Crittenden Retail Space™
Crittenden Research, Inc.
P.O. Box 1150
Novato, CA 94948
(800) 421-3483

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DISCOUNT GROCERY BATTLE HEATS UP

Aggressive plans by **Dollar General** and **Family Dollar** promise to make California a proving ground in the nationwide discount grocery battle. Not only will Dollar General dedicate four of its Golden State openings to its grocery-heavy **DG Market** concept, but heavyweight **Walmart** will push its small-format **Walmart Express** concept into the state for the first time. All these concepts will go up against the entrenched presence of **Dollar Tree** and trendy **Trader Joe's**, as well as British giant **Tesco**'s **Fresh & Easy** concept, which has so far been grown mostly in California. Drugstore giant **Walgreens** will also pounce on the Golden State as part of its nationwide rollout of food-heavy urban locations that take advantage of otherwise underserved urban 'food deserts.' The outcome of this suddenly furious grocery war will have nationwide implications. The effects could spill beyond the discount grocery niche and affect traditional, mid-level grocers like **Safeway**, who are getting squeezed on the discount end as well as the luxury end.

Dollar General's push to expand its DG Market concept — essentially a miniature, discount grocery store — is the natural evolution of a grocery niche that is becoming increasingly murky as the recession changes the habits of shoppers who would normally shop for necessities with little consideration of price. For decades, the grocery niche remained predictable with ubiquitous, 40,000 to 60,000 s.f. grocery stores dotting the landscape. Walmart initially challenged the status quo with its **Supercenters**. During the past few years, dollar stores have squeezed the market by quickly adding first coolers with frozen food, followed by an aggressive push to add fresh perishables to all its stores.

By and large, traditional grocers are regaining their foothold against the onslaught of Walmart's Supercenters. And **Safeway**'s Lifestyle initiative, which added mostly upscale features and organic offerings to the stores, ensured the retailer could successfully retain a satisfactory portion of its customers who might otherwise prefer **Whole Foods**. That seems likely to change now that dollar stores have thrown aside any pretenses that they are only an outlet for cheap knickknacks and party favors. Dollar General isn't exactly breaking new ground. Cheap groceries have long been a fairly successful sub-niche, led by the likes of limited-assortment chains **Save-A-Lot** and **ALDI**. However, the discount end of the niche was arguably going to remain small had the recession not hit when it did.

Look for California to become priority number one for both Dollar General and Family Dollar as they will each add distribution centers to support growth in the state. The battle between these two chains and other competitors has been raging in pockets nationwide for some time. However, California bears watching, particularly because it is, ironically, such a blank canvas. Whereas Walmart was incredibly aggressive with its Supercenters nationwide, California was one of its last markets. And Dollar General and Family Dollar amassed more than 17,000 stores nationwide, yet only entered the Golden State this year.

Dollar General plans to add 650 stores nationwide this year, 40 of which will open in California. Although grocery margins are notoriously thin, the company is positively giddy at the possibilities as its DG Market stores reportedly generate \$4 million to \$5 million in annual sales compared to about \$1.5 million for the traditional stores. Overall, consumables sales continuously increase at a higher rate than non-consumables, acting not only as a primary sales driver but as a traffic driver to other sections as well. For the nine months ended Oct. 28, total sales for the company rose 11.2 percent while comps were up 5.9 percent. Traditional Dollar General stores range from 8,500 to 9,000 s.f. while the DG Market stores generally take 17,000 to 20,000 s.f. The DG Market stores combine its traditional dollar store offerings with a full grocery store.

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Family Dollar has not dedicated a new format to full-scale grocery sales but perishables and frozen foods are taking on a much more important role. Perhaps it is only a matter of time before the company follows suit. In the meantime, the dollar niche runner up plans to open 450 to 500 stores this year, including an aggressive push into California.

Walmart debuted its 10,000 to 15,000 s.f. Express concept — essentially a food-heavy convenience store — on Chicago's Southside last summer, followed by another Chicago opening in November. The company also added two openings in its home state of Arkansas. The proposed Camarillo, Calif., location, which is in its very early development stage, might measure almost 40,000 s.f. unless the company decides to split up the space and sublet. So far, the only hint that a store is indeed in the works is the permit application Camarillo city officials received from Walmart to sell groceries in a former Linens N' Things space.

(For more on traditional grocers, see page 3
For more on drugstores, see page 6)

AUTOPARTS CHAINS REV UP GROWTH

O'Reilly Auto Parts plans to trump niche leader **AutoZone** with 180 new stores nationwide. This compares to AutoZone's 150 for the fiscal year ending in late August. Meanwhile, **Advance Auto Parts**, the third-largest chain in the niche, will open about 110 stores this year, matching its 2011 output. **Pep Boys** is the wild card in the auto parts niche after signing a definitive agreement to be acquired by private equity firm The Gores Group on Jan. 31. The acquisition should become official in the second quarter.

The West Coast, Pacific Northwest and Southwest will all be major growth regions for the auto parts niche. Look for O'Reilly Auto to zero in on California and the rest of the West Coast to scoop up vacant **Blockbuster** and **Hollywood Video** locations. AutoZone joins the space scramble in the Golden State and also looks to Oregon and Washington for potential sites. Meanwhile, Advance Auto, with 90 percent of its 3,645 stores clustered east of the Mississippi, includes Chicago, Denver and Texas in its new-store plans. Its new distribution center in Remington, Ind., set to open in the second quarter, eases the path to Midwest expansion.

O'Reilly Auto, AutoZone, Advance Auto and Pep Boys are all riding the jet stream of increasing sales in the Do It Yourself (DIY) auto repair market. This year's DIY sales are expected to increase to $45.7 billion, compared to last year's $43.9 billion. The main reason behind the spike is an increase in the average age of cars on the road, which is now up to 11 years, as people hold on to old stuff rather than splurge on the new.

O'Reilly Auto will also actively relocate stores and renegotiate leases. Most of the relocations will involve moving older stores, most of them in shopping centers on the West Coast, to more visible pads, already the preferred property type. O'Reilly Auto burst onto the West Coast in 2008 when it acquired 884 stores doing business as **Checker**, **Kragen** and **Schucks**. O'Reilly Auto aims to either keep rents flat for the initial renewal period or be awarded a lower base rent when negotiating renewal of leases. The stores need 6,800 to 7,300 s.f. on pads of 30,000 to 35,000 s.f. O'Reilly Auto operated 3,707 stores at the end of the third quarter. The chain's comps for the third quarter were a positive 4.8 percent.

Niche Leader not Looking Back

Meanwhile, AutoZone finished its first quarter with 17 new stores, giving it 4,551 stores in 48 states. Look for the niche leader to close five or fewer stores this year, a sign it has not reached the saturation point just yet. Most of the projected CapEx budget of $320 million will be spent on new stores. Still, AutoZone will also constantly work on remodeling and expanding its stores. In addition to its West Coast expansion, the company also scours Florida. AutoZone is on pace to finish this year with its fifth straight year of positive comps, after hitting a positive 4.6 percent for the first quarter.

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AutoZone needs 6,500 to 8,000 s.f. Total sales for AutoZone's U.S. stores reached $261 psf at the end of the first quarter, a 3.7 percent improvement year over year and 8 percent better than the same point two years ago.

Advance Auto has opened 105 stores in the 12 months ending with the third quarter of 2011, including 85 through the end of last year's third quarter. The auto parts chain also had its highest quarterly comps for a two-year period in the third quarter, reaching 2.2 percent positive, which was preceded by a 9.9 percent spike for the same period in 2010. The freestanding buildings need 6,000 to 7,000 s.f on one acre. The company does business as Advance Auto, **Advance Auto Discount Auto Parts** and **Western Auto**. The Western Auto stores are only in Puerto Rico and the Virgin Islands.

While deferring any official comment until the completion of the acquisition, Pep Boys has said the alignment with Gores Group will provide a foundation for taking expansion of the chain to the next level. The private equity group funded the $1 billion deal itself. Gores Group will pay off Pep Boys' $295 million in debt as part of the transaction and eventually take the auto parts chain private. Both the Pep Boys shareholders and the SEC still have to approve the deal. Other companies now have 45 days to top Gores Group's initial offer. Rumors regarding Pep Boys acquisition have been circling for over a year, capped earlier this year when Bank of America conducted an audit of Pep Boys to determine a fair purchase price. Gores Group followed Bank of America's recommendation and paid $15 per share for the chain.

Look for Pep Boys to stay within its original guidance of 75 new Service and Tire centers and 10 Supercenters this year, at least until the dust settles from the Gores Group offer. The Service and Tire centers need 5,000 to 6,000 s.f. The Supercenters now have a smaller 13,000 to 14,000 s.f. design they can use compared to the traditional 19,000 to 20,000 s.f. Pep Boys had positive comps of 1 percent for the third quarter and total sales of $1.5 billion for 3.1 percent improvement over the previous year. The chain operates 735 locations in 35 states, including 562 Supercenters and 166 Service and Tire centers.

TRADITIONAL SUPERMARKETS LOOK TO ALTERNATIVE CHANNELS

Still standing after fighting heavy competition and rising food prices over the last few years, national supermarket chains **Kroger**, **Supervalu** and **Safeway** continue to grow and remain relevant. Kroger and Supervalu have used their respective discount formats to compete favorably with the likes of **Walmart** and **Costco**. Kroger has **Food 4 Less** and **Foods Co.** while Supervalu leans on **Save-A-Lot**, its largest division and designated growth concept. Safeway, while keeping close to the same look across its system, uses tighter pricing and remodels to not only counter Walmart and Costco but also **Whole Foods Market** on the higher end. In fact, Safeway has become a poor man's Whole Foods in some markets.

Look for Kroger to announce positive comps of 4.5 to 5 percent for its just-completed fiscal year, an upgrade from its previous guidance of 4 to 5 percent. The supermarket chain also finished 2011 with its 33rd consecutive quarter of positive comps. Kroger will expand its supermarket square footage by 1 to 2 percent this year. It opened 30 to 40 stores, including acquisitions and relocations, last year, a slower pace than the 70, 52 and 43 new projects respectively for 2008 through 2010. Kroger focused on Phoenix and Las Vegas in those years, both growth markets then, which have since cooled off. Kroger's willingness to return to Oakland, Calif., for its first **Foods Co.** location in the market is a positive sign. The future Foods Co. will anchor the \Foothill Square Shopping Center in East Oakland when it opens this October. Kroger is building the 74,000 s.f. location from the ground up and will own the property. The re-done shopping center will be 200,972 s.f. (GLA) when it is finished. Foods Co. also looks at two other properties in the Oakland area. Kroger finished its third quarter with a total of 2,439 supermarkets operating under Kroger and its other regional divisions. All supermarkets need 76,000 to 90,000 s.f.

Supervalu expects to open more than 100 Save-A-Lot stores this year. It finished the last fiscal year with 100 new Save-A-Lot locations. Supervalu will open an additional distribution center designated for its Save-A-Lot banner in North Carolina later this year, easing the chain's entry into the Mid-Atlantic region.

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RETAILER UPDATE

Company: Twin Peaks Restaurants	Expansion Goal: 20
Merchandise: Restaurant /Casual	**Sites Needed: 8**
Brand(s):**Front Burner Restaurants, L.P.**	Number of Locations: 20

Notes: Twin Peaks expands its real estate staff to meet its goal of adding 20 locations in 2013. **Kaylann Allan** joined the company as Senior Real Estate Manager on Jan. 24, with the task of compiling a list of potential sites in targeted states, instead of waiting until the franchisees are hired. This insures the restaurants can open within three to four months. Twin Peaks will make its first move into California, Kentucky, Nevada and Virginia over the next two years. It has also signed former **Hooters** executives Coby Brooks and Rick Akim to open a total of 35 locations over the next 10 years throughout Florida, Georgia, North Carolina and South Carolina. The first restaurants in Atlanta, and Orlando and Jacksonville, Fla., will open this summer. Twin Peaks' locations are now evenly divided between franchised and company-operated. However the goal is to eventually have the chain 75 percent franchised. The casual dining restaurants can take over former restaurant spaces, including former **T.G.I. Friday's** locations. Twin Peaks raises its required liquid assets for franchisees from $500,000 to $1.5 million and net worth minimum from $1.5 million to $5 million. All franchise candidates needs this level of financial security to handle at least three restaurants each. The restaurants need a 5,000 to 8,000 s.f. building.

Contact(s): Twin Peaks Restaurants *(Front Burner Restaurants, L.P.),* 4803 Broadway, Addison, TX 75001, Shannon Glaser, Director of Franchise Development, (972) 941-3150, fax: (972) 388-8700, Kaylann Allan, Senior Real Estate Manager, (972) 941-3150, fax: (972) 388-8700, http://www.twinpeaksrestaurants.com

TRADITIONAL SUPERMARKETS LOOK TO ALTERNATIVE CHANNELS…

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The 1,800 SKUs per store include meats and other traditional grocery items priced as much as 40 percent less than traditional grocery stores. The limited assortment chain finished the third quarter with 79 new stores, acquisitions, expansions and relocations for a year-to-date total of 1,309 locations. Save-A-Lot needs 14,000 to 16,000 s.f. Supervalu also operates 1,104 other traditional supermarkets, operating under 10 different regional banners.

Safeway finished 2011 with 30 remodels and 26 new stores. It also invested $1 billion in CapEx last year. The chain finished 2011 with positive comps of 1 percent. The company operates 1,681 stores in the U.S. and Canada, most of them doing business as Safeway. The regional banners are **Dominick's** in the Chicago area; **Genuardi's** on the East Coast; **Randall's** and **Tom Thumb** in Texas; and **Vons**, **Pavilions** and **Carr's** in Southern California.

CONTACTS

Company *(Parent Company)*	Address	Contact/E-Mail	Phone/Fax
Advance Auto Parts *(Advance Auto Parts Inc.)* http://www.advanceautoparts.com	5008 Airport Road Roanoke, VA 24012	Carl Jenkins Real Estate Director carl.jenkins @advanveautoparts.com	(540) 362-4911 fax: (540) 561-3429
AutoZone *(AutoZone Inc.)* http://www.autozone.com	P.O. Box 2198 Dept. 2198 Memphis, TN 38101	Terry McKee Director of Real Estate terry.mckee@autozone.com	(901) 495-8914 fax: (901) 495-8969
bd's Mongolian Grill *(bd's Mongolian Grill, Inc.)* http://www.gomongo.com	12281 Nicollet Ave. Burnsville, MN 55337	Bill Chaff VP, Real Estate/Construction bchaff@gomongo.com	(952) 288-2304 fax: (952) 288-2303
CVS/pharmacy *(CVS/Caremark Corp.)* http://www.cvscaremark.com	One Berry Drive Lumberton, NJ 08048	**REGION I (CT, DE, MA, ME, MD, MN, NH, NJ, NY, OH, PA, RI, VA, VT, WV, District of Columbia** Michael Buckless RVP, Real Estate mwbuckless@cvs.com	(609) 518-5702 fax: (608) 518-5749
	2600 Morgan Road SE Bessemer, AL 35022	**REGION II** **AL, GA, FL, IL, IN, KY, LA, MI, MO (St. Louis only), MS, NC, OK, SC, TN, TX, WI** Clay Wilson RVP, Real Estate cwilson@cvs.com	(205) 230-4441 fax: (205) 425-3441
	777 S. Harbor Blvd. Suite E-163 La Habra, CA 90631	**REGION III** **AZ, CA, IA, KS, MO (Except St. Louis),, MT, ND, NE NM, NV** Mark Miller RVP, Real Estate mjmiller@cvs.com	(714) 681-5512 fax: (714) 681-5596 *Continued on Next Page*

CONTACTS

Continued from Previous Page

Company *(Parent Company)*	Address	Contact/E-Mail	Phone/Fax
Dollar General *(Dollar General Corp.)* http://www.dollargeneral.com	100 Mission Ridge Goodlettsville, TN 37072	**East** Tim Dearman VP, Real Estate tdearman@dollargeneral.com **West** Steve Krumholz VP, Real Estate skrumholz@dollargeneral.com	
Dollar Tree *(Dollar Tree Stores Inc.)* http://www.dollartree.com	500 Volvo Parkway Chesapeake, VA 23320	Bruce Walters VP, Real Estate/Construction bwalters@dollartree.com portfolio@dollartree.com	(757) 321-5196 fax: (757) 321-5220
DSW (Designer Shoe Warehouse) *(DSW Inc.)* http://www.dswshoe.com	810 DSW Drive Columbus, OH 43219	Steve Ramey Real Estate steveramey@dswinc.com	(614) 237-7100 fax: (614) 237-7101
Family Dollar *(Family Dollar Stores Inc.)* http://www.familydollar.com	P.O. Box 1017 Charlotte, NC 28201	Tom Nash SVP, New Stores tnash@familydollar.com realestate@familydollar.com	(704) 814-3267 fax: (704) 814-1517
Genghis Grill *(Genghis Grill Franchise Concepts)* http://www.gengisgrill.com	**Position Property Group, LLC** 18900 Dallas Parkway Suite 125 Dallas, TX 75287	Ryan Eastman Director of Real Estate ryan@positionpropertygroup.com	(972) 996-4037
Corporate Headquarters: 4901 LBJ Freeway, Suite 150, Dalas, TX 75244			
HuHot Mongolian Grill *(HoHot Mongolian Grills, LLC)* http://www.hohot.com	3507 Ringsby Court Suite 112 Denver, CO 80216	Molly Vap O'Shea VP, Franchise Development molly@huhot.com	(303) 297-1200
Kroger *(The Kroger Co.)* http://www.kroger.com	2175 Parklake Drive Atlanta, GA 3034	Fahmi Hashish Real Estate fahmi.hahish@krogerco.com	(770) 496-7431 fax: (770) 496-7586
Manchu Wok *(Cafe de Coral Holdings, LLC)* http://www.manchuwok.com	85 Citizen Court Unit 9 Markham, ONT L6G 1A8	Michael Cukoff Real Estate michael_cukoff@manchuwok.com	(905) 946-7200 fax: (905) 946-7201
Safeway *(Safeway Inc.)* http://www.safeway.com	5916 Stoneridge Mall Road Pleasanton, CA 94588	Don Wright SVP, Real Estate/Engineering don.wright@safeway.com	(925) 467-3000 fax: (925) 738-1213
Save-A-Lot *(SUPERVALU Inc.)* http://www.supervalu.com	100 Corporate Center Drive Earth City, MO 63045	Rick Meyer VP, Real Estate/Development rick.meyer@supervalu.com	(314) 264-7801 fax: (314) 264-7885
O'Reilly Auto Parts *(O'Reilly Automotive Inc.)* http://www.oreillyauto.com	233 S. Patterson Ave. Springfield, MO 65802	Kevin Overmon Real Estate Manager koverman@oreillyauto.com	(417) 874-7228 fax: (417) 874-7112
Panda Express, Panda Inn Hibachi-San *(Panda Restaurant Group Inc.)* http://www.pandarg.com	1683 Walnut Grove Ave. Rosemead, CA 91770	Steve Blum VP, Real Estate steve.blum@pandarg.com	(626) 372-8478
Pep Boys, The *(The Pep Boys – Manny Moe & Jack Inc.)* http://www.pepboys.com	3111 W. Allegheny Ave. Philadelphia, PA 19132	Joe Walsh Director of Real Estate joe_walsh@pepboys.com	(215) 430-9388
Rite Aid *(Rite Aid Corp.)* http://www.riteaid.com	877 Kings Highway Suite 100 West Deptford, NJ 08096	**East/South** Carrie Hoffman VP, Real Estate cehoffman@riteaid.com	(856) 686-0841 ext. 222 fax: (856) 686-5728
	320 Goddard Way Suite 125 Irvine, CA 92618	**West** Ray Payne VP, Real Estate rpayne@riteaid.com	(949) 753-0614 Ext.200 fax: (949) 585-9264
Walgreens *(Walgreen Co.)* http://www.walgreens.com	106 Wilmot Road Mail Stop 1640 Deerfield, IL 60015	Thomas J. Connolly VP, Real Estate tom.connolly@walgreens.com	(847) 315-2569 fax: (847) 315-3105

For a complete list, including regional contacts for all the companies included in this issue, please refer to the 2011 issue of Crittenden's Retail Space Users Directory

DRUGSTORE LEADERS PERFECT RECIPE FOR GROWTH

CVS Caremark and **Walgreens** will both open at least 150 to 200 stores this year, and will likely keep up a similar growth pace for at least the immediate future. With their staggering number of stores — Walgreens with 7,812 and CVS with 7,384 — a case could be made that both should be at their saturation point but these drugstore heavyweights still find ways to grow. Look for CVS to exceed last year's 150 openings by picking up as many of Walgreens' former Express Scripts customers as it can. The second-largest drugstore chain, already with a 19.4 percent share of all prescriptions in the U.S., feels it can pick up 20 to 30 percent of these former Walgreens customers, increasing its revenue as well share of the U.S. market in the process. Approximately 85 percent of **CVS/pharmacy** stores are within five miles of a Walgreens store, a proximity which CVS is taking advantage of by publicly welcoming former Express Scripts customers to its stores.

Meanwhile, Walgreens projects expanding its total number of new stores by 2 to 3 percent in the current fiscal year, which will end in late August. It finished the last FY with 199 new stores and will exceed that number this FY by taking its latest format, Well Experience, to Indianapolis and New York. The first block of remodeled Indianapolis area locations opened last month, with more in the New York area under the **Duane Reade** banner. The first 20 Well Experience stores opened in Walgreens' home market of Chicago. The Well Experience format adds a Take Care Clinic inside the stores for vaccinations and treatment of common illnesses and minor injuries, as well as a juice bar and other health foods in their own section and expanded beauty departments. Walgreens will also open 40 food desert locations in urban markets over the next two years and a total of 1,000 over four years.

Walgreens and CVS have a stranglehold on the upper end of the national drugstore market. Their nearest competitor, **Rite Aid**, is not only a remote third as far as store count — 4,679 at the end of the third quarter on Nov. 26 — but has also been more active in remodels and closing stores than opening new ones. Rumors have been circulating that Walgreens has showed interest in acquiring Rite Aid, although neither chain is saying anything officially. If such a Walgreens/Rite Aid merger would take place, CVS would likely say good luck and move on. CVS has gone through its own growing pains following its acquisition of the former **Longs Drug Stores** in Northern California. The Federal Trade Commission (FTC) just certified the Longs deal last month, even though the acquisition was completed in 2008.

Expect more details on CVS' 2012 expansion goals this Wednesday, when the company is due out with its year-end report for 2011 as well as 2012 guidance. Look for first quarter comps to be a positive 1.5 to 2.5 percent. The chain does not have any stores in Arkansas, Colorado, Idaho, Oregon, South Dakota or Washington. And considering CVS has entered nine new markets over the past two years, including St. Louis; Omaha, Neb.; Tulsa, Okla.; and Tidewater, Va., it may be ready to try new states. CVS will open 50 smaller format urban locations by the end of June. This smaller format — 5,000 to 6,000 s.f. compared to the traditional 13,000 s.f. — opens up smaller downtown spaces in major urban markets such as Boston, Philadelphia and Washington, D.C. The urban format features an expanded grocery section, more fresh bread and other to-go offerings and more self service checkouts. The chain has also remodeled several of its traditional stores to double the space devoted to consumables. These redone stores have improved traffic by 12 percent.

Walgreens finished the first quarter on Nov. 30 with 71 new or acquired stores, giving an indication of its likely attitude toward growth for the rest of this FY. Walgreens projects retaining 97 to 99 percent of its prescription volume this year, even with the loss of Express Scripts. The drugstore leader filled 820 million prescriptions last year. Walgreens' calculates 75 percent of the U.S. population resides within five miles of one of its stores. The drugstore leader has also had 36 consecutive years of improved total sales, including $72 billion for the last FY, a 7.1 percent increase over the previous year. Walgreens completed its first quarter with comps of a positive 2.5 percent. The drugstores take 14,500 s.f., regardless of the format.

Rite Aid does not plan to open any new stores for the FY ending late this month and will instead finish its fiscal year with 300 remodels and 70 closings, 10 more than expected. The third-largest drugstore chain follows suit with its competitors and now offers more food items inside its dual-brand locations with **Save-A-Lot**. However, the company is still evaluating results from the co-brand stores before deciding on additional locations.

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Rite Aid expects to finish this fiscal year with positive comps of 1.15 to 1.75 percent and total sales of $25.8 billion to $26 billion. Comps for the third quarter were a positive 2 percent. The drugstores need 14,670 s.f. on pads of 60,000 to 70,000 s.f. when opening on the East Coast. Rite Aid's expands its West Coast footprint to 17,340 s.f. on pads of 65,000 to 75,000 s.f. The drugstore chain operated 4,679 stores at the end of the third quarter.

ASIAN RESTAURANT LEADER TO OPEN 100 NEW STORES IN 2012

Expect **Panda Express** to add 100 to 120 locations this year, at least matching last year's output. The first locations in Kentucky are part of the 2012 program. Expect Panda Express to get competition from **Genghis Grill**, **HuHot Mongolian Grill** and **bd's Mongolian Grill**. All three Mongolian stir fry chains plan to penetrate new states or markets this year. Genghis Grill includes its first locations in California, Oregon, Washington and Utah on this year's expansion schedule, while HuHot will enter seven new states, including Kentucky. Meanwhile, bd's Mongolian Grill is accepting applications for franchisees to run its first locations in St. Louis, Philadelphia and the Baltimore/Washington D.C. market. **Manchu Wok** could also add locations this year.

Panda Express looks to the Lexington and Louisville markets first. Its goal is to reach 20 locations in the state within five years. The only location in the Bluegrass State is one on the campus of the University of Kentucky in Lexington. The chain also returns to Iowa, after opening its first five locations in the state last year. Panda Express and parent company **Panda Restaurant Group** (PRG) also eye Milwaukee for additional locations, as well as its familiar markets in Alabama, Louisiana, Minnesota, Tennessee, Texas and Washington, D.C. The first choice for the Asian restaurants is a 2,488 s.f. building on 30,000 to 40,000 s.f. of land, ensuring there is enough space for a drive-through window. Panda Express can go down to 1,800 to 2,200 s.f. when taking an end-cap position in a shopping center and needs just 800 s.f. for slots in food courts and on college campuses. PRG will also add five to 10 licensed locations this year and relocate selected **Panda Inn** locations in Southern California. Another PRG-owned division, **Hibachi-San**, will not open any locations for now.

Genghis Grill's West Coast presence is now limited to three locations in Nevada, a situation it plans to rectify. The Mongolian stir fry chain looks to San Diego for its first locations in the Golden State but will also add restaurants in Bakersfield, Fresno, Riverside and Sacramento. It plans to open 25 to 30 locations this year. Genghis Grill also includes its first locations inUtah and Virginia as part of its national push. Look for familiar states Florida and Texas to have the most potential for additional locations. Future Sunshine State markets include Miami, Fort Lauderdale, and Tampa, Fla. , as well as smaller markets such as Fort Walton, Jacksonville, Orlando, Pensacola, St. Petersburg, and West Palm Beach. In the Lone Star State, Austin, Dallas/Fort Worth, Houston and San Antonio are leading growth markets. Genghis Grill's first choice is to open in a lifestyle center, close to a mall and movie theater. The 3,500 to 4,500 s.f. restaurants can open in 60 to 90 days for a total investment of $289,000 to $650,000.

HuHot will debut its concept in Missouri, Ohio, Oklahoma, Tennessee, Utah and Wyoming in addition to Kentucky. These new states account for most of this year's projected 10 new units, a potential four-unit increase over last year. HuHot wants to expand its current 42 locations to 100 system wide within four years. The restaurant chain will also join Mongolian rival Genghis Grill in expanding its presence in Illinois, Indiana, Montana, North Dakota, South Dakota and Texas. The franchisor also wants to build on its presence in Arkansas, Colorado, Iowa, Kansas, Minnesota, Nebraska, North Carolina and Washington State over the next few years. HuHot needs a 5,500 to 6,000 s.f. building.

Look for bd's Mongolian Grill to grow mostly along the East Coast, although it will add some locations elsewhere. It currently has no locations in Delaware and just one each in Missouri and the Washington, D.C./Baltimore region. The second Keystone State location will open in Pittsburgh on Feb. 13. bd's Mongolian Grill also checks the Denver area for its second Colorado location. The restaurants need a 5,000 to 5,500 s.f. building on 1.5 acres. All potential sites need a residential population of 120,000 or more and a daytime population of 25,000 and a median household income of more than $55,000.

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ASIAN RESTAURANT LEADER TO OPEN 100 NEW STORES IN 2012…

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Manchu Wok has approximately 200 locations. About 75 percent of the locations are franchised. The restaurants need 1,500 to 2,000 s.f. when opening in shopping centers and 400 to 600 s.f. in malls. **Café de Coral Holdings Ltd.**, the largest food chain in China, owns the restaurants.

SECOND GEN SPACES EQUAL MORE DEALS

Designer Shoe Warehouse (DSW) converts 17 former **Borders** locations this year on the way to nearly doubling its previous new-store guidance. The family shoe store chain will go from its previous target of 20 openings to 35 to 40 for the year. These former Borders locations will likely provide a one-time boost for DSW Shoe. The chain is then likely to return to its customary pace of 15 to 20 openings from 2013 through 2017. However, DSW should now reach its long-range target of 400 stores system wide sooner; it currently has 326 stores.

Look for most of DSW's new stores to open in the second half of the year. The chain will open eight stores in smaller than normal markets with populations of 150,000 to 400,000 people this year. Its first three small-market stores opened this past October and November in Lawrence, N.Y., and Mobile and Montgomery, Ala. DSW feels these smaller markets can hold an additional 50 locations. The smaller market shoe stores can open in 18,500 s.f. as well as the more traditional 22,500 s.f.

Customer Service
Tel: (800) 421-3483 Fax: (619) 923-3518
E-mail: membership@crittendenresearch.com

Newsroom Fax: (415) 475-1576

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