



# The Reurbanization of Retail

Cities across the country are seeing stores reconfigure and flock to downtown sites

By Debra Hazel

**T**hink of it as the next American Revolution—or, more accurately, a re-evolution: the return of retail to cities. So it isn't surprising that Philadelphia should be at the forefront.

National chains such as Apple are seeking locations in Center City, while international luxury brands are gravitating toward upscale Walnut Street. It's a major shift for the city, which often has been the neglected little brother of neighboring New York City and Washington, DC.

"Our geography is a blessing and a curse," says Alan Greenberger, executive director of the Philadelphia City Planning Commission. "When you live this close to New York and Washington, it makes it a little tough to get attention."

Philadelphia is not alone in seeing a resurgence of downtown shopping. Reversing a 50-year trend of suburban retail flight, cities including Washington, DC and Boston are seeing their vacant stores leasing up fast with retailers that include some suburban mainstays, such as Walmart, Target and Home Depot. Uniqlo's recent opening of its New York City flagship at 666 Fifth Ave. was the largest retail lease signed in the city's history, reported in 2010 at \$300 million for 15 years. "There's been a wake-up call that people in urban areas shop," Greenberger says.

In fact, the reurbanization of US retail is a response to factors logistical, economic and demographic. Ultimately, it comes down



**GREGORY T. MALONEY**  
Jones Lang LaSalle

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to a variation on bank robber Willie Sutton's famous quote: "That's where the people are."

The United States is now an urban nation; according to the US Census Bureau, 250 million people now live in or near cities. This reflects a global trend, as well; the United Nations reports that as of 2008, more than half of the world's population lived in towns or cities. Because retail follows rooftops, shops are now adapting their prototypes to fit urban locations, and landlords are encouraging entrepreneurs to test small city stores.

"There's more wealth in Center City USA," says Craig Grossman, managing director of Philadelphia-based Goldman Properties, which focuses on developing spaces for specialty retail in such cities as New York, Boston and Miami as well as its hometown.

Discounters, too, are recognizing the density: Walmart opened its first Urban Express store on Chicago's South Side, the first of 15 such venues (averaging 10,000 to 15,000 square feet) to open in three test markets. Target, which opened its first Chicago store in 1994, has come to Manhattan, and has announced plans to open smaller stores in Seattle and other major cities. Even the biggest of the big boxes, Home Depot, has created multi-level stores in New York City and Chicago, the latter with the Garden Center on the roof.

Municipal governments, too, have realized that all retailers bring sales tax revenues and are instituting new initiatives that will both help them locate downtown and help developers create spaces for them. For example, the District of Columbia estimates that it loses \$1 billion in retail sales annually to the suburbs.

"That's tens of millions of tax dollars lost," says David Zipper, director of business development and strategy for the Office of the Deputy Mayor for Planning and Economic Development in Washington, DC. "Then, there are jobs that are particularly valuable," because they do not require college degrees.

Not surprisingly in the United States, the return of urban living is linked to the Baby Boomers. Now in their 50s and 60s, many of this largest generation are empty nesters leaving large suburban homes they no longer want or need.

"People are sick and tired of traffic," says Gregory T. Maloney, CEO and president of Jones Lang LaSalle Retail in Atlanta. "You do everything around morning and evening rush hour."

In turn, their children, the Echo Boomers, are now moving out on their own and forming households where it's easier to socialize. After all, the echo boomers grew up watching an urban neighborhood on television. "It's the 'Sesame Street' effect," says Matt Winn, senior managing director and US retail services leader of Cushman & Wakefield in Atlanta. "At the same time, cities started becoming safer."

Crime has been declining nationwide since the 1990s, according to the Federal Bureau of Investigation, and is now at 40-year lows. Perhaps as a result, a third group of city dwellers is emerging, says Laurence Steinberg of Plymouth Meeting, PA-based Fameco Real Estate's investment sales team. "We are seeing an uptick in the number of families with children who are staying, at least for the first few years," he says.

Suburbanization once equaled isolation, Greenberger observes. Now there is a shift back to a more social environment, particularly as more people are self-employed. Retail and restaurants provide that socialization. "By 2020, 26% of the workforce will be consultants," operating outside of traditional office settings, Winn says. "Starbucks becomes infinitely important."

Still, the urbanization is still very much a top-tier market phenomenon. The top 10 urban markets are New York, San Francisco, Los Angeles, Chicago, Boston, Miami, Seattle, Houston, Dallas and Washington, DC, says Faith Hope Consolo, New York City-based chairman of Prudential Douglas Elliman's retail group.

Philadelphia has not yet become a 24-hour city, observes Joseph Coradino, president of locally based PREIT Services LLC and PREIT-Rubin, which operates (and is planning a major renovation of) the urban Gallery at Market East as well as a number of retail



**JOSEPH CORADINO**  
PREIT Services LLC

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and mixed-use projects in the city's suburbs. "But it is an 18-hour city," he adds. "The streets of Philadelphia are alive with activity seven nights a week."

Such urban opportunity also has been timed well with retailers' growth plans. While not expanding at the same level as before the recession, a number of chains are looking to grow where they can achieve the most business. Business needs also factor into chains'

interest in city locations—they're built out in the best suburban centers and need to grow the bottom line somewhere.

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Rather than open in a B mall, they'll adapt their prototype to suit a new urban space—and target a market subset dubbed the "New Digerati," young, tech-savvy professionals who may telecommute and want to be in the city. Big boxes have adapted their merchandise mix and instituted services to accommodate shoppers who are more likely to walk or take public transportation to the stores.

"Who would have thought that Target would do a two- or three-story building?" says Maloney. "Whole Foods has figured it out."

Usually, that means downsizing. Particularly for big boxes such as discounters or home improvement stores, the logistical differences for a prototype are so great that a company almost needs another division, Maloney says.

Technology helps, allowing tighter inventory that can keep storage areas small. But merchandise choice could be restricted, creating a very different style of store for urban retail units. "The most interesting question will be: is it density or is it depth?" Winn asks.

Prestige also is a factor. Many argue that a retailer can't be considered a true giant without a downtown location—and can't be an international player without a store in one of the top-tier cities.

"Many retailers want to be on the main streets, aka 'High Streets,' to elevate the profile of their brands," Consolo says.

"However, that doesn't necessarily mean retailers are going to Main Street in lieu of the malls."

Even so, retailers do have to exercise caution. City stores aren't necessarily profitable, after all. The higher rents and cost of an urban flagship can essentially mean that the store is a three-dimensional ad.

Rents along New York City's Fifth Avenue now average \$2,250 per square foot, according to Cushman & Wakefield's 2011 "Main Streets Around the World" report. New York also has the world's second and third priciest streets, East 57th Street at \$1,200 per square foot, and Madison Avenue at \$847 per foot. Los Angeles' Rodeo Drive boasts rents of \$500 per square foot, with Chicago's North Michigan Avenue asking \$450 per foot.

These markets, of course, benefit heavily from international tourism, the report says. And the idea of the flagship store as loss leader could be changing. "In addition, retailer footprint and store formats are evolving as a result of a shift in focus towards profitability," the report says.

Philadelphia, while not seeing these lofty rents, is fully leased and seeing top dollar, Grossman reports. "The smaller spaces have become a lot more attractive," Grossman says. "We're seeing more entrepreneurs and creative local people opening stores." The owners of these smaller shops, typically between 1,000 and 2,000 square feet, can usually cobble together start-up financing from smaller sources, including their own savings and investments from friends and relatives, Grossman notes.

Philadelphia is literally in a unique place: situated between the all-dominant New York City and Washington, DC, it has to a degree been overlooked by retailers, despite its size. "We have the third largest downtown residential population in the country," says

Fameco's Steinberg. He adds that Center City Philadelphia also is seeing a new British invasion, with new stores opened by upscale UK chains, including Barbour and Jack Wills, and others, such as Ben Sherman, looking.

Washington, DC, has long been a proponent of proactively working to bring retailers Downtown, Zipper notes. "DC, as a city, is way ahead in having a professional and large presence at ICSC's annual RECon convention in Las Vegas," Zipper says. "We had upwards of 90 meetings with retailers, and it's paid off." The number of supermarkets in the district has grown from 34 in 2000 to 49 in 2011. Harris Teeter, he relates, has formed a major presence in the city, often adjusting its prototype to accommodate the location.

Home Depot has opened on Rhode Island Avenue in the district, and a number of other projects are under way, including City Center DC, to open in 2014, Zipper reports. DC USA, now under construction in Columbia Heights, will bring Target, Best Buy, Bed Bath & Beyond and other major boxes to the city.



**FAITH HOPE CONSOLO**  
Prudential Douglas Elliman

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Rents did decline for a period in the major cities during the lowest points of the Great Recession. Philadelphia's Walnut Street saw rents drop from some \$140 per square foot to \$110 per square foot today. New York City's rents declined, as well, although the toniest streets, Madison and Fifth avenues, have now rebounded.

But the dip in rents may not last for long. Retail experts say cities and suburbs are not competing for stores; the urban locations are part of an overall plan. "The urban retail development is in addition to, not at the expense of, suburban stores," Coradino says. "It's filling a need."

Urban locations have one set of goals, suburban stores another. Most retailers accomplish both. "These people are not coming in from the suburbs to go shopping," Maloney says. "They're going in to be entertained."

Some markets require both formats, Winn adds. "Global brands have to look at urban retail," he says. "In New York, for instance, you need both urban and suburban. In Atlanta, you're seeing a huge urban resurgence."

Don't give up on the suburbs, Coradino maintains. Even as retailers are moving to the city, more services, including basic health care such as medi-centers, are moving out to the suburbs. And as retailers continue to flock to downtowns, it actually helps suburban stores. "There will inevitably be a greater return to suburban markets, especially after some retailers have established their profiles on the High Streets," Consolo says. "An urban identity inherently adds value to a brand, which reinforces its positioning in the suburban centers." ♦

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