

Supply chain crunch delays store buildouts

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Backlogs at permitting departments and chronic shortages of labor and materials, especially in construction, are causing costly delays in store buildouts. But retailers and landlords already are finding ways to accelerate those parts of the process that are within their control.

“When I speak with my counterparts in retail real estate, the consensus is that supply chain issues are our biggest challenge right now,” said The Fresh Market group vice president of real estate and construction Ted Frumkin. “Timelines are longer, and everything needed to construct a new store costs more. In the grocery sector, two of the most common issues are the inability to get refrigerated cases and even HVAC units on time to meet our construction schedule.”

Commerce + Communities Today heard the same from Shake Shack vice president of real estate and development Carren Coston during a panel at ICSC’s recent conference in Las Vegas. “We have had to work harder than we ever have to keep schedules, and it’s a little frightening,” she said. “It’s mainly from supply chain situations. HVAC – you can’t get the refrigerated rooms for the inside of the shacks. ... The cost of our build has gone up so significantly in the past 12 months. A lot of companies – if they’re not obligated by Wall Street, they’ve pulled back to level set.”

The Fresh Market began setting records for traffic and sales in 2020. With new leadership and lots of buzz about an impending IPO, the national specialty grocer is rebuilding its pipeline of new and redeveloped stores. Nonetheless, delays in the shipment of refrigerated cases forced the company to postpone a planned 2021 store opening until early next year. Such temporary challenges aside, The Fresh Market is moving ahead with plans to bolster its presence in high-growth cities around the country, Frumkin noted. “We have stores in six of the top 10 major metros. What’s exciting about this fact is the huge potential for us to densify those markets. For example, we have just one store in Massachusetts, and it’s not hard to imagine eventually adding several stores in Greater Boston over the next few years.”

Bureaucratic backlogs

In coveted markets where municipal officials and construction contractors are at their busiest, the sluggish pace of inspections and permitting is adding weeks or even months to buildout timetables, observers say.

“In Florida right now, I’m converting a closed New York & Company into a new location for one of my clients, and even though this is a like-kind use with a relatively minimal buildout – the replacement tenant is also an apparel retailer – just the permitting process alone is going to take six months,” said A&G Real Estate Partners principal Jon Graub. “That would have been probably a three-month process before the pandemic. I talked to another retailer in Florida that had to wait nine months from applying for the building permit to opening the store.”

Even striking up a dialog with municipal officials can be a waiting game in fast-growing retail and residential markets, said The Woodmont Co. president of brokerage services Grant Gary. “On one of our projects recently, it was a six-week lead time just to get a planner on the phone and ask questions about the approval process.”

Why the holdups? Prior to the pandemic, many municipalities already were understaffed. When governments went into lockdown mode, some of the personnel responsible for permitting and inspections either retired or were laid off. Meanwhile, pandemic safety measures, such as officials working from home or trying to transition to [all-online submittal processes](#), worsened the slowdowns.

For one Woodmont project in Nevada, Gary noted, municipal officials “quarantined” the plans during the initial wave of the pandemic. The idea was to prevent multiple stakeholders from being in the room at the same time and thereby contracting or spreading COVID-19. “One reviewer would go in, pick up the plans and take them home to review, then return them to the office, where the plans would have to sit in quarantine for three or four days. Then the next reviewer could come pick up the plans. When you added up the time required to do all that, it was unbelievable.”

Today, many local governments are still working through backlogs created by such staffing shortages and process changes. Meanwhile, demand for new permits and inspections is growing as retailers move forward with their expansion plans. Brokerage firm The Econic Co., though new, already represents retailers and landlords with a total of about 17 million square feet of shopping centers and stores across the Bay Area, said founder and principal James Chung. “We’re representing everyone from personal service tenants to Michelin star restaurants to big-box tenants,” he said. “Retailers are eager to open stores; they want to do it. It’s the back side of the transaction, with supply chain and staffing challenges, that is not keeping up with the pace.”

Construction crunch

Once the building permit is in hand, finding the necessary construction labor and materials is the next hurdle. In a November report, construction career training nonprofit HBI said the construction sector faces a monthly average shortfall of 300,000 to 400,000 workers. The situation will worsen if other industries continue to use higher wages to lure crews from construction jobs, the association noted. “The construction worker shortage has reached crisis level,” stated HBI president and CEO Ed Brady.

The scarcity of building materials like plate glass for storefront windows only adds to the delays. North American Properties senior vice president of leasing and partner Adam Schwegman said: “We’re seeing retailers push back their opening dates, either because their storefront was sitting out in the Atlantic for three weeks too long or because the product for that new store hasn’t come in yet, so this is happening both on the buildout and on the fulfillment side.”

Swegman heads the merchandise mix at such NAP projects as Avalon in Alpharetta, Georgia; Colony Square in Midtown Atlanta; and Birkdale Village in Huntersville, North Carolina. While buildout delays cause headaches, the executive noted, they should be kept in perspective. About 52,000 people flocked to Avalon on Black Friday, according to NAP’s data from Placerai. “I am super-encouraged that our traffic has never been better,” he said. “For most of our retailers, sales are up over historical highs. We’re also encouraged by the higher traffic we’ve been seeing recently at our theaters.”



The supply chain crunch is complicating retailers’ store buildouts, but North American Properties is still seeing record traffic at assets like Midtown Atlanta’s Colony Square.

Transaction volume is also high in the New York City and Miami offices of retail brokerage firm Mona, according to founder and CEO Brandon Singer. “We are rocking and rolling. It is very different now than it was a year ago,” he said. “Certain types of retailers are aggressively expanding, especially in New York and other major cities, which is refreshing. The issues are just around getting those construction and buildout materials delivered on time.”

Even when retailers have succeeded in building a store and getting it permitted and stocked, the employment shortage may stall or slow their progress. “When you’re seeing stores that aren’t open on a full-time basis, it’s often because the retailer just cannot staff that location,” Chung noted.

What to do

Timing is critically important to retailers’ real estate strategies because consumer spending is part of the planned-for economics of the deal. “Getting open before the holidays can be hugely important for a retailer,” noted Gary. “If you miss that opening date, it can be a real challenge.” Likewise, landlords’ cash-management plans can hinge on the [timing of rent commencement](#) for key tenants.

But for now, both retailers and landlords are changing their expectations about buildout timetables. “In the past, one of our retail clients might have said, ‘Our store will open on May 1,’” Graub noted. “Today, it’s important for landlords to understand that May 1 could just be an estimate. You have to plan more carefully and build the possibility of delays into the process.”

Graub, for one, is advising retailers to build provisions into their leases so the buildout deadline clock starts ticking only after the building permit is in hand. “It’s a concession by the landlord, so the retailer may agree to submit its plans to the city by a certain date,” he said. “It’s just the nature of the environment that we are in right now.”

Retailers also should take a closer look at any buildout timetables conceived before the supply chain crunch started affecting retailer real estate plans. “If that store would have taken eight weeks to build before, you might want to count on it taking 12 weeks now,” Graub said. “Give yourself some flexibility by building in that additional time.”

Moreover, real estate execs could consider huddling with their architects and other stakeholders to expedite the process for drawing up and submitting plans. “You know it may take longer on the back end, but you may be able to mitigate that by accelerating the front end of the real estate approvals process,” Graub said.

With respect to construction and other materials, another option is to turn to domestic instead of international suppliers. This may cost more, Graub noted, but it could enable the retailer to avoid even more expensive shipping delays for overseas orders. Likewise, companies could order materials earlier than they have in the past or offer incentives to attract and retain critical staff. “You just have to be more proactive,” Gary said. “The old way of doing things has, by and large, come and gone, but we are starting to figure this out.”

Closer collaboration

During the initial wave of the pandemic, many retailers and landlords learned firsthand that collaborating was a better way to deal with the problem than treating the situation as a zero-sum game. As Singer sees it, that same attitude now can expedite store buildouts despite the supply chain crunch. “Tenants and landlords have to figure out responsible ways to allow for enough time.”

Frequent dialog and updates can make that collaboration productive, said Schwegman. “Good old-fashioned communication has become really important,” he said. “As long as we see progress coming out of the solution or the change, we are going to be amenable to working with retailers to give them some extra breathing room.”

That could involve more flexibility in lease negotiations. The Fresh Market, for example, is experimenting with space configurations to ramp up sales and traffic related to its new Meal Kits program and ready-to-eat Kitchen Square concept, both of which are testing well. “If after further testing we want to roll out the same programs to new stores everywhere, we’ll need some flexibility from our landlords with regard to site dimensions and tenant improvement funds,” Frumkin noted. “We are not making a major change in the size of the footprint, but it could alter some of our site requirements in areas such as utilities.”

On the landlord side, certain commonplace restrictions in retailer’s leases, such as those that prevent fitness centers from coming to the center, tend to reduce landlords’ options. In exchange for tenants letting go of such clauses, Gary said, landlords could offer more flexibility around everything from buildout deadlines to the availability of click-and-collect parking spaces.

“That collaboration that began early in the pandemic has carried over,” he said, “and that’s really what it takes to effectuate a successful project, whether it’s a redevelopment, a ground-up development, backfilling a vacancy or remerchandising a shopping center.”

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