

## ONSITE

# Takin' It to the Street

People and corporations are streaming back into America's downtowns. Are they chain retailers' best hope for growth?

By **Al Urbanski**

"City of stars, are you shining just for me?" sings Ryan Gosling in this year's hit movie musical "La La Land." "City of stars, there's so much that I can't see."

Those lyrics might just as well have been written for retail real estate developers who are beginning to see more potential in urban neighborhoods — both the thriving and the striving. People like Scott Smith, whose WRS Inc. is resurrecting Underground Atlanta as a mixed-use project. Like Pine Tree's Peter Borzak, who is remodeling the power center to fit in downtown Chicago. Like Joseph Ferrara of BFC Partners who's building a luxury outlet center in the neglected New York City borough of Staten Island. All have seen something in these venues that others, like Gosling's Sebastian, did not.

Ferrara, whose company played a marquee role in the resurgences of Williamsburg and the Lower East Side in New York, says that in BFC's case, "it's just consolidating years of experience into a borough that's had a bad rap, that hasn't had the kind of image that [retailers] want. It's the developers that lead the way."

Of course, the developers need the retailers to follow them (BFC has Nike,

Nordstrom, and the world's biggest Ferris wheel), but it can get tricky when they're leading them down some dark alley or unknown urban cul-de-sacs. Malls still have relevance for suburbanites because they're a known quantity with easy parking and a memorized collection of shopping options, and they offer similar comforts to chain retailers: good location, proven property management, promised traffic, and triple-net leases. But for large chains venturing downtown for the first time, the experience can be less "La La Land" and more "Midnight Cowboy."

"The mall is controlled; the street operates with very different dynamics," said Whitney Livingston, SVP at Madison Marquette, which is revamping its Pacific Place mall in downtown Seattle to cater to the needs of today's city-dwellers. "From a retailer's perspective, the mall has a manager and a marketing director to make the property work, and a high tide raises all ships."

In the city, the onus is on retailers to establish a presence and lure shoppers to their doors, Livingston said. Pacific Place is an established Seattle shopping destination with a dedicated, upscale customer base. Its tenants include Barney's, Coach, Kate Spade, and Michael

Kors. But with locally based companies like Amazon and Starbucks creating lots of daytime traffic, Madison Marquette is making an attempt to incorporate its six-level mall into the street.

"We started thinking about this booming market and incredible pedestrian traffic and thought, 'What if we created a situation where walking through Pacific Place was part of people's everyday walk to and from work?'" Livingston said.

As a result, Livingston said, "We're basically blowing up the entrances," making them two levels high and enclosing them in glass and running skylights throughout the entire mall.

Working off much the same motivation will be Smith, who brought a two-year pursuit to a close in March with a \$34.6 million purchase of Underground Atlanta. South Carolina-based WRS plans a mixed-use redevelopment of the property, including a Georgia State University dormitory and a full-scale redevelopment of the once-renowned, below-ground retail and entertainment center.

"There's a tremendous movement now to come back downtown," Smith said. "Our timing is good because the mind-set has changed. People want to walk out and go to work, walk out and go to school."

Still, both of these projects are essentially downtown malls. Retailers establishing stand-alone locations in evolving neighborhoods face two basic options: be pioneers or be willing to pay a higher rent waiting for the pioneers to establish the customer base.

Chicago retail-scene veteran Paul Bryant, managing broker at Mid-America, credits Target for pioneering small-format urban stores in his town. But most large retail chains, he says, still play it safe in the big city and seek out established venues where the retail spadework has already been done. "It's a lemming effect. Retailers want to go where everybody else is," he said.

In Chicago's growing West Loop neigh-



WRS purchased Underground Atlanta and will use it as the foundation of a mixed-use community.

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borhood, McDonald's Corp. is the "some-one else" fueling a boom in real estate starts. Like so many suburban millennials, the company is leaving Oak Brook and moving its headquarters downtown to the former site of Oprah Winfrey's Harpo Studios. Sterling Bay, the building's developer, is offering up what it's billing as prime, street-front retail space there. Food and beverage draws are already in place courtesy of The Boka Group, with restaurants such as Duck Duck Goat and Momotaro.

"It's the Meatpacking District of Chicago," said Bryant, referring to New York's abattoir-turned-chic hangout.

## What Happened to Manhattan's Supermarkets?

Broker Faith Hope Consolo, who's placed countless retail businesses in some of Manhattan's best neighborhoods, has lately turned her attention to Harlem. She's happy to note that restaurants and national retail brands are blossoming uptown, but that — outside of a Whole Foods opening on 125th Street — full-size supermarkets are nonexistent since the Pathmark closed there last year. And it's not just a Harlem phenomenon.

"Supermarkets all over New York have been disappearing from the landscape," Consolo said. "Gristedes, Food Emporium, all are being displaced by specialty food stores or people driving to Costco."

Morton Williams still thrives with locations in higher-rent neighborhoods, but food co-ops and farmers' markets are filling most of the void.

"D'Agostino, which thrived for years and years, is almost out of business," Consolo said. "The profit margins are too small."

Downtown Detroit, too, is on its way back thanks in large part to corporations with new downtown digs. Ilitch Holdings and its Olympia Development company not only built a new headquarters for Little Caesars Pizza there, but renovated the town's famed Fox theater and is building a new hockey arena for the Red Wings in what it's calling District Detroit. Quicken Loans erected a striking headquarters building on Woodward Avenue. Retailer and native Detroiter John Varvatos picked up on the wave and got in on the town's renaissance early.

"He picked up several buildings for \$10 a square foot, and you're not going to get that price now," said veteran Detroit broker Jim Bieri of Stokas-Bieri Real Estate, who had plenty of tips to offer retailers thinking of getting into Detroit while the getting's still good. Most had to do with coping with thriving outside of a mall or shopping center.

"Every building you look at's going to be different. That's what you have to deal with in trendy urban environments," Bieri said. "Retailers are used to triple-net leases, but here they're going to find they may be responsible for the roof. And they should be prepared to pay rent before opening the store. In this environment, landlords want rent from day one."

But there's a plus to urban tenancy, as well, Bieri pointed out. "There are few options in the mall, but there are options on the street. You can get a five-year lease with a five-year option. In a mall you can maybe get a 10-year lease with a kick-out clause, but there's hooks to it."

Stephanie Skrbín, an Avison Young principal based in Los Angeles, adds to Bieri's list of practical considerations, advising new urban tenants to pay attention to vehicle access near their city stores. "Some tenants are fine with pedestrian-oriented traffic, but some need parking on-site, so you have to know, is it subterranean? Street parking? Validated?" she said. "Loading access is also something to think about. For instance, will the loading area be able to accommodate the turning radius of a retailer's truck?"

Studying local foot traffic patterns to identify busy and slow periods in a neighborhood is imperative, Skrbín said, as is being aware of what new local develop-



Neighborhood renovations in Miami, such as Swire's Brickell City Centre, are sanctioned by the Miami 21 zoning directive.

ments are planned. In a freestanding street location, retailers can set their own hours, something they have less control over in malls.

Some cities have taken it upon themselves to make things easier for new retail businesses to take part in their urban planning initiatives by formalizing the standards of said growth. The form-based Miami 21 Zoning Code dedicated to "New Urbanism" and "Smart Growth" has guided many redevelopments, including Swire's massive Brickell City Centre that opened this year in the city's financial district.

"We're seeing a wide mix of retailers coming into Miami, including national chains, driven by where there's opportunity," said Kevin Zak, a principal of the architecture and design firm Dorsky + Yue. "Miami is a good example of a city having a vision to evaluate various districts and push growth in those districts with retail as an amenity."

The trick is to make redeveloped districts appear to have evolved organically, and part of that responsibility lies with retail chains setting aside standard formats to make bold and unique statements on the street with their store designs and signage.

"Miami was one of the cities that had a vision to see where the city was going, but it's up to retailers to determine how they're going to stand out in these districts," Zak said. "It comes down to the basics of retail — location and visibility. The store needs to be inspiring."

Then, perhaps, retailers will be able to sum up their urban experiences the same way Sebastian from "La La Land" did: "City of stars, are you shining just for me? City of stars, you never shined so brightly."