leasing in this market than any other market I can think of across the country. I go to a center we have in Arlington Heights, and over the last three years, we've done Petco, H.H. Gregg, Party City, Dollar Tree, Binny's and we have a lease under negotiation with Chuck E. Cheese. It will be six anchor leases at one property. . . .There's been really, really good momentum and demand. I think it's strategic anchors, people like (Ross Dress for Less), seeing here is an opportunity where we can get into this market with scale.

What challenges have you seen in the suburbs? Denser, in-fill properties and development have been the preferred choice among many investors.

We think we're in really good in-fill suburban markets. They're more interior suburbs. They're established markets, good strong trade areas. The properties have a seasoning to them. . . .There is a view among some that everything is urban. We still have great populations out there with good strong demographics surrounding them, good densities and strong income growth.

About 2.6 million new square feet of shopping centers are expected to be delivered in the Chicago market this year, mostly in the suburbs. Is that a concern?

Generally, in most markets we're not seeing true, competitive development being done. There is development out there, but a lot of what we see is smaller, unanchored strips that are little things up the road, that are maybe 20,000 feet in size. We see single-tenant retail — whether it is Walgreens, CVS, maybe a new freestanding Mariano's. Maybe something Wal-Mart's doing. That doesn't have impact on what we're doing.

Can you describe your criteria for buying and selling and say whether you're a buyer or seller in the Chicago area?

Today, generally, we are focused on our internal operations. We've demonstrated very good growth internally in the portfolio. Over the last two years, we've been at or near 4 percent (net operating income) growth, which is really strong for our property type. That continues to be a compelling opportunity for us, so we've been investing a lot back into the assets and continue to believe that's the best use of our capital. We haven't articulated an external acquisition program or plan today. It'll be something we'll do . . .If we look at a market like Chicago, Chicago has all the characteristics of a market we would like to acquire in — we find good in-fill real estate here, and strong demographics.

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