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Hhgregg expands aggressively on bargain leases

Electronics chain opens six stores in Baltimore area in move some call risky


By Andrea K. Walker, The Baltimore Sun

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Electronics chain hhgregg had been content to methodically grow from its Midwest roots until the recession hit — and then the retailer became more aggressive than ever.

While other retail chains were toppling all around it, Indianapolis-based hhgregg turned economic malaise into opportunity and began scooping up bargain leases. It opened about two dozen stores during the past year, with plans to open as many as 45 more new stores in the coming year.

The company's red-and-white banner is now part of the retail landscape in the Baltimore area, where it celebrated the grand opening of six stores last week. It also recently opened a distribution center of more than 400,000 square feet in Brandywine.



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Hhgregg's entree is one of several bright spots in the Baltimore-area retail market. Kohl's Department Stores also opened new locations in Middle River and Annapolis in March, and Eastpoint Mall underwent a major renovation this year with new anchor stores DSW Shoe Warehouse and Burlington Coat Factory. The Maryland Retailers Association, a trade group, has tracked a slow improvement in sales since November.

"They bring competition to the area, which is usually always good for the customer," shopper Richard Rosales said of hhgregg as he visited the new Catonsville store.

But a more widespread turnaround for retailers won't come until employment rebounds, so that people have the money to spend, according to the state trade group. Despite higher vacancies — and lower rental rates — entire shopping centers remain empty or nearly vacant in Columbia, Towson and other areas.

In fact, hhgregg's expansion from mostly small and midsize cities into larger, more competitive areas, including Washington, is one that many analysts call risky as the retail sector remains volatile and unpredictable.

Consumer spending has risen in recent months and shoppers headed back to the stores in March,

resulting in a robust 8.7 percent sales increase compared with a year ago, according to research firm Retail Metrics. But those shoppers stayed home in April, resulting in a small 0.8 percent sales gain, the worst month since last fall.

Executives with hhgregg said the recession that led to the demise of some retailers such as Circuit City created opportunities it could not pass up — mainly by opening up valuable real estate space. Hhgregg recently raised \$53.5 million in a stock offering.

"The market opened up, and we were able to get a lot of quality real estate and open up a larger number of stores than we otherwise would have," said Dennis May, hhgregg's chief executive, who was in town for the grand opening of the store in Hanover.

Landlords desperate to fill empty spaces have lowered rents and are offering perks such as lump sums to cover build-out costs, said David Fick, an analyst with Stifel Nicolaus. Hhgregg is moving into several old Circuit City stores, its competitor that went out of business two years ago, leaving 700 buildings and hundreds of thousands of square feet open.

Retail vacancies in the Baltimore market were 7.1 percent in the first quarter of this year, up from 6 percent a year ago and 4.7 percent the year before that. Meanwhile, rents have fallen to \$19.05 per square foot in the quarter, compared with \$19.58 a year ago, according to research firm Reis.

Analysts said hhgregg was able to negotiate rents in more expensive areas such as Baltimore, Philadelphia and Washington at about the same rate it pays in cheaper areas such as Indianapolis and Cleveland. Nationally, rents averaged \$16.62 per square-foot in the first quarter, according to Reis.

It's not uncommon for retailers to step in where other companies failed. Forever 21 recently moved to an anchor spot left dormant at White Marsh Mall by department store Boscov's. Kohl's expanded during the economic downturn, moving into spaces left by West Coast department store chain Mervyn's. Jos. A. Bank ramped up its expansion efforts this year, hoping to get good deals on real estate.

And smaller, independent businesses that might have been hard pressed to be able to open in a popular shopping center two years ago now have a chance, retail experts said.

But companies that expand aggressively aren't always successful. Boscov's discovered that, after it jumped at the chance to move into the sought-after Baltimore market when Hecht's department stores were phased out as part of Macy's acquisition of Hecht's parent May Department Stores Inc.

A year after Boscov's expansion, the recession hit and sales plummeted. The Pennsylvania-based company eventually closed three stores it opened at Baltimore-area malls.

Some analysts think that similar risks face hhgregg, which plans to grow from 106 stores in 2009 to 171 by the end of the fiscal year. And it is expanding into an electronics market that some believe is oversaturated, facing competition from big-box stores such as Best Buy and Lowe's, department stores such as Sears and warehouse stores such as Sam's Club and Costco. Many shoppers also are buying electronics through the Internet.

"Hhgregg will just be coming in and trying to compete," Fick said. "It's not like hhgregg has unique brands or products. It will just become a price competition if all these guys are selling the same Sony television."

New York retail analyst Howard Davidowitz said the company could be in jeopardy if there is another

economic downturn.

"I understand this is a once-in-a-lifetime opportunity for them," said Davidowitz, chairman of brokerage and consulting firm Davidowitz & Associates. "Does that mean hhgregg should bet the company on this opportunity? I wouldn't do it."

Bradley Thomas, a research analyst at KeyBanc Capital Markets in New York, said that retailers that quickly add retail square footage, by more than 20 percent at one time, typically don't make it. Yet he believes hhgregg can.

The retail chain has a larger selection of washers and dryers and other appliances than competitors, he said. Moreover, the staff is highly trained because the company believes shoppers will buy if they know more about the product. The sluggish job market has put more talent in the job pool, Thomas believes.

Tom Saquella, head of the Maryland Retailers Association, said there is still a void in the market from when Circuit City and electronics store Tweeter closed.

"That is a lot of market share to suddenly go out the window," Saquella said. "Walmart, Sears and others have done a lot to take some of that, but I think there is a lot more market share still out there."

Mays, hhgregg's CEO, said that as technology becomes more advanced, consumers want knowledgeable staff to help steer them through the different offerings. He also vows that his company will be price-competitive. He said the company will aggressively advertise deals each week.

The competition will be waiting in the wings.

A spokeswoman with Best Buy said the retailer has "the widest selection of electronics, the most technologically knowledgeable sales force, the best customer service through Geek Squad, and competitive pricing — backed by a price-matching guarantee."

"We like how we are positioned in the marketplace," said the spokeswoman, Lisa Svac Hawks.

In the meantime, area shoppers have spent the past week getting to know hhgregg. Michael Holmes, a self-described electronics addict, said he came to check out what the store has to offer.

"It's good to be able to have another place to find gadgets," he said.

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