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Publix: Where Real Estate Investing is a Pleasure

Florida Grocery Titan Owns 371 of its 1,167 Stores, Keeps Buying More

Publix Super Markets isn't just one of the nation's top grocery chains, it's also becoming a major real estate investor, buying up its own stores and self-anchored shopping centers when they hit the market.

The Lakeland, FL-based retailer has been steadily increasing its ownership of retail real estate and currently owns 371 of its 1,167 stores, or nearly a third, according to the company's 2017 annual report. That's 12 percent more than Publix owned in 2016 and an 89 percent increase from five years earlier, documents show.

In December, Publix paid $25.45 million, or about $322 per square foot, for the Publix-anchored Lakeview Shopping Center in Coral Springs, FL. Earlier in the year, it bought Mirasol Walk in Palm Beach Gardens, FL for $47 million, or $443 per square foot.

DDRM Properties and Madison International Realty announced they recently sold eight retail centers in Florida and one in Georgia to Publix for an undisclosed price, according to Chain Store Age.

Privately-held Publix is owned by its employees and known for its spotless stores, stellar customer service and the folksy "Where Shopping is a Pleasure" slogan.

It's not the only grocery chain getting into the real estate business, but it likely is among the most aggressive in doing so.

Whole Foods Market, acquired last year by Amazon, says in its latest annual report that it owns 17 of its 470 stores - less than four percent. The Kroger Co. (NYSE: KR) says in public filings it prefers to buy rather than rent, but it doesn't say how many of its 2,800 stores it owns. Walmart (NYSE: WMT) did not address its real estate strategy in its most recent annual report, though industry experts say the retail giant typically owns its stores and leases its Neighborhood Market grocery outlets.

Publix, Whole Foods, Kroger, Walmart and other major chains declined to comment for this story or did not respond to interview requests. But retail analysts say owning stores makes financial sense for the grocery chains in many cases.

For one thing, they can avoid costly leases and lease renewals, including having to pay additional percentage rent at some of their most highly-trafficked stores, said Brandon Fletcher, a senior analyst who follows Kroger for Sanford C. Bernstein & Co. in New York.

Owning centers it anchors also allows the grocers to control the tenant mix and not be at the mercy of landlords unwilling or unable to maintain the centers or pay to renovate and backfill vacancies, he said.

That's an important consideration in an era when many brick-and-mortar retailers are struggling to adapt to the rise of e-commerce, Fletcher said. In years past, any number of tenants could succeed next to Publix, but today's landlords have to be especially discerning, according to Fletcher.

"Now they're saying, 'Oh, we don't know how much sales will go away and not return to (a traditional shopping center),'" he said.

Katy Welsh, a retail specialist and senior vice president of Colliers International South Florida, said Publix and other shopping center anchors that rent their spaces already exert considerable influence over neighboring tenants.

Instead, she believes the decision to buy comes from a simpler premise: It's a savvy, long-term investment.

Over the past two decades, Publix started negotiating clauses into its leases that allowed the retailer the right of first refusal to buy the center if the owner listed it for sale, Welsh said.

"Publix centers are the cream of the crop of shopping centers that landlords want to own," said Welsh - adding that, in essence, Publix as a landlord can benefit from its own success as a retailer.

Beth Azor, a South Florida retail consultant, insists that owning is a way for Publix to diversify its income by collecting rent from other tenants in the center.

"The grocery business is a very low-margin business," Azor said. "They're bringing in a different line of revenue that will help them in tough times."

For most retailers in expansion mode, owning wouldn't be ideal because real estate is capital-intensive, said Barry Wolfe, a retail specialist for Marcus & Millichap in Fort Lauderdale. But fast-growing Publix can pull it off, Wolfe said, because the company is cash-rich. It reported earnings of $2.3 billion last year, up from $2 billion in 2016.

Publix's real estate prowess is well-known in the industry, Wolfe said. Any attractive, Publix-anchored center that becomes available almost assuredly will end up in the chain's hands, he noted.

"They've got the capital, and they know the real estate," Wolfe said. "It can be very challenging from a buyer's standpoint."

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