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THE RETAIL RECONSTRUCTORS

The rise of instant downtowns in affluent suburbs



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Mixed-use developers and mall owner-operators alike are building instant downtowns that appeal to work-at-home millennials—and their empty nester parents.

By Debra Hazel

From malling to demalling to lifestyle centers to town centers, retail real estate in the United States has generationally reinvented itself to compete with urban downtowns. Now, in this transcendent period of retail regeneration, developers have taken to creating downtowns and communities of their own.

The evolution of suburban retail in new towns, especially, reflects a number of significant shifts in demographics and within the industry itself. As many of their parents did, millennials are starting families and moving outside the city in search of more space and better schools. But they've proved reluctant to give up the urban lifestyle completely. They want the same quality experiences in Bolingbrook and Plano that they enjoyed in Chicago and Dallas. They don't want to give up the shopping and dining they had in the city, and they'd like to be able to walk to it, if they could. Meanwhile, COVID-19 accelerated their desire to live closer to where they work.

Not surprisingly, these millennials' parents are the other demographic flocking to these tended towns. Now empty nesters, they seek more of the city life they loved as younger adults and less of the nighttime driving they abhor as older ones.

"Not driving into the office every day made it easy to go to the suburbs," said Steven Levin, founder and CEO of Dallas-based Centennial Real Estate, adding that he doesn't expect workers to return to the office five days a week anytime soon. "They want the feel of the urban place, the walkability and all of the things that attracted them to urban centers but in the suburbs."

By adding experiences, parks, local retailers, food and beverage and even medical uses that previously had been eschewed by developers, today's retail reconstructors are creating new community cores that go far beyond the mixed-use developments of generations past.

"We don't build projects, we build communities," said Mark Toro, founder of the Toro Development Company and the

former head of North American Properties' Atlanta office.

"The other word we don't use is 'center,'" Toro said. "We design the spaces so that they're integrated with the others."

His new company's first project, Medley in John's Creek, Georgia, will be a "gathering place," said Toro, for a town that was incorporated in 2007, but lacks a unifying core. Plans for Medley's 43 acres include retail, restaurants, residential units, and office space.

It's a complete shift in attitude among developers about the role property plays in its surrounding community—one that started before COVID-19 appeared, but one that's now spreading nearly as fast as the pandemic did.

Class A malls that have included new uses relevant to their audiences continue to thrive, observed Todd Caruso, senior managing director at CBRE, Dallas. It's the retail properties that are well-located but have failed to execute those shifts that are marked for demolition and reconstruction as instant downtowns. This can include up to 40% of the total mall stock.

"We're not talking about fixing the mall," Caruso said. "We're talking about assessing the real estate where the mall exists and determining what the highest and best use is for that dirt."

For example, CBRE is involved with L Catterton Real Estate and QIC Global Real Estate's redevelopment of South Bay Galleria in Redondo Beach, Calif. The May Company-anchored open-air center that cut its ribbon in 1955 and was turned into an enclosed mall in 1985 will be a mixed-use center come 2025. Its new incarnation will include prime retail, dining, entertainment, residential and creative office components. The new development aims to create a true urban hub that delivers a community-driven and outdoor lifestyle experience.

Recreation and Parks

Sometimes, the unifying space doesn't involve building at all. Centennial's re-do of Hawthorn Mall in the Chicagoland suburb of Vernon Hills will include an outdoor park and plaza on three acres of land. In the plans, too, are 310 units of luxury multifamily housing over street-level retail, senior housing, a grocery store, and more than 100,000 sq. ft. of open-air retail. Co-working and fitness will complement the enclosed mall experience. But the real key may just be open space.

"As part of Phase 1 we will create this incredible walkable experience. We will have performances, carts, food areas and activations," said Centennial's Levin, who acquired mixed-use specialist Bayer Properties in August. "I consider it to be the best example of taking a 40-year-old mall in a fabulous location, fabulous demographic, and creating a suburban village that is going to be one of the best examples of that in America."

A park that includes dog runs, farmer's markets, and more may not pay rent, but



Portman's Dotan Zuckerman:
"Whenever we start a project in a city, I try to find that handful of rock-star retailers and I try to persuade them to join the mix."

it will attract the community on a more regular basis, offsetting the lack of rent.

"You're not going to get revenue from a park, although you may sell corporate sponsorships," Caruso said. "But the park may add to the overall experience. It's going to draw people."

It does, however, involve design and programming. A fountain at North American Properties' Birkdale Village in Huntersville, N.C., (now in the midst of a \$275 million reinvention) has been refurbished and extended to add the appeal and draw of a reflecting pool. An amenity becomes a place.

"Ultimately the goal is to lift the tide across the entire center," said Tim Perry, North American Properties. "That plaza does pay for itself."

For example, noted Kristin Mueller, president of retail property management for the Americas at JLL, the walkable, 135-acre Halcyon complex in Alpharetta, Georgia hosts some 300 events annually. The events attract the live-work-play project's residents, shoppers, office workers, hotel guests, and more.

"We're building communities," she said, noting that desire to gather has driven a strong retail comeback post-COVID. "It's human nature."

Food and Beverage

Restaurants and craft brew pubs have long been key components of these complexes, but appealing to millennials is a lot different. They don't want the same fine dining options their boomer parents sought in upscale national chains. The result: developers are looking for more unique, chef-driven experiences to attract diners raised accustomed to nearby unique dining. North American Properties worked hard to attract Rumi's Kitchen to its Avalon property, Perry said.

Centennial's Steven Levin: "You're not tearing down the mall, you're adding to the mall the open-air experience."



Alpharetta, Ga.'s Avalon center (right) helped influence a wave of upscale, suburban centers such as Toro Development's planned Medley complex in nearby Johns Creek (above).

"It's his first unit. We've since done two of the four Rumi's that exist, in Avalon and Colony Square," Perry said.

That doesn't mean it's easy, observed Dotan Zuckerman, head of retail development at Atlanta-based Portman Holdings, who joined the company this year after heading up leasing at Hines's expansive Fenton project that opened this year in Cary, N.C.

"It's definitely the harder approach. It's easy to load up with a bunch of chains, harder to persuade a chef-driven artist to take the leap," he said. "You have to build a lot of trust, be disciplined. The deals are hard for us. There's more tenant improvement allowance and they pay less rent. But when you have that culinary mix right, they add to the guest experience."

That can result in higher office rents, too, as the amenity becomes more important.

Builders of instant downtowns need not focus on fine dining alone, however. Zuckerman noted that projects should be designed to include areas for delivery services and pickup to help support a growing percentage of take-out restaurant sales that ballooned during the pandemic and has remained at high levels. And quick-service matters, too.

"We can work with smaller operators who can't afford a full restaurant, but maybe can do a food truck," Perry said.

Entertainment and Sports

Not that long ago, adding a movie theater and perhaps an arcade was sufficient as an entertainment focus for a retail property. No longer.



"The theaters are gone. I don't think anyone is building any kind of project with a brand new theater. So, the challenge is what can be that second anchor," Zuckerman said. "One solution is the entertainment complex."

Tenants including Dave & Busters are now being joined by new concepts such as Chicken N Pickle which combine repast and recreation, offering chicken nuggets and pickleball courts, arcade games and bars.

Adding sports such as outdoor pickleball courts can even make a property more efficient.

"It makes a ton of sense, as it occupies land that may not get used for other purposes. This makes it engaging and useful," said JLL's Mueller. "And it brings somebody back time and time again."



Toro Development's Mark Toro: "We don't build projects, we build communities."

Local Boutiques

Traditional retail does remain an important part of the equation. Many of these centers still rely on national chains for their creditworthiness.

“There is something interesting I’m keeping my eye on. When you look at retail-centric mixed-use projects, you almost see the same lineup all over the country,” Zuckerman said. “There’s a reason why. Everyone loves Lululemon, for example, and all of the tenants that go with it. But it’s the exact same lineup at these projects.”

Toro Development’s Medley, on the other hand, will not focus strongly on apparel because of its proximity to Avalon, a project Mark Toro developed at North American Properties. But differentiation is important in another way, as well. Some newer properties are looking for the unique and local.

“Whenever we start a project in a city, I try to find that handful of rock-star retailers and I try to persuade them to join the mix,” Zuckerman said. “It’s a challenge. The reason they’re special and loved is that they only have one or two — they don’t have [a goal] of hundreds of units.”

Too much reliance on national names also risks problems when one leaves.

“We knew lifestyle centers were attractive aesthetically, but if those tenants ever left, how are you going to convince local tenants to take a location? Some of those local tenants require those things,” Caruso said.

Pop-ups are another answer, at least to some degree, Zuckerman added. They fill space that’s often not desirable



North American Properties’ Tim Perry: “Ultimately, with plazas, the goal is to lift the tide across the entire center.”

to permanent tenants.

“Another idea is creating a district with incubator space. It’s more thoughtful and strategic, he said. “Or build out a smaller storefront and go after a local jewelry maker or artist. It helps a startup or small business owner get their business growing without the credit an institutional mall owner may look for, while helping to create an interest environment in the project.”

Even shorter-term leases are helpful.

“It refreshes the street-level experience, so five-year or one- or two-year terms and pop-ups are preferable,” Toro said. “The shorter the term the better, because the health and welfare of the tenant is unknown at the outset. Relevance is the new credit.”

Bigger, Fewer, Stronger

One trend supporting the creation of these new, integrated communities has very little to do with the communities themselves. Mall operators are consolidating with experienced mixed-use developers to help guide their development plans going forward.

In August, Centennial Real Estate acquired Bayer Properties, long a noted developer of retail-centered mixed-use locations such as The Summit at Fritz Farm in Lexington, Ky., and Bridge Street Town Centre in Huntsville, Ala. Then in October, Simon Properties took a 50% stake in Jamestown, developer of Buckhead Village District in Atlanta and Raleigh Ironworks in North Carolina, a former steel fabricating mill that now combines retail and office.

“Consolidation is a big driver of what is going on, and it takes a lot of different forms,” said Kristin Mueller, COO, property management at JLL.

These include the ownership of assets to drive growth (such as Centennial’s Bayer purchase), with the new ownership finding themselves diversifying into new sectors.

Owners themselves are consolidating how they deal with management, by working with fewer, larger outside vendors.

JLL, for example, recently entered into a mixed-use and management strategic partnership with Poag Shopping Centers. Poag will provide development and redevelopment services for JLL-managed centers across the U.S., while JLL will provide management and operational services to Poag’s high-end, open-air lifestyle centers.

“In a way, we’re outsourcing what we secondarily do,” Mueller said. “Owner-operators want to know that they are partnering with a team that is best in class.”

Former Bayer chief Jami Wadkins, left, and Whitney Livingston now collaborate at Centennial.



Medical Uses

Wellness also is a focus, though the new tenants go far beyond a simple nail spa, gym or dentist office. Tenants such as One Medical at Fenton looks more like a resort and attracts an affluent clientele who will cross-shop.

Well beyond what many call the “medtail” phenomenon, the redevelopment of the former Landmark Mall site in Alexandria, Va., will include an actual hospital from the Innova Health System, even as partners Foulger-Pratt, The Howard Hughes Corp. and Seritage Growth Properties will redevelop the remaining portions of the location into retail, residential, commercial and entertainment.

“It will all live and breathe together,” said Caruso of CBRE, which is working on the project.

Communities

Even so, it sometimes isn’t easy to convince suburban municipalities that densification is a good thing. They cite concerns about overcrowding schools, traffic, and more. Even parks can be a problem.

“They resist it at first. It wasn’t

necessarily accretive to municipalities, which thrive on sales tax,” Caruso said. “Now they recognize the value.”

Essentially, developers have progressed from creating projects to creating lifestyles. Take a potential weekend at one of these new communities, as imagined by Levin.

“You can walk to a great outdoor brunch experience with your dog, read the paper, then listen to music for two hours on a Saturday morning from 9 a.m. to 1 p.m. That’s what people want to do,” he said. “That type of project is going to be the most desirable place created in America going forward. You’re not tearing down the mall, you’re adding to the mall the open-air experience — the residential, the walkability and the food and beverage experience.”

And for many, it’s making the industry fun — and profitable — again.

“We all do it because we’re passionate about it,” Mueller said. “If we can take a space and make it a place that people want to be, the profits will follow.”

JLL’s Kristin Mueller: “If we can take a space and make it a place that people want to be, the profits will follow.”



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