The Functions of a Chain Grocery Real Estate Negotiator

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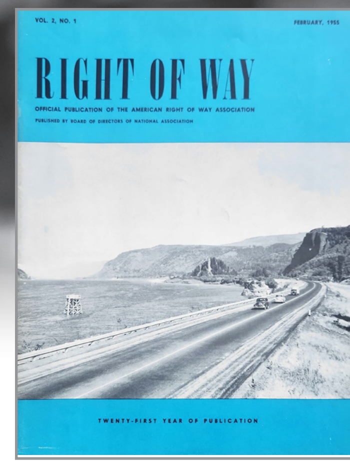
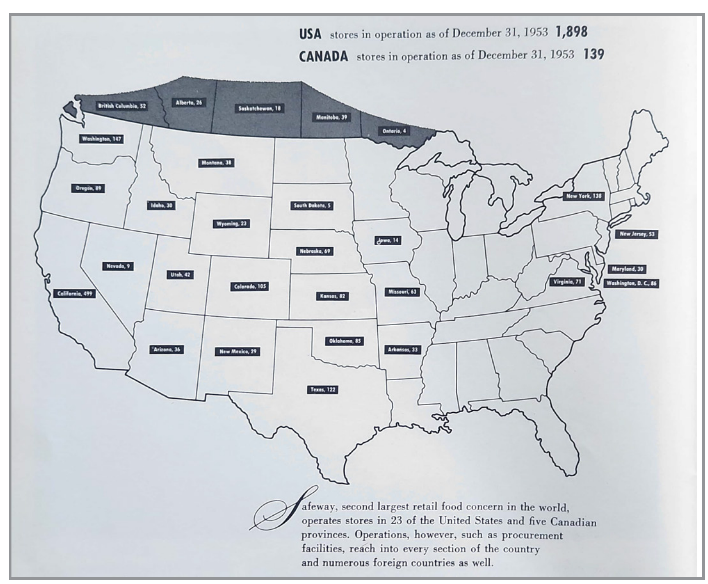


The following piece is an edited republication of an article from the February 1955 issue of Right of Way Magazine. We hope you enjoy reading about where we've been, appreciate how far we've come and be inspired by where we'll go next.

The continuing trend towards urbanization and the resulting changes in shopping habits of the public through increased use of automobiles has created a demand for the present-day supermarket type of food store. Although it is true that population is increasing rapidly in many of the older urban areas, the greatest increases have occurred in the smaller communities on the perimeter of metropolitan areas. Because of this transition over the last few years, there has developed in the larger chain grocery operations a need for personnel in the real property field capable of handling the rather complex job of assembling and developing large land sites required for the modern supermarkets being constructed.

My explanation of the functions of a chain grocery real estate negotiator will be based upon Safeway Stores, Inc., type of operation because of my association with that concern. Briefly stated, the duties involve the investigation and appraising of properties determined to be prospective store locations, the negotiation of leases and real estate purchase and collection and assembly of information with regard to population and economic trends. These functions may be broken down into main categories: first, the acquisition of new store sites; and second, the management of company-owned or leased real property.

In the case of Safeway, new sites are acquired in conformity with a master plan of proper spacing of stores after giving consideration to population, sales potential, traffic and other pertinent factors. These basic factors are applicable to individual locations and are checked by specific marketing studies. The master plan is reviewed periodically and revised to



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meet changing conditions. The master plan of locating store sites is, in Safeway's case, initially prepared by the Administrative Office, Oakland. The plan is then reviewed by the Division Office, which takes into consideration local factors in suggesting changes in the plan to the Administrative Office. Differences are reconciled and theoretical store site locations are established for the area under consideration.

In the initial investigation of a theoretical store site area, the real estate negotiator, often with the assistance of a broker, obtains data and makes price estimates on all suitable sites within the area. Strip or block maps indicating such price data are an essential aid to the negotiator. City Engineer block maps are the most commonly used type of map for this purpose, and in addition to the prices obtained or estimated, the type of improvement is designated on each lot within the area being searched. After the area has been thoroughly examined, one or more sites are submitted to the Administrative Office for approval to proceed with negotiations in the recommended site. All pertinent details are reported to the Real Estate Committee, consisting of Mr. Lingan A. Warren, President of Safeway; Mr. Milton L. Selby, Secretary-Treasurer, and Mr. George T. Burroughs, Manager of Continental Properties Company, the name under which Safeway real estate department is operated. The information furnished by the local Safeway operation aids the Committee in rendering a decision as to whether to negotiate on the site recommended by the Division Office. These details include such items as availability of other nearby sites of comparable value, the estimated volume of business which may be expected, the estimated cost of construction the store and parking lot, the estimated monthly rental, the effect of existing leaseholds, easements and other title exceptions, drainage and zoning problems, cut and fill estimates, expected demolition costs and other miscellaneous information. Upon receiving the Real Estate Committee's approval to negotiate, offers are made on the site that is selected. Safeway's method of acquiring sites involving multiple ownerships is to take options on the various parcels. If the options are not obtainable upon the site first selected, an alternative site may be chosen. In making our offers, we use a form of agreement which provides for an option period of from three to four months. Upon exercise of the option, the agreement becomes a contract between buyer and seller covering purchase of site; such agreement when deposited in escrow serves as the opening escrow instructions.

During the option period, topographical land surveys and site analysis are obtained and examined. During this period and prior to the escrow completion encroachments are eliminated, utility easements are realigned to permit the erection of the building structure, the title reports are obtained and examined and objectionable exceptions to the title are eliminated. Rezoning, if necessary, is commenced, and the purchase is not concluded until the property is suitably zoned for store purposes. Rezoning procedures involve, as a rule, a good deal of consultation and negotiation with the various planning commissions and other civic bodies. In the same period, preliminary store and parking lot layouts are prepared, an estimate is made of the size of the building required, and the number of parking spaces needed to accommodate the expected business.

In order to acquire sufficient land area, it sometimes is necessary to pay more than the current fair market value for one or more of the individual parcels. The increased land costs encountered in the assembly of a large plot of land will readily be recognized as "plottage." The plottage factor largely determines the selection of the store site, provided that all other factors, such as the location, accessibility and suitability for construction purposes are equal.

The size of land sites has increased considerably in the last few years as a result of the construction of larger-sized store buildings and parking lots. The area of each new site varies from 100,000 to 150,000 square feet or more, and the average site purchased in the Los Angeles Division this year consisted of seven separate parcels and some sites contained as many as 15 parcels.

The length of time required to complete a multiple ownership purchase varies considerably, depending on the requirements imposed by planning commissions with regard to rezoning, and the time consumed on the elimination of objectionable title exceptions. Quite often in obtaining the rezoning necessary to permit the construction of a large development, the buyer will be obligated to file a new subdivision tract map or prepare detailed layouts showing the type of planned setback areas contemplated or the proposed method of relocating utilities.

After the purchase is concluded, the existing improvements are sold for removal. Removal of building improvements creates many problems which vary to a large extent on the locality in which the improvements are located. In the Los Angeles area, a tremendous number of residential improvements have been sold for removal to make way for the freeway construction, and as a result of this condition, the prices obtained for such improvements removed for commercial development are negligible. As a further result of the dumping of large numbers of improvements in the market, many cities have enacted stringent legislation with regard to relocating such improvements within city boundaries. These factors influence, more and more, a decision favoring complete demolition rather than the removal and relocation of improvements.

A great many factors are considered in the search for new sites, the primary factor being the number of people tributary to the proposed location. Safeway keeps abreast of population trends in various ways and makes a detailed economic study of potential business before the site is actually purchased. Maps on a scale of 1 inch to 60 feet are maintained, both in the Division and Administrative Offices. The maps contain a population breakdown into areas of approximately one-fourth of a mile square; the traffic arterials are plainly designated, and other economic data is shown on such maps.

These maps undergo continuous revision. In addition, the latest census tract maps are obtained, together with aerial photographs of rapidly developing areas. Business Week of December 26, 1953, carries a well-written article highlighting Safeway's emphasis on land acquisition and the methods it uses in deciding the desirability of a site. Accessibility by means of major traffic arterials is another factor to be considered in the proper planning of new units. However, locating on arterials carrying fast, heavy traffic is generally avoided, where possible. Often, it is preferable to locate the store at an intersection with a traffic signal in order to ensure the safety of customers entering and leaving the parking lot.

Safeway's real estate program is predicated upon a buy-build-sell-lease operation. Under this program, land is purchased, a store is designed, built and sold, and concurrently with the sales is leased by the purchaser to Safeway. The lease terms, as a rule, provide for a net payment each month to the lessor of an amount sufficient to fully amortize the entire investment over a 30-year term, together with interest on the declining investment at the rate then currently being paid for transactions of this type. Taxes, insurance and the costs of repairs and maintenance are paid by Safeway. Also, the 30-year lease generally contains four 5-year options for renewal at a reduced rental inasmuch as the full investment is entirely amortized during the 30-year term. Very few deviations from this basic method of operation are considered. Long-term ground leases are not too practical because of the fact that building improvements are rather difficult to sell and lease if they are situated on leased land.

Further, our experience in owner-built transactions has not been entirely satisfactory, and hence, we prefer to design and build structure which we will occupy under a long-term net lease. Leases of this type contain a termination provision whereunder Safeway may terminate the lease by offering to purchase the property at the owner's unamortized value. This provision does not constitute an option to purchase by Safeway but is an offer which the owner may either accept or reject. This buy-build-sell-lease program is preferred by Safeway, as it permits the use of the company's capital in the grocery business rather than the real estate business.

A general description of Safeway's overall operation may be of interest. During 1953, 15 retail stores were opened and 71 retail stores closed in the United States. During the same period, one retail store was opened in Canada. At the beginning of 1954, Safeway had in operation in the United Sates 1,898 retail stores, 22 grocery warehouses, 16 produce warehouses, 10 meat warehouses, 14 bread bakeries, four cake bakeries, two cracker and cookie bakers, a jam and jelly plant, a candy plant, 10 fluid milk plants, seven ice cream plants and six coffee roasting plants; and 139 retail stores, 12 grocery warehouses, two produce warehouses; three bakeries, a fluid milk plant, a coffee roasting plant, a fruit cannery, a vegetable cannery, and a jam and jelly plant in operation in Canada. In September of 1954, we opened our first store in Pennsylvania, making a total of 24 states in which Safeway now operates. Total sales in 1953 amounted to nearly one and three-quarter billion dollars.

The June 1954 issue of Right of Way Magazine contains an article by Mr. W.R. Montgomery on "The Selection of a Service Station Site," which was of particular interest because of the emphasis he placed on the importance of laying out the facilities and the equipment of a service station in a manner which would take care of the business expected. Mr. Montgomery also makes the point that the facilities should be laid out by an engineer experienced in that type of design and that a slight error in the layout can reduce sales substantially and is usually very costly to correct. His statements can be applied, word for word, to the planning of a food store. In this connection, Safeway has been rather disturbed about the manner in which public land acquisition bodies evaluate customer parking lots in connection with right of way cases. All too often, little regard is given to the detrimental effect on the value of the entire property which results from the condemnation of the portion to be used as a right of way. Because of the vital necessity of providing adequate, liberal and convenient parking and correlating the parking areas with the location of the building, we necessarily consider the parking areas as an integral part of the whole development and as such, it bears a per-foot value considerable in excess of the square foot cost of the entire site. In other wors, the loss of parking spaces through condemnation decreases very materially the value of the remaining property, including the building and appurtenances. However, a discussion of this point would require considerably more space this article will permit.

The other main function of the chain grocery real estate negotiator is to handle the property management of company-owned or leased real property. This involves the renewing of leases, sub-leasing of vacated properties, the purchase and sale of houses of employees who are being transferred to distant cities at company request, the handling of the business end of condemnation actions and other right of way acquisition, the sale of surplus real estate, the accumulation of general information about the area in which the company operates, such as population trends, the maintenance of current information with regard to zoning laws, the obtaining of information on the proximity of new freeways and other information of interest and having an effect on acquisition of store sites.

It is also necessary that close liaison be maintained with Safeway's retail operations manager for the purpose of considering future population trends, the spacing of stores and for making general and periodic review of our Location Plan. Regular consultants are also held with other departments of the company with regard to remodeling, replacing and closing existing stores. This work is carried on with an eye to future population trends, including increases, decreases and shifts, and changes in shopping habits which might occur by virtue of freeway construction or the change in character of a neighborhood.

The above discussion hits only the highlights, and no attempt has been made to delve into a detailed description of each operation; however, I trust the comments I have made are of interest. As you can see, a number of the duties of a chain grocery real estate negotiator are similar to those performed by the average right of way agent, and the problems encountered are often comparable. Even though excellent aids and services are available in determining prospective store locations, and the Company Management is responsive to the problems encountered, in the last analysis, the real estate negotiator must be equipped through experience and judgment to apply properly the material he has at hand. ✪

Alan N. Sapp has been employed by Title Guarantee and Trust Co. of Los Angeles for several years after attending Los Angeles City College. Upon outbreak of World War II, he was enlisted in the army and served with the Corps of Engineers int eh Central Pacific; he emerged with the rank of Captain. He was employed by the government after the war in the disposal of surplus real estate and is now a negotiator for Safeway Stores, Inc., engaged in the procurement of real estate.