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EXCLUSIVE REPORTS

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Seattle GameWorks requests rent reduction

Parent company seeks Chapter 11 shelter

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GameWorks' parent company wants to keep more of the money players plunk into its machines by renegotiating its rental rates, including the one for its original flagship unit in downtown Seattle.

Glendale, Calif.-based Sega GameWorks LLC filed for Chapter 11 bankruptcy reorganization in March, a move that allows the company to reject or renegotiate its leases. The company has 19 stores in the United States and two overseas.

Senior vice president of sales and marketing Clint Manny said GameWorks business remains healthy. The problem is simple -- the company is stuck paying high boom-time '90s rents in post-bubble times. The company debuted its concept here in March 1997, when retail rental rates in downtown Seattle were much higher than today.

"It's really a tool for us to be able to renegotiate our leases," he said of the Chapter 11 filing. "This puts all of our landlords on a fair playing field, as everything will be public record, so no one will be saying, 'What did they get?'"

Neither GameWorks nor the landlord for the Seattle GameWorks' location, Philadelphia-based City Center Retail/AG Meridian LLC, is commenting on the progress of lease negotiations. City Center Retail spokesman Sig Anderson said the landlords declined to comment until negotiations were complete.

Manny indicated GameWorks is interested in staying in downtown Seattle if it can negotiate an acceptable lease.

"We're happy to be in downtown Seattle, and the growth of downtown is continuing to contribute to the success of our business there," Manny said.

Observers think City Center Retail will be motivated to keep GameWorks as a tenant because it's not a great time to market a large retail space in the downtown shopping core.

The GameWorks location at Seventh Avenue and Pike Street is larger than 30,000 square feet. It is located near the long-idle former Planet Hollywood restaurant on Sixth Avenue and the recently shuttered FAO Schwarz toy store at Sixth and Pike.

"In today's environment, that's going to be a very tough space," said Seattle retail real estate broker Art Wahl of CB Richard Ellis. "There aren't many tenants that want a space that size right now, and it doesn't divide very easily."

Restructuring expert Steve Marotta of the New York firm Marotta Gund Budd & Dzera LLC said in a recent release that GameWorks' tactic of getting better lease deals through Chapter 11 is a common one, and that it could yield substantial savings for the company.

"If you sign a lease for X-number of years, outside of a bankruptcy proceeding, you're obligated for the full length of the lease," Marotta said.

But in Chapter 11, leases can be renegotiated, sublet or rejected outright, he noted. The cost of rejected leases is often

capped at one year's worth of rent payments, or sometimes at 15 percent of the total lease cost, creating substantial savings for the company. Landlords faced with the threat of such truncated lease payments are often motivated to renegotiate at better terms, Marotta said.

Throughout the years, GameWorks has evolved from serving mostly teenagers to being a popular site for corporate events, Manny said. Facilities now entice families with discount admissions and lure children's sports teams or birthday parties with group packages.

"We've seen huge growth in our group sales," he said. "Businesses are looking for somewhere to have fun, do team-building or hold a holiday event, where everybody can get into the activity no matter what their level of fitness."

Privately held Sega GameWorks is a joint venture of Japan's Sega Corp. and France's Vivendi Universal SA, and does not release sales figures. Manny said the company continues to grow, particularly overseas. GameWorks is adding a new location this summer in the Dominican Republic and plans to add a second unit there next year, he said. The company also plans its first GameWorks in Mexico within the next 18 months.

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