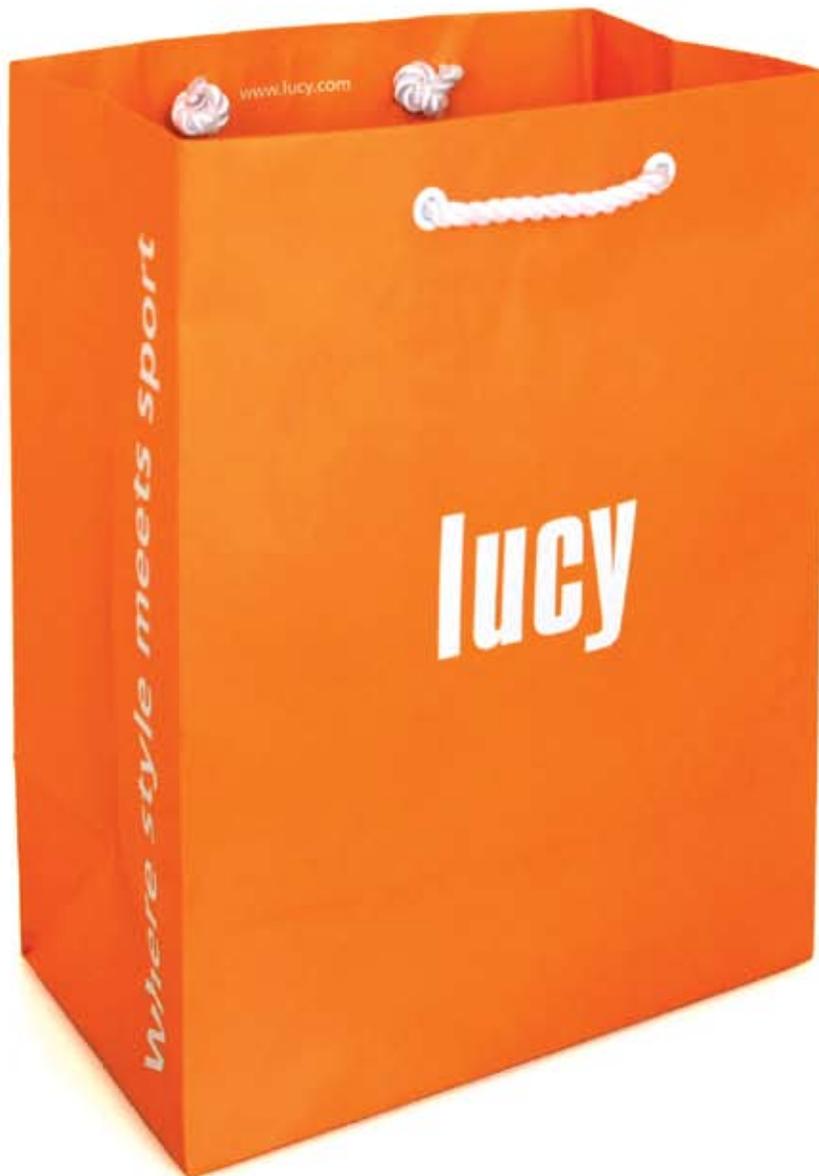


# shopping around

notes from ICSC's 2007 convention

by Mark G. Dotzour



With its  
glitz,  
glamour

and gambling, Las Vegas  
is the perfect metaphor  
for retail development.

What better location  
for the dance of retailers  
and developers known  
as the International  
Conference of Shopping  
Centers (ICSC) national  
convention? Some say  
30 percent of all retail  
leasing in the United  
States takes place at  
this meeting in a matter  
of a few days.

Attendance at the 2007 ICSC convention approached a record 50,000. Clearly, developers and municipalities are still enthusiastic about retail development, and American consumers, who continue to accumulate monumental debt, are still shopping.

## Mixed-Use Projects

Zoning ordinances over the past 50 years have separated residential and commercial land uses, leaving people to commute long distances from home to work and entertainment venues. Now that gas prices are painfully high and concern about environmental issues is increasing, developers are building mixed-use developments that combine housing with office, retail and hotels in one area. Proximity allows people to walk to and from destinations.

Mixed-use projects are complex. They can be created in urban, suburban, in-fill and reuse scenarios. Developers often seek zoning changes to allow higher density and taller buildings, but sometimes conflicts arise between area residents and city officials.

When the public gets involved, debate over new development must be done in the glare of the public spotlight, making negotiations more difficult. Mixed-use deals often are done with financial support from the local municipality in the form of tax abatements or infrastructure improvements. Because municipal government spending is funded by retail sales taxes paid by local shoppers, mayors are keen to attract big retailers to their cities. And of course, housing and retail development go together because there is no retail demand without the houses full of shoppers.

Big-city mayors at the convention advised developers that successful development projects must help the city achieve its long-term goals. For example, Atlanta is currently focusing on providing retail developments that include locally owned businesses.

“Workforce housing” is the new euphemism for what used to be called “affordable housing.” Mixed-use developments may include workforce housing, in some cases across the street from million-dollar condos. Tax credits for developing affordable housing and preserving historical buildings can reduce costs by 30 to 40 percent. New Markets Tax Credits and Historic Preservation Credits are two examples.

## Underserved Urban Retail Markets

Lower-income residents living in the core of American cities often have no retail to support them. In some cases, they have to travel miles to shop for groceries and other necessities. This market, which convention speakers referred to as the “new

frontier” for retail development, faces serious challenges. Perceptions of high crime, inventory losses and lack of disposable income have made debt and equity investors skeptical about entering these markets. However, a few success stories are providing encouraging momentum.

Urban retail often entails the reuse of existing buildings. Urban settings frequently include multistory buildings, which traditionally have been anathema to retailers, who prefer to be on the “pedestrian” ground floor. Mixed-use projects can take a long time to develop, often longer than the terms of the mayors and council members who supported them.

One of the biggest challenges for developers is getting national retailers to commit to locations in the urban core. The mayor of Atlanta suggested developers turn to locally owned retailers to fill the gap.

Former Los Angeles Lakers basketball star “Magic” Johnson has formed a development company and a partnership with Starbucks to open coffee shops in the urban core. He has also partnered with TGI Friday’s and AMC Entertainment to provide restaurants and movie theaters in minority urban and suburban markets. These retail developments already exist in Dallas and Houston.

A panel of mayors from across the United States suggested that it takes a strong mayor and city council commitment to make urban retail work. Hence, these developments are almost exclusively public-private partnerships. The developer brings the capital and expertise; the city provides public services, infrastructure and financial subsidies. Several mayors agreed that mayors must not be just chief financial officers for their cities but also chief marketing officers.

When asked about the risks associated with developing retail in underserved minority areas of American cities, the panel had these comments:



*NEW RETAIL DEVELOPMENT in underserved urban cores is born of partnerships between public and private interests. A panel of mayors at the convention suggested that generous incentives to pull in national retailers and aggressive marketing by city officials are critical for successful projects.*

- The mayor of Washington, D.C., said cities should increase their police and public service presence to address crime concerns, and also promote government investment in the area, including making infrastructure improvements and locating government offices there.
- Louisville's mayor said it is beneficial to provide developers with actual crime statistics to negate the often inflated perception created by local news media.
- Newark officials hired a consultant to determine the volume of retail sales "leaking" out of minority neighborhoods into other areas.

Many cities are offering financial incentives to encourage retail development in urban settings. The panel cited these examples.

- Las Vegas offers \$5 million to companies willing to open grocery stores to replace closed stores.
- Louisville offers forgivable loans to businesses that move into designated areas.
- Buffalo used a combination of federal, state and local funds to build the first supermarket in 15 years in an underserved urban area.
- Oklahoma City is rebuilding and renovating 75 schools in older neighborhoods to encourage people to move back to those neighborhoods.
- Trenton is using eminent domain aggressively to ensure highest and best use of properties.
- Trenton provides job training for education, medical and entertainment businesses to encourage hiring of local residents. The city also is working to get kids interested in the building trades.
- Atlanta is encouraging and supporting local retailers.

## Hot Retailers

Each year, ICSC recognizes "Hot Retailers" that shopping center owners and managers have identified as adding interest and energy to their properties. This year, six retailers were recognized.

J. Crew, the casual clothing store, expects to open 20 to 25 new stores in the next year. The company is trying new concepts including J. Crew Wedding, Crew Cuts (children's clothing) and Madewell (women's apparel at prices 20 to 30 percent less than the J. Crew store). Madewell opened its first store in Dallas in summer 2006.

The Little Gym offers a non-competitive environment for children to exercise and develop motor skills, listening skills and physical fitness. Children four months to 12 years old attend sessions once a week. The facilities are typically located in strip shopping centers. All stores are owned by franchisees. The company has 281 locations and plans to open 70 more gyms each year.

Lucy, which labels itself as a one-stop shop for the modern, active woman, sells sportswear and activewear. They

currently have 47 stores, with a goal of 100.

ULTA markets itself as a place that offers women escape, education, entertainment and esthetics. Visitors can choose from more than 22,000 beauty products, get their hair styled and have their makeup redone. ULTA likes to locate near power centers and sporting goods stores so women can shop while their husbands browse next door. ULTA currently has 204 stores and plans to open 50 in 2007 and another 70 in 2008.

Uniqlo, a Japanese retailer, currently has five stores in the United States. These large stores (over 30,000 square feet) are trying to bring modern Japanese culture and style to the United States,

**WHERE ARE THE COOLEST SHOPPERS** these days? Check Madewell and ULTA (below) and WineStyles (next page), where "cha-ching" is the soundtrack, and new stores are in the works.





offering premium denim jeans, t-shirts and polos. New York hosts the only U.S. locations so far, but once the brand is established, Uniqlo plans to go nationwide.

WineStyles has 170 U.S. stores. Designed to take the mystery out of wine buying, the stores offer over 150 labels, many under \$25 per bottle. This franchise caters to the overwhelmed wine buyer. Customers taste wines, then get assistance in determining their personal “wine style,” along with recommendations of wines to fit their budgets. The stores host a wine club and wine-tasting events. The company’s development goal is eight to ten new stores per month.

## Green Development

“Green design” and “sustainable development” were high-profile topics in seminars and exhibit space. A new designation — “LEED certified” — indicates that a building has met environmental criteria established by the U.S. Green Building Council (USGBC). According to USGBC, “going green” can reduce energy costs by 30 percent, carbon by 53 percent, water use by 30 to 50 percent and waste costs by 50 to 90 percent. Green design characteristics for retail developments include:

- solar-powered security vehicles,
- extensive skylights and natural lighting,
- storm water overflow management,
- “energy misers” on cold drink vending machines,
- pervious pavement to reduce stormwater runoff,
- landscaping with native plants that require minimal watering,
- earth-friendly roofing materials that minimize the “urban heat island effect,”
- fabric heating and air conditioning ducts that diffuse heating and cooling uniformly throughout the space, and
- garden-like rooftops that absorb half the rainwater they catch.

Sustainable development practices include:

- redeveloping existing buildings near public transportation nodes,

- preserving facades of historic buildings,
- reusing contaminated brownfield sites,
- creating mixed-use developments with high-density land use to reduce traffic,
- using solar panels (Target stores in California generate 20 percent of their electric needs this way), and
- switching from 1000-watt, high-pressure sodium exterior lights to 750-watt metal halide to reduce energy use. ♣

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## THE TAKEAWAY

Mixed-use projects for underserved urban cores and green design were high on the agenda at the 2007 International Council of Shopping Centers convention. Retailers recognized were J. Crew, The Little Gym, Lucy, ULTA and Uniqlo.



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