



FORMING RELATIONSHIPS WITH VARIOUS GROUPS TO SOLVE RETAIL VACANCIES HAS HELPED PRIORITY MANA GERS AT (CLOCK WISE FROM LEFT TO RIGHT) THE CENTRE MALL IN INDIANAPOLIS, HOUSTON CENTER IN HOUSTON AND DOWNTOWN BLACKSLEY IN

# united front

REAL ESTATE MANAGERS AND MUNICIPALITIES TACKLE EMPTY STOREFRONTS BY WORKING TOGETHER • BY DIANA MIREL



## Nothing indicates economic downturn like empty storefronts.

Retail vacancy rates are closely tied to unemployment: As unemployment rises, retail vacancies spike as well. Such vacancies are not only a concern for property managers and owners struggling to fill empty stores; these vacancies affect the entire municipality in which they are located.

"If a retail location goes vacant, the city is going to generate less tax revenue off of that," said John Fox, principal of Fox Realty Advisors in Indianapolis. "The area in which these properties are [located] may also become blighted or challenged, and that can be very contagious."

Thus, many municipalities are getting more aggressive and proactive in helping property owners, managers and developers identify and execute solutions to combat retail vacancies.

"With the changing and challenging economic picture, it is more important than ever that the public and private sectors cooperate with each other to promote future retail development," said Frances Spencer, SCSM/SCMD, principal of the Pendulum Partners in Chicago. "Neither sector can have success without the cooperation of the other."

### VEXED BY VACANCIES

At the end of 2009, U.S. retail vacancy was 7.6 percent and availability rates were around 10 percent, according to CoStar Group Inc. Retail vacancies are particularly troubling for the Midwestern United States and selected areas in the South and Southwestern parts of the country. Detroit, for example, is one of the most notorious cities for retail vacancies because of the struggling auto industry.

The auto industry's woes have also affected retail

vacancies in other Midwest cities such as Columbus and Dayton, Ohio and Kansas City, Mo. which all have strong ties to heavy manufacturing and automotive suppliers.

Phoenix, Las Vegas, Birmingham, Ala., Memphis, Tenn., and Atlanta also make up the top 10 U.S. cities with retail vacancies. While the Midwest's struggles can be directly attributed to the state of U.S. manufacturing, the vacancies in these areas are tied more closely to oversupply of retail development relative to demand.

"Places like Las Vegas and Phoenix and the Southeast markets had low barriers to entry for retail development and previously had high rates of population growth," Fox said. "Of course, that has fallen off now."

**Looking ahead,** CoStar forecasts vacancy to improve slightly to 7.5 percent at the end of 2010. A real recovery from vacancy is forecasted to begin in 2011, improving consistently on a quarterly basis to finally end 2012 back at the 5.5 percent recorded in 2006.

"We think we're cresting," said Suzanne Mulvee, a real estate strategist from PPR, a CoStar Company. "We think that by the middle of 2012 we'll see a decline back to where we were when we went into the recession."

Painful as this economic downturn has been, analysts predict that the recovery will be swifter than in the past—a result of the lack of available financing hindering the construction pipeline, Mulvee said.

"Construction will stay muted in this cycle longer than it has in previous cycles," she said. "That allows any increase in demand to accrue to vacancy, which will allow the vacancy rates to come down faster than we saw in previous cycles."

### MUNICIPAL PARTNERS

Still, despite the projected eventual recovery, property owners, managers and developers should take advantage of the growing interest among municipalities across the country to be more flexible, and to partner with the private sector—an interest stemming from the economic downturn and its impact on the municipalities.

"Realizing that the city derives revenue from sales tax, we are natural partners," said Lauri Greenblatt Hines, CPM®, president of Promus Commercial, AMO®, in San Diego.

The key is to be proactive. As Fox noted, "You're not going to get anything if you don't ask for it. You have to reach out to people in the executive office, the planning

and zoning departments and economic development people—and get these people on board. They are stakeholders in what is going on in your particular area.”

Forming relationships with the planning and zoning departments can help property owners and managers fill vacancies quicker. Municipalities might be more open to reconsidering the zoning restrictions in their retail districts, Greenblatt Hines said.

“For example, auto dealers have been hit hard by the recession, and many have closed,” she said. “A responsive, flexible municipality that will consider alternative uses for the site such as redevelopment or zoning changes will help the city and the property owners regroup and backfill the space more quickly.”

When dealing with local government, however, it is important to keep expectations in check.

“Don’t ask for a pie in the sky and be insulted when you get just a little piece,” said Spencer, who spent 12 years as assistant commissioner in the City of Chicago’s Department of Planning and Development. “Be realistic in what you’re asking and try to understand what the other sector is going through...Cities know that their success and tax revenues are directly tied to the properties that property managers manage. Both sides need to be able to work with each other to keep that asset strong and competitive.”

**One way property owners** and managers can form relationships with local governments is through the International Council of Shopping Center’s Alliance Program. The program started in 1996 as a way to bring about a greater understanding of the shopping center industry and its economic impact on communities across America.

Today, it brings together local governments and property owners, managers and developers to revitalize communities through retail. It sponsors local and regional meetings and deal-making sessions, which serve as forums for introducing the intricacies of the shopping center industry to state and local governments, and community-based organizations.



To get involved with the International Council of Shopping Center’s Alliance Program, visit the ICSC Web site at [www.icsc.org](http://www.icsc.org).

#### TAKING THE TEAM APPROACH

Alongside forming relationships with local municipalities, teaming up with associations, universities, businesses and other groups to solve retail vacancies is key.

When downtown Blacksburgh, Va., started experiencing higher vacancy rates, and some of its buildings were falling into disrepair, the local government partnered with a number of groups, including Virginia Tech, the retail and arts communities, downtown merchants and economic development professionals to establish a downtown revitalization committee. The committee determined ways to make the downtown successful, attract new retailers and help existing retailers.

“We focused on safety, parking and the cleanliness of our downtown. Then we tried to come up with financial incentives that may help retailers,” said Diane S. Akers, CPA, CEcD, president of the Blacksburgh Partnership, the economic development arm of the committee.

The financial incentives include a façade improvement grant, a revolving loan fund for small business development projects and a marketing fund to promote the downtown retailers. To further attract new retailers, the local government also offers a number of financial incentives for new businesses, like waiving business license fees.

Most of these incentives are being funded by the local government, while the Blacksburgh Partnership funds the marketing and promotion. Currently, five businesses have taken advantage of the façade improvement grants, helping property owners recruit new retailers with more modern buildings and properties, Akers said.

“It is about being more business friendly,” said Akers.

In Houston, the public and private sectors joined forces through the Downtown Management District, an entity set up by the state of Texas and comprised of a board of elected officials, many of whom are real estate professionals.

The Downtown Management District has a grant program funded through an assessment put on all office buildings in the downtown. The grants are typically used for tenant improvements, with the board awarding three to five grants per year.

“They are inclined to propose new projects and select historical buildings that they think will make an impact on part of downtown,” said Frank Staats, CPM, vice president of property management for Houston Center, and a Downtown Management District board member.

Through its 20 years in Houston, the Downtown

Management District has become a more prominent and powerful force. It not only acts as a liaison between the city and downtown corporations and retailers, but it also utilizes city funding to manage everything from waste management to landscaping.

"It is hard for the city to do it all," Staats said. "It is easier for the Downtown Management District to say, 'Here is an area of downtown that we're going to assess ourselves, we're going to manage the money ourselves and we're going to prioritize it ourselves.' It gets done more efficiently than trying to work through a large bureaucracy."

**Teamwork has also been critical** to the success of Circle Centre Mall in Indianapolis. The mall has a strong partnership with the city that began in the development phase, with the common goal of creating a destination-oriented shopping environment downtown in already-existing buildings, said Steve Kingsley, regional vice president of property management for Simon Management Group in Indianapolis. In developing Circle Centre, Simon worked closely with the city and the Indianapolis Historical Society to preserve the historical building storefronts.

"The plan involved including historical elements into the design of the exterior of the center," said Kingsley. "The purpose was for it to look as if it had always been there. That goes a long way in maintaining the character of the city."

Today, the mall also partners with the Indianapolis Convention and Visitors Association (ICVA), which focuses on attracting new businesses and growing existing businesses downtown. For example, the mall recently worked with ICVA to create a window display to showcase some of the Indianapolis Zoo's premier exhibits.

"We created synergy between the zoo and downtown Indianapolis," said Kingsley. "It was a great partnership, and it paid off for both of us."

#### MUNICIPALITIES MAKE GREAT TENANTS

Many cities are also taking an active role in filling vacancies by becoming tenants themselves. For instance, when Promus Commercial was trying to fill vacancies in Pier View Plaza, a mixed-use development in Oceanside, Calif., the city opted to lease a storefront for its redevelopment agency.

The agency moved into a visible storefront within the center and set up the space similar to a visitor's center. The center is open to locals and tourists, who are looking for sights to see and things to do within Oceanside. Additionally, prospective retailers come in to get advice and guidance on redevelopment opportunities and incentives. The redevelopment agency also began hosting a street fair outside the center every week, which helped draw traffic to and increase the visibility of the center.

As both a tenant and a partner, the redevelopment agency was a valuable resource for Promus Commercial in terms of referring tenants.

"They would give us leads, saying this retailer is looking for space so you might want to talk to them," said Greenblatt Hines. "They are also such a great resource for our tenants, most of whom are mom-and-pop operators looking to open a new business."

**Finally, many municipalities** are developing programs to encourage landlords to maintain properties and retain tenants such as façade rebate programs, tax increment financing (TIFs), special loan programs and focused marketing programs, according to Spencer.

"It takes the total involvement of each of the players to achieve a positive outcome," said Spencer. "The property owner has to be open to improving its asset and not just accepting rent checks from struggling tenants; the municipality has to be creative with their zoning, planning and financial incentives; and the retailer has to develop formats that address the urban footprint or the needs of the specific community." ■

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