Retail Staying Power

Lynn Davis, a co-founder and partner with **Fidelis Realty Partners**, has been in the commercial real estate field for the past 26 years and in 2012 she was named one of the top 15 women in commercial real estate in Houston.

Lynn's father, a mortgage banker, suggested real estate to her when she graduated from the University of Texas with a marketing degree. Lynn's father, who died when she was twenty-seven, has always been an example to her and has had a strong influence on her life. Her dad told her, "You can do anything you want. You just have to put your mind to it. Remember, its 90% attitude and 10% everything else." Certainly these words continue to inspire and influence her today.

Lynn Davis

Lynn's first CRE job was with Trammell Crow in 1987. She started out as a property manager and a leasing agent. Her learning curve was steep, in part because she was with a great company and was given the opportunity to learn how to budget projects through her property management responsibilities, as well as leasing retail space. During her 15 years with Trammel Crow, she worked closely with Alan Hassenflu, who was the number one retail developer within Trammell Crow, and she leased all of the properties that Alan developed. One day when they were visiting some retailers, Alan said, "I'm going to break off and start my own company; do you want to be my partner?" Lynn reports that she immediately responded, "Absolutely!" So, in April of 2003, the two of them started Fidelis Realty Partners.

Lynn says, "People have asked me if I was nervous, but the truth is, I really wasn't. I had total confidence in Alan's real estate abilities and knew from our years of working together he would be the right partner to start a company with and we've built an incredible team here at Fidelis. Our primary goal has been to buy properties, develop them and hang on to them. We don't want to sell our properties; however, sometimes we'll be working with a partner who insists on selling, so it does happen, but selling isn't our preference."

Fidelis' first project was Baybrook Square in Clear Lake, which they bought to redevelop. At the same time, they started working on Bunker Hill on I-10. Bunker Hill started out as a three-acre tract that was a rock quarry, and grew into 45 acres by the time they combined 7 tracts of land. From start to finish, that project was ongoing for 7 years, from the first closing to the date when the HEB opened.

Fidelis has grown to include over 40 employees including management, construction, graphics and accounting departments, as well as legal and development departments. "We have a fully integrated team to handle a project from start to finish", says Lynn. **Glenn Airola** joined Fidelis in 2007 as a partner and their general counsel. **Carson Wilson,** who joined Fidelis six months after the company was formed, was Lynn's first leasing agent and became a partner in 2013. Fidelis recently opened an office in Dallas for the purpose of purchasing and developing in the North Texas area.

The company currently owns 50 shopping centers, ranging in size from 10,000 to 500,000 square feet. They started Fidelis with 1,000,000 square feet and now have $6,000,000 in assets and over 1,000,000 square feet under development today. During the recent economic downtown, they, like everyone else, weren't really developing any centers, but they did continue to acquire property. During 2010, they acquired a property in Santa Fe, New Mexico, redeveloped two K-Mart stores, one in Humble, Texas and one in Lafayette, Louisiana as well as built a 130,000 SF Whole Foods shopping center that opened in early 2013. Today, they own properties in New Mexico, Louisiana, Abilene, Midland, Austin, College Station and Houston. They are aggressively buying and looking for development land. Currently, they have a HEB under construction at the corner of San Felipe & Fountainview and are working on another HEB at the corner of El Dorado & Clear Lake City Boulevard. They are also redeveloping Willowchase, in Houston, which is located at SH 249 and FM 1960.

Fidelis is excited to have partnered with Black Rock on the Meyerland Shopping Center purchase. Black Rock seems to Lynn to be a perfect company for them to partner with as they, like Fidelis, plan to hold the asset long term. "We love Meyerland. It is located in a very densely populated area with not a lot of retail competition. This is an asset that we'll never want to sell," says Lynn.

Lynn is also very excited about an exclusive partnership Fidelis has just formed with a large pension fund. The first fund is $105 million, and the second fund will be $200 to $300 million, which, when leveraged, will allow them to buy core and value-add assets valued between $800 million to $1 billion.

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Lynn remarks about the significant changes in the retail market from 1987 to today in terms of what she's learned along the way. One thing Fidelis won't do again is buy any land with debt. Going forward they will purchase with equity only. Also noted is that with many bankruptcies during the downturn (Circuit City, Linens N Things, etc), it's important today to create more of a win-win between tenants and landlords related to co-tenancy and exclusive clauses in leases.

When asked about the effect of online shopping on retail, Lynn remarked that online shopping first started in '04 when it amounted to about 2% of Christmas season sales. Fast forward from there, and Christmas sales this past year accounted for about 15% of sales; however, if you analyze that number for the entire year, the actual amount of Internet sales relative to the entire market was about 6%. This is actually a small part of the market. Retailers are seeing customers research to find out what is available and then going into the stores to make their purchases. Often, buyers will order online and pick up in store. Retailers are also aware that with good mobile apps, customers are coming into the stores and using their smart phones to comparison shop with actual merchandise that they can see and touch in front of them. Smart retailers are embracing the technology and are using it to their advantage to become more successful. "Retailer store sizes may become a bit smaller but there will always be storefronts."

Lynn concludes, "The commercial real estate business is a fun and challenging industry and I anticipate the next couple of years to be an especially busy and exciting time to be in the retail market."