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WHY AMAZON'S FORAY INTO THE RETAIL GROCERY SPACE SHOULD CONCERN SHOPPING CENTER OWNERS AND THEIR LENDERS TOO

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Just when you thought Amazon couldn't get bigger, or couldn't infiltrate your daily life any deeper, it has. Amazon's acquisition of Whole Foods is both exciting and troubling. Exciting, because Amazon already has undertaken significant cost-cutting measures that should reinvigorate interest in shopping at Whole Foods (which was 'pricey'), and you can now buy ground beef formed in the shape of the Amazon Prime logo in the display case!

But this new market force should forecast troubled waters ahead, and not simply for Publix, Kroger and other grocers competing for already hotly-contested space in the retail grocery industry. Shopping center owners should heed an early warning to assess how their grocery anchor tenants might fare in this brave new world. How do your grocery anchor tenants intend to counteract the immediate effects of Amazon's price-cutting? Will your grocery tenants follow suit? If so, how long will they be able to withstand potential drops in revenues and slimmer margins? To what extent should owners assist anchor tenants in addressing this new market force?

Lenders too need to pay attention. Loans to shopping center owners supported by established grocery anchor tenants need to be re-evaluated for stability of center revenues and debt service coverage. Overall asset value may begin to suffer if anchor tenants are not able to react to these new competitive forces adequately. Percentage rent streams are now at increased risk of dissipation.

Of course, it's not just about groceries anymore. Amazon is peddling other products through its Whole Foods distribution centers (I mean, 'grocery stores'). Time will tell whether consumers visit Whole Foods to buy avocados as well as electronics. But if Amazon's efforts to attract more consumers with broadened offerings at its Whole Foods locations catch fire, it will shock traditional retail grocers and the real estate from which they operate.

For more information on this topic, please contact, Tony Carriuolo, on the firm's Dispute Resolution Team.

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