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Suitors line aisles of Food Emporium

The sale of A&P's "crown jewel" may be as much about real estate as arugula

By [Lisa Fickenscher @LisaFickenscher](#)

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For the second time in two years, the Food Emporium chain of supermarkets, owned by the Great Atlantic & Pacific Tea Co., is on the block—and there is no shortage of interested buyers.

The 17-store chain controls attractive real estate in Manhattan at a time when many grocers—including Fairway Market, Balducci's, Trader Joe's and Whole Foods, as well as discount clothing retailers and drugstores—are expanding.

But there are several suitors who stand out: Christian Haub, former chairman, chief executive and major shareholder of the Montvale, N.J.-based company known as A&P, and Gristedes' owner, John Catsimatidis, who said he was close to acquiring Food Emporium in 2010 shortly before its parent filed for bankruptcy protection and called off the sale.

Mr. Catsimatidis has already signed a confidentiality agreement with A&P that prevents him from discussing Food Emporium, he said.

Mr. Haub, who runs a Greenwich, Conn.-based investment firm, Emil Capital Partners, initiated discussions with A&P executives during Labor Day week, when the company told its employees that Food Emporium was for sale.

"We are very familiar with those stores and how to make them successful," said Mr. Haub, who stepped down as chairman of A&P in March. Tengelmann Group, the German retailing conglomerate controlled by the Haub family, had been A&P's largest shareholder since 1979, but it sold its shares this year, Mr. Haub said, after the company came out of bankruptcy.

A&P is selling 16 Manhattan stores, including their leases and the Food Emporium brand. A store in New Canaan, Conn., is not part of the sale, which is being handled by investment bank Duff & Phelps, said a spokeswoman.

A&P declined to provide details about its plans—whether it is selling the stores as a group, or why it is unloading Food Emporium, commonly referred to as the company's "crown jewel." A&P owns 320 supermarkets operating as A&P, Waldbaum's, Pathmark, Superfresh and Food Basics.

Much needed cash

"The sale will enable parent company A&P to support the company's long-term strategic vision to be the No. 1 food and drug store in every neighborhood it serves," said the retailer in a statement.

In March, A&P emerged from bankruptcy with 75 fewer outlets. Many industry insiders believe the Food Emporium chain will not be the last stores it sheds.

"The company will get much-needed cash, and hopefully it'll put it into some of their stores that need remodeling," said supermarket consultant Matthew Casey. "They have stores that have not been painted or upgraded in years."

Food Emporium, though considered an upscale brand, is largely perceived as pricey and offering little value to shoppers. It began losing market share over the past decade to such competitors as FreshDirect, Fairway, Trader Joe's and even Whole Foods, which is considered expensive but is seen as offering higher quality.

"The stores are not well managed," said supermarket consultant Burt Flickinger. "Customer counts have dropped dramatically over the past 10 years."

The stores on average generate between \$200,000 and \$250,000 in sales a week, according to Mr. Flickinger. By contrast, Trader Joe's and Fairway Market generate more than \$1 million in sales a week in the city.

Mr. Haub, however, said Food Emporium achieved "record sales and profitability from 2006 to 2011" under the leadership of Hans Heer, the former general manager of the chain. Mr. Haub had recruited his former colleague, who is now an operating partner of Emil Capital Partners.

Mr. Haub acknowledged he will face stiff competition in his bid for the 16-store portfolio, namely from Mr. Catsimatidis and from another private equity investor, Angelo Gordon & Co., which owns upscale Kings Food Markets and gourmet grocer Balducci's.

In 2010, while Mr. Haub was executive chairman of A&P, Kings was interested in acquiring Food Emporium. Since then, the Parsippany, N.J.-based, 24-store Kings chain has been expanding, having just acquired a store in Old Greenwich, Conn.

"While we are continually evaluating opportunities to acquire, build or expand our stores, we do not comment on speculation or rumor," said Fred Brohm, chief strategy officer of Kings, in a statement.

Real estate brokers suggested that the stores could be sold to a diverse group of companies, not just food retailers.

"They could also work for the big fashion discounters," said Faith Hope Consolo, chairman of the retail group at Prudential Douglas Elliman, adding that many Food Emporium leases were signed before the big spike in the real estate market and would therefore offer buyers a favorable rent.

"My prediction," said Richard Hodos, executive vice president of CBRE Inc. "is that people will buy pieces of the company, mainly for the real estate."

That's bad news for the more than 1,100 employees whose jobs are at stake. Union officials say they will fight any nonunion employer—such as Whole Foods or Trader Joe's—that acquire the stores and do not honor the labor agreement, which expires in four and a half years.

"We have an existing relationship with Gristedes and Waldbaum's," said John Durso, president of Local 338, which represents 14 of the Food Emporium stores. "It is disappointing that the company put up one of its best assets for sale, but we will work with the successful bidder as long as it respects our collective bargaining agreement."