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How New Jersey Retail Gains After Losing A&P

The dissolution of The Great Atlantic & Pacific Tea Company, better known as A&P, after 156 years in business was not a complete shock—they had, after all, applied for bankruptcy protection once before already this decade. However, the company and its many legendary brands occupied 296 stores in the United States and Canada at the time of liquidation, which meant a seismic shift was bound to occur in those real estate markets.

In Northern and Central New Jersey, the resulting repositioning of A&P's highly-coveted retail properties is proving to be an unexpected positive for a variety of reasons. For one, A&P occupied space in many of their shopping centers for decades, meaning they were paying less than market rent. Landlords are now able to negotiate new deals at higher rents, resulting in an important market correction. This is also an opportunity to reassess the makeup of centers and figure out not only what categories are missing but also what use groups will best drive traffic and stabilize the centers.

Owners are able to repurpose the anchor spaces to accommodate smaller uses. For example, on Route 35 in Middletown, the former Pathmark has been subdivided into a TJ Maxx and a Bed, Bath & Beyond. Or a space can be reconfigured for a first-time grocer coming to the market, such as on Route 1 in Edison where a former Pathmark is being replaced by local grocer Tawa. The loss of general-purpose grocery tenants has changed customers' shopping patterns, and while the loss does sometimes result in lesser sales for other tenants within the centers, some retailers may find the likes of a Bed, Bath & Beyond to be a more complementary neighbor.

Not all of these supermarket sites are being redeveloped. Many of the former A&P-owned locations have been absorbed by existing brands like Acme, which took 35 sites from Maryland to Connecticut, and Stop & Shop, which took 24 A&P locations, including three in

Northern New Jersey. In these cases, the incoming tenants purchased the existing leases, meaning the landlords will still be collecting below-market rents. However, this is still a positive as these properties are not sitting vacant and hurting co-tenants.

It's true that the A&P bankruptcy ate into a lot of the gains in the absorption rates in Central and Northern New Jersey—where 2015 vacancy rates were 8.8 percent and 7.8 percent, respectively—but the absorption has been very successful in part because people saw this coming. Brands were keeping an eye on these potentially vacant spaces and landlords had contingencies in place that limited the damage to their assets and to the market.

For tenants, the A&P liquidation is helping to eliminate much of the uncertainty that occurred after their first bankruptcy filing in 2010. Back then, a cloud hung over A&P-anchored centers as prospective tenants would hesitate to sign leases in a center where the anchor was not secure. Now there is some clarity and the speculation and doubt has subsided. Retailers see the benefit of stronger tenants coming into the centers and, even if it does raise rents throughout the center in the long term, they feel it's worth it to pay more for the stability of a proven anchor.

Looking ahead, the biggest question is whether there is enough juice in the grocery market to sustain all of these players, new and old. Only time will tell. What can be said with certainty is that at the end of the day, the A&P bankruptcy was something that had to happen for the good of the market, and the future of the retail leasing markets seems brighter as a result.

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