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INTERNATIONAL COUNCIL OF SHOPPING CENTERS

The cover photo shows the CityTarget store in Chicago. The photograph was taken by Michael Niemira. Used with permission.

Urban Places: A Global View

Understanding the Urban Market Retail Potential

*MICHAEL PACIONE**

Abstract: *This article explains the definition of "urban places," highlighting some of the major global trends and forms of development that characterize the contemporary urban world. As such, it provides a basis for further detailed investigation of urban change and retail opportunity in cities across the globe.*

Today, for the first time in history, urban dwellers outnumber rural residents.[1] Urban places—towns and cities—are of fundamental importance: for the distribution of population within countries; in the organization of economic production, distribution and exchange; in the structuring of social reproduction and cultural life; and in the allocation and exercise of power. Furthermore, in the course of the present century the number of urban dwellers and level of global urbanization are likely to increase. Even those living beyond the administrative or functional boundaries of a town or city will have their lifestyle influenced to some degree by a nearby, or even distant, city.

Human beings inhabit a world in which urban areas and influences have spread across much of the habitable surface of the planet. The outcomes of these processes are manifested in the diverse urban environments that characterize the contemporary world. Retail land uses constitute a major part of these environments.

Defining Urban

In approaching the concept of urban, it is useful to distinguish between what is an *urban place* and what is *urban*. This is more than an exercise in semantics. The distinction between urban as a physical entity and urban as a quality helps us to understand the complexity of urban life, and illuminates different approaches to the study of cities.

Urban as an Entity

Four principal methods are employed to identify urban places:

1. *Population size*. Since urban places are generally larger than rural places, at some point along the population-size scale it should be possible to decide when a village becomes a town. In practice, this urban population threshold varies over time and space. In Sweden, any settlement with more than 200 inhabitants is classified as urban in the national census, whereas in the United States, the population minimum for an "urban cluster" is 2,500. In contrast, that minimum in Switzerland is 10,000; in Japan, 30,000. Such diversity reflects social context. Given the sparse distribution of settlement in many areas of Sweden, a threshold of 200 may be appropriate, whereas in a densely settled country such as Japan, virtually all settlements would exceed such a low urban threshold population. If not made explicit, these differences may complicate international comparison.
2. *Economic base*. In some countries, population size is combined with other diagnostic criteria to define an urban place. In India, for example, a settlement must have more than 75% of the adult male population engaged in non-agricultural work to be classified as urban.
3. *Administrative criteria*. The majority of towns and cities in the world are defined according to legal or administrative criteria. The definition of urban places by national governments leads to great diversity, which creates difficulties for comparative research that can be overcome only by urban analysts constructing their own definitions and applying them uniformly across the globe. A second problem with administrative definitions is that these may have little correspondence with the actual physical extent of the urban area. A frequent problem is underbounding, where the built-up area of the city extends beyond the urban administrative boundary. This may lead to major fiscal difficulties for the central city deprived of taxes from commuters resident beyond the legal boundaries of the city.
4. *Functional definitions*. To address problems such as underbounding (and its converse, overbounding), urban researchers devised "functional urban

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[1] The United Nations estimated that just prior to 2010 the urban share of the world population exceeded 50% for the first time ever. See: United Nations, Department of Economic and Social Affairs, Population Division, *World Urbanization Prospects, The 2011 Revision*. New York, 2012.

Table 1-1
U.S. Geographic Areas

Because federal government funding is often directed to areas, the Executive Office of the President's Office of Management and Budget (OMB) promulgates official standard area definitions that all government departments and agencies that conduct statistical collection activities and publish data are advised to use. OMB establishes and maintains definitions for metropolitan and micropolitan statistical areas, which is often thought of as a short-hand for the urban and rural categories. However, OMB notes that "Metropolitan and Micropolitan Statistical Area Standards do not equate to an urban-rural classification; many counties included in Metropolitan and Micropolitan Statistical Areas, and many other counties, contain both urban and rural territory and populations."

Selected Geographic Terms (as provided by the U.S. Census Bureau):

Core Based Statistical Areas (CBSAs) consist of the county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. The general concept of a CBSA is that of a core area containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. The term "core based statistical area" became effective in 2003 and refers collectively to metropolitan statistical areas and micropolitan statistical areas.

Combined Statistical Areas (CSAs) consist of two or more adjacent CBSAs that have substantial employment interchange. The CBSAs that combine to create a CSA retain separate identities within the larger CSA. Because CSAs represent groupings of metropolitan and/or micropolitan statistical areas, they should not be ranked or compared with individual metropolitan and micropolitan statistical areas.

Metropolitan Statistical Areas are CBSAs associated with at least one urbanized area that has a population of at least 50,000. The metropolitan statistical area comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Areas are CBSAs associated with at least one urban cluster that has a population of at least 10,000 but less than 50,000. The micropolitan statistical area comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Urban Areas are densely settled core of census tracts and/or census blocks that meet minimum population density requirements, along with adjacent territory containing non-residential urban land uses as well as territory with low population density included to link outlying densely settled territory with the densely settled core. To qualify as an urban area, the territory identified according to criteria must encompass at least 2,500 people, at least 1,500 of which reside outside institutional group quarters. The Census Bureau identifies two types of urban areas: 1.) Urbanized Areas (UAs) of 50,000 or more people; 2) Urban Clusters (UCs) of at least 2,500 and less than 50,000 people. "Rural" encompasses all population, housing, and territory not included within an urban area.

Source: Office of Management and Budget, *2010 Standards for Delineating Metropolitan and Micropolitan Statistical Areas; Notice, Part IV* (June 28, 2010); U.S. Census Bureau http://www.census.gov/geo/www/2010census/gtc/gtc_cbsa.html

regions" which reflect the real extent of urban influence. The concept of the extended urban area was first introduced by the United States Bureau of the Census in 1910 and later developed into the Standard Metropolitan Statistical Area (SMSA) in 1960 and, since 1983, the Metropolitan Statistical Area (MSA). Consolidated Metropolitan Statistical Areas (CMSAs) are formed by two or more contiguous MSAs.[2] As Table 1-1 shows, the U.S. definition includes measures of population size, centrality and economic function.

In 2000 a review of standards for defining U.S. MSAs retained the two main principles established in 1960:

1. *settlement form* (based on the population size of a central core city);
2. *functional integration between central and outlying counties* (reflected in journeys to work, with this criterion raised from 15% to 25%).

Other criteria for inclusion within a metropolitan area were dropped. The 2000 standards identify two main types of core-based statistical areas (CBSAs):

1. *metropolitan* statistical areas, defined around at least one Census Bureau-defined urbanized area of 50,000 or more population;
2. *micropolitan* statistical areas, defined around at least one urban cluster of at least 10,000 and less than 50,000 population.

Adjacent CBSAs that have sufficient employment interchange (measured using journey-to-work data) are grouped to form larger "combined statistical areas."

Another significant development was the replacement of a "central cities" classification with one of "principal cities" (defined on the basis of a variety of population and employment data). While this will capture many of the previous central cities, it will also reflect recent changes in the U.S. urban landscape by identifying newer outlying employment centers as principal cities.

Within MSAs the 2000 standards identify two types of counties as a basis for metropolitan divisions:

1. *main counties*, with 65 per cent or more of employed residents who remain in the county to work, and with a jobs-to-resident-workers ratio of 0.75 or greater;

[2] John S. Adams, Barbara J. van Drasek, and Eric G. Phillips, "Metropolitan Area Definitions in the United States," *Urban Geography,* Vol. 20 (No. 8), 1999, pp. 695-726.

2. *secondary counties*, with a high jobs-to-resident-workers ratio (0.75 or greater), but a lower percentage of employed residents working within the county (50–64.9%).

Main counties can stand alone as a metropolitan division or can provide the organizing basis for a metropolitan division. Secondary counties must combine with another secondary county or with a main county to form the basis of a metropolitan division. The remaining counties of an MSA are assigned to the main and secondary counties with which they have the highest commuting interchange. Metropolitan divisions, if present in an MSA, will account for all of its territory.

Comparison of the 2000 metropolitan standards with the 1990 standards revealed that the new definitions accounted for 90% of the U.S. population (compared with 80% for the 1990 definitions). Clearly, the application of the new urban standards will result in a change of status for many U.S. counties.

In the United Kingdom, researchers have sought to define a similar set of daily urban systems. A first attempt identified Standard Metropolitan Labour Areas comprising a core plus metropolitan ring that together formed the daily urban system (Table 1-2). A development of this system added an outer ring consisting of all local authorities that send more commuters to the core in question than to any other core, the whole being designated a Local Labour Market Area. A conceptually similar scheme is that based on Functional Urban Regions, which have been used to compare changing urbanization patterns in Western Europe.

Table 1-2
Definitions of Urban Areas in the United Kingdom

The U.K. Standard Metropolitan Labour Area has a core plus ring with a combined population of at least 70,000 with:

- A core consisting of a local authority administrative area or number of contiguous areas with a density of five jobs or more per acre (13.75 per hectare); or a single administrative area with 20,000 or more workers.
- A ring consisting of administrative areas contiguous to the core and sending 15% of their economically active population to that core.

Source: Professor Michael Pacione

Urban as a Quality

In contrast to definitions of the city as a physical entity, the concept of urban as a quality is related more to the meaning of urban places and the effect of the urban milieu on people's lifestyles (and vice versa). Clearly, although cities exist as physical objects, it is by no means certain that they are perceived by their inhabitants in the same way that they are objectively structured. It is reasonable, therefore, to think of a city as having both an *objective physical structure* and a *subjective or cognitive structure*.

The same urban space can be seen in different ways by residents, tourists, workers, shoppers, elderly people, unemployed people, women and children. For the homeless person, the city may be a cold, anonymous and inhospitable place; for the elderly, a spatially restricted world; for the wealthy, a cornucopia of opportunity and well-being. Understanding these subjective interpretations of urban milieu is important, because meanings inform us not only about the places to which they refer but also about the people who articulate them and the social context in which they live.

Urban geographers and others have sought to identify urban meaning through two main approaches:

1. *Cognitive mapping*. Geographers, planners and environmental psychologists have employed mental maps or cognitive mapping techniques to explore the subjective world of urban places, with a view to both obtaining a better understanding of human behavior in the urban environment and improving the quality of urban life.[3] Whereas traditional means of cognitive mapping provide subjective spatial representations of urban environments, more recently postmodern approaches seek to "map" the meanings of the city for different "textual communities" who share a common understanding of the "text" and organize their lives accordingly as, for example, in the creation of a "suburban mentality."[4]
2. *Urbanism as a way of life*. Early efforts to identify urban places in terms of a distinct lifestyle were based on Louis Wirth's concept of a rural–urban continuum.[5] This argued that as the size, density and heterogeneity of places increased, so did the level of economic and social disorganization. Wirth, a member of the Chicago school of human ecology, regarded urbanization as a process leading to the erosion of the moral order of society due to the concomitant decline of community. He saw the urban setting as a separate spatial realm with its own environmental influences on individuals, and he contrasted the social disorganization of urban life

[3] Juval Portugali (ed.), *The Construction of Cognitive Maps*, Dordrecht: Kluwer, 1995.

[4] Rob Shields, "A Guide to Urban Representation and What to Do About It: Alternative Traditions of Urban Theory," in Anthony D. King (ed.), *Re-presenting The City: Ethnicity, Capital and Culture in the Twenty-First Century Metropolis*, NYU Press, New York: 1996.

[5] Louis Wirth, "Urbanism as a Way of Life," *American Journal of Sociology*, Vol. 44 (No. 1), July 1938, pp. 1-24.

(in which much social interaction is of a transitory and superficial nature with "unknown others") with the strong extended family links and communities in small settlements and rural areas. More recent perspectives that acknowledge the interpenetration of social realms have rejected the crude dualism of bipolar concepts such as urban–rural or public–private.

Accordingly, although cities do exert a particular influence on their inhabitants, the concept of a rural–urban continuum has been criticized:

1. for its Western ethnocentrism (which assumed that the rural–urban change process is universally applicable);
2. by studies which reveal the presence of "village communities" in cities (including Wirth's own work on the ghetto); and
3. for failure to locate the process of urbanization within the political economy of capitalism (not least the impact of wider social, economic and political changes in rural areas, as demonstrated by the presence of "urban" societies in supposedly rural areas).

In seeking to reinterpret the meaning of "urban," David Harvey and Manuel Castells dispensed with the notion of a separate urban realm and concluded that while urbanism (as a way of life associated with residence in an urban area) has a distinctive structure and character, it exists within a larger framework created by the forces of capitalism.[6] This means that "urban lifestyles" can spread beyond the physical limits of the city.

The quintessential diversity of urban life is central to postmodern representations of the city. Informed by processes of globalization, social polarization, cultural fragmentation and advances in information and communications technology, these focus on the rise of new cultural groupings and urban spaces, such as those defined by lifestyle communities.[7] Postmodern readings of the city as "text" employing urban metaphors, such as the city as jungle, bazaar, organism and machine, produce a multitude of representations of cities from the perspectives of different populations.

The Significance of Place

Within urban environments, the concept of place is of central importance. Place, such as a shopping mall, is a unique and special location in space notable for the fact that the regular activities of human beings occur there. Moreover, because it is a site of such activities and all that they entail, place may furnish the basis of our sense of identity as human beings, as well as for our sense of community with others. In short, places are special sites in space where people live and work and where, therefore, they are likely to form intimate and enduring connections. Even in a globalizing world, a sense of place is of real importance in people's daily lives.

Paradoxically, the advent of cyberspace has re-focused attention on the importance of places in urban life. There is growing recognition among urban scholars that place is a central concept in the analysis of how urban areas are constructed and come to have meaning for their residents. Furthermore, as the constraints of geographical distance become less important, the specific features of particular locales are becoming more important in the locational decisions of businesses and households. The "construction" of place also characterizes the restructuring of many contemporary cities from being centers of production (for example, the steeltowns of yesteryear) to being centers of consumption (for example, Las Vegas of today), in the sense that they provide the context in which goods and services are compared, evaluated, purchased and used. Places such as London's Covent Garden or Fisherman's Wharf in San Francisco obtain a distinctive character that not only reinforces the place's sense of identity but transforms the locality into an "item of consumption," a process often boosted by retail advertising and city marketing strategies.

Global Urban Trends

The Urbanization of the Globe

The global urban pattern is changing in three main ways as a result of:

1. *urbanization*: an increase in the proportion of the total population that lives in urban areas;
2. *urban growth*: an increase in the population of towns and cities;
3. *urbanism*: the extension of the social and behavioral characteristics of urban living across society as a whole.

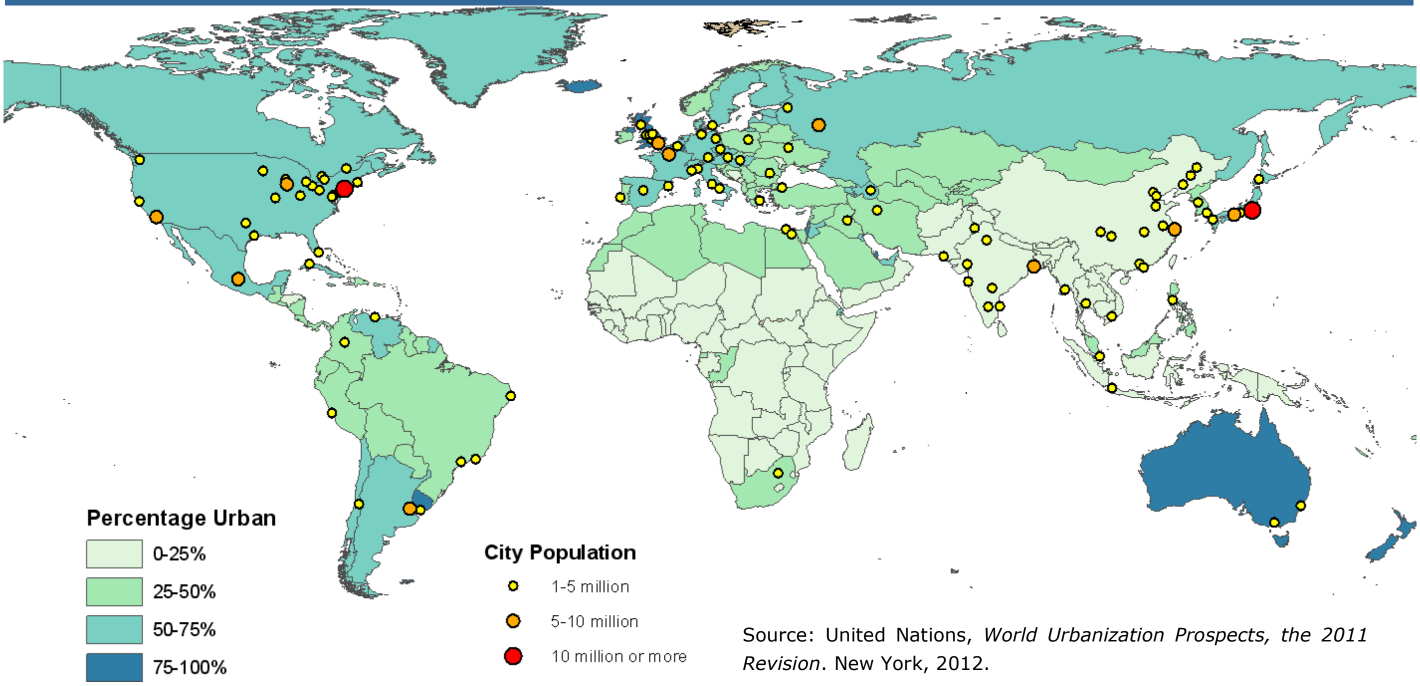
Significantly, the current high level of world urbanization is a relatively recent phenomenon. At the end of the 19th century, the extent of world urbanization was limited, with only Britain, Northwest Europe and the United States more than 25% urban in 1890. With less than 3% of the world's population living in towns and cities, levels of urbanization elsewhere were insignificant. In the United States, urban development was confined primarily to the cities on the East Coast and emerging Midwest.

6 David Harvey, *The Urbanization of Capital*, Oxford: Blackwell, 1985; Manuel Castells, *The Urban Question*, London: Arnold, 1977.

7 Michael Dear and Steven Flusty, "Postmodern Urbanism," *Annals of the American Association of Geographers,* Vol. 88 (No. 1), March 1998, pp. 50-72.

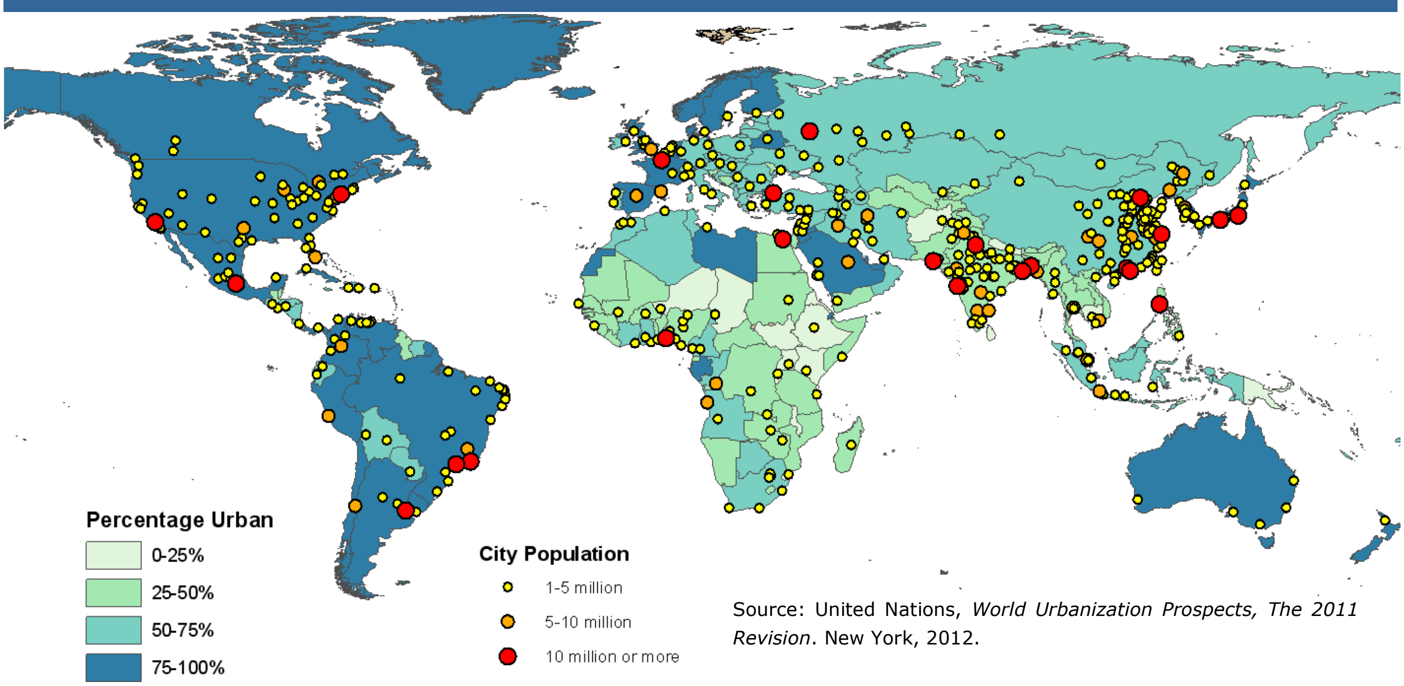
FEATURES

Figure 1-1
The Urban World in 1960



Source: United Nations, *World Urbanization Prospects, the 2011 Revision*. New York, 2012.

Figure 1-2
The Urban World in 2011



Source: United Nations, *World Urbanization Prospects, The 2011 Revision*. New York, 2012.

An indication of the rapid progression of urbanization across the globe is provided in Figures 1-1 and 1–2. The spread of urbanization in Europe, North America and the Middle East is apparent, as are the rising levels of urbanization in Africa and Asia, which were almost wholly rural in 1960. Over the course of the past half-century, a world in which most people lived in rural areas has been transformed into a predominantly urban world. This trend has influenced not just the physical location of population but also the organization and conduct of economic and social life of most people on the planet—both urban and rural dwellers.

As Table 1-3 indicates, the more developed regions (MDRs) exhibit high levels of urbanization. About three-

Table 1-3
Urban Population and Percentage Urban in More Developed and Less Developed Regions

Region	Urban Population (thousands)				Urban Shares (%)			
	1960	1970	2010	2025	1960	1970	2010	2025
World	**1,019,638**	**1,352,419**	**3,558,578**	**4,642,582**	**33.6**	**36.6**	**51.6**	**58.0**
More developed regions	**555,970**	**670,573**	**957,251**	**1,043,067**	**60.9**	**66.6**	**77.5**	**81.1**
Australia and New Zealand	10,189	13,140	23,594	28,538	80.5	84.5	88.6	90.3
Canada	12,368	16,430	27,402	31,817	69.1	75.7	80.6	82.5
Europe	344,397	412,199	536,611	566,299	57.0	62.8	72.7	76.1
Japan	58,527	74,544	114,567	118,190	63.3	71.9	90.5	96.3
United States	130,420	154,171	254,959	298,101	70.0	73.6	82.1	85.2
Less developed regions	**463,668**	**681,846**	**2,601,326**	**3,599,515**	**21.8**	**25.3**	**46.0**	**53.6**
Africa	53,310	86,568	400,651	642,423	18.6	23.5	39.2	45.3
Asia less Japan	229,535	351,498	1,592,774	2,213,931	38.8	38.9	49.6	56.9
China	106,656	141,744	660,286	911,804	16.2	17.4	49.2	65.4
India	80,272	109,447	378,775	542,191	17.9	19.8	30.9	37.2
Latin America and Caribbean	108,540	163,402	465,246	560,030	49.3	57.1	78.8	82.5
Argentina	15,183	18,918	37,320	42,666	73.6	78.9	92.3	94.0
Brazil	33,570	53,716	164,409	189,698	46.1	55.9	84.3	87.7
Colombia	7,207	11,693	34,730	43,148	45.0	54.8	75.0	78.9
Mexico	19,499	30,613	88,272	106,985	50.8	59.0	77.8	81.6
Oceania less Australia and New Zealand	391	751	2,263	3,219	80.0	83.8	87.0	88.3

Source: United Nations, *World Urbanization Prospects, The 2011 Revision*. New York, 2012.

quarters of the populations of Europe, North America, Japan and Australia–New Zealand were urban dwellers in 2010, and by 2025 at least eight out of every 10 people in these regions are expected to live in urban areas. Accordingly, in the developed countries the pace of urbanization is slackening. By contrast, the less developed regions (LDRs) are characterized by rapid urbanization that is expected to continue for decades. As Table 1-3 shows, for instance, in 1970, 25% of the population of LDRs lived in urban areas. By 2010, 46% were urban dwellers. The United Nations projects urban-LDR dwellers will grow at a much faster pace between 2010 and 2025 than the urban-MDR population and even faster than the world population, which will mean that by 2025 more than half of the LDR residents (i.e., 3.6 billion people) will live in towns and cities and they will represent just under half of the world population.

The Changing Distribution of the World's Urban Population

The United Nations forecasts that the number of urban dwellers in the world will increase nearly fivefold from 1.0 billion to 4.6 billion people between 1960 and 2025. The geography behind this urban population explosion shows that the world urban population is not distributed evenly among regions. As Table 1-3 reveals, in 1970 the MDRs and LDRs had a similar number of urban dwellers (671 million and 682 million, respectively). The late 1960s represented a "tipping point" in the global *distribution* of urban populations. Prior to the late 1960s, most urban dwellers lived in the MDR, but this dominance has been declining since 1950, when 442 million (59%) of the 745 million urban dwellers worldwide lived in the MDRs. However, around 1970 the number of urban dwellers in LDRs overtook that of MDRs, and the gap continues to widen. In 2010 there were 2.6 billion urban dwellers (73% of the world urban population) in the LDRs with 957 million in the MDRs. By 2025, 3.6 billion of the 4.6 billion urban dwellers are expected to live in the LDRs.

The distribution of urban population is also changing within the LDRs and the MDRs. In the former realm, Asia is a major region of urban growth. Whereas in 1970 Asia was home to 426 million urban dwellers (32% of the world total), by 2010 1.7 billion (48%) of the 3.6 billion global urban dwellers were Asian. It is anticipated that 2.3 billion (half the world's urban dwellers) will live in Asia by 2025. This trend is in marked contrast to the situation in Europe. As Table 1-3 shows, Europe was second only to Asia with 412 million urban dwellers in 1970. Between 1970 and 2010, Europe added 124 million urban dwellers, with a further 30 million expected by 2025. From 2010 to 2025, Asia is expected to add 625 million urban residents—or about 21 new urban Asians for every new European urban resident—with about two-thirds of the Asian urban expansion from China (252 million) and India (163 million).

Table 1-4
Average Annual Rate of Change of Urban Population

Region	1960-1965	1980-1985	2005-2010	2020-2025
World	**3.00**	**2.68**	**2.14**	**1.58**
More developed regions	**2.04**	**0.91**	**0.81**	**0.48**
Australia and New Zealand	2.52	1.28	1.81	1.11
Canada	2.96	1.24	1.15	0.93
Europe	1.99	0.80	0.50	0.31
Japan	2.42	0.83	1.06	-0.12
United States	1.89	1.16	1.24	0.94
Less developed regions	**4.09**	**3.93**	**2.65**	**1.91**
Africa	5.07	4.21	3.27	3.05
Asia less Japan	3.90	4.28	2.85	1.83
China	3.72	4.78	3.44	1.49
India	3.00	3.33	2.56	2.31
Latin America and Caribbean	4.30	3.05	1.56	1.06
Argentina	2.29	2.03	1.09	0.77
Brazil	4.98	3.56	1.30	0.76
Colombia	5.46	3.28	1.85	1.25
Mexico	4.70	2.82	1.66	1.08
Oceania less Australia and New Zealand	6.19	3.45	1.80	2.63

Source: United Nations, *World Urbanization Prospects, The 2011 Revision.* New York, 2012.

Latin America and the Caribbean are also growing rapidly, with their urban population more than doubling from 163 million in 1970 to 465 million in 2010. The urban population of the region is expected to reach 560 million by 2025, slightly less than the number projected for Europe (566 million). Africa exhibits the fastest urban growth rate of any major world region. From nearly 87 million urban residents in 1970, Africa had grown by 2010 to approximately 401 million, and by 2025 the number of urban dwellers is expected to reach 642 million. All these trends are confirmed by the analysis of urban growth rates shown in Table 1-4.

Settlement Size

The world's urban population is distributed among settlements of differing sizes along a continuum from small towns with several thousand people to giant cities with populations of tens of millions. Most of the urban population live in settlements with fewer than 500,000 inhabitants. Most of these intermediate settlements function as links between town and country, where agricultural surpluses are exchanged for manufactured goods and services in accordance with the precepts of the model of regional spatial structure known as "central place theory."[8]

The distribution of urban population in terms of settlement size is shown in Table 1-5. In 1960 only two cities (Tokyo and New York) had a population of 10 million or more, accounting for 3% of the world urban population. Even by 1980 there were only four cities that had attained this size, sharing 3.9% of the world urban population. By 2010 those megacities numbered 23, and it is anticipated that by 2025, 37 cities will reach the 10 million mark, accommodating 13.6% of the world urban population. In absolute numerical terms this represents a rise from 30.8 million people living in two megacities (the Tokyo and New York metro areas) in 1960 to 630 million in approximately three dozen giant cities by 2025. Between 2010 and 2025, nearly 90% of the population growth in the largest urban agglomerations is expected to occur in the LDRs. At the other end of the population-size continuum, cities with fewer than 500,000 inhabitants were home to 64.8% of the world urban population in 1960, while those cities accounted for 51.3% of the urban population in 2010. Although their share is expected to decrease slowly through 2025, smaller cities will still account for 42% of world urban population, as seen in Table 1-5.

Million Cities, Megacities and Metacities

One of the most striking features of the global urban pattern is the degree to which the urban population lives in giant cities that dominate the global urban and economic systems. Against the background of a general increase in the number of people living in urban places, it is these metropolitan regions that are proliferating and expanding most rapidly.

While urban definitions and cross-national comparisons can be difficult, significant trends can be identified in the geographical distribution of megacities. Table 1-6 lists the 15 largest urban agglomerations at different points in time, enabling one to map the major changes over the post-World War II period. Tokyo, with a population of 36.9 million in 2010, has been the world's largest city since 1960 and is projected to retain that rank. By contrast, New York is projected to continue to slip down the ranking over the next 15 years. Other expected changes include the entry of Lagos and Shenzhen to replace Rio de Janeiro and Buenos Aires by the year 2025. Comparison of the lists for 1960 and 2010 demonstrates the remarkable shift in the global distribution of largest cities from the MDRs to the LDRs, a trend that will continue for the foreseeable future.

The largest cities are becoming larger; the average population of the world's largest cities was over 5 million inhabitants in 1990, compared with 2.1 million in 1950,

[8] Walter Christaller, *Central Places in Southern Germany*, Prentice Hall, Englewood Cliffs, N.J., 1966.

Table 1-5

Urban Population, Number of Cities and Percentage of Urban Population by City-Size Class

Size Class	World				More Developed Regions				Less Developed Regions			
	1960	1980	2010	2025	1960	1980	2010	2025	1960	1980	2010	2025
10 million or more												
Number of agglomerations	2	4	23	37	2	2	6	8	0	2	17	29
Population (thousands)	30,842	69,249	352,465	630,005	30,842	44,150	103,678	136,379	0	25,099	248,787	493,626
% Urban	3.0	3.9	9.9	13.6	5.5	5.8	10.8	13.1	0	2.5	9.6	13.7
5 million-10 million												
Number of agglomerations	10	19	38	59	6	6	8	13	4	13	30	46
Population (thousands)	64,798	141,440	266,078	401,961	40,717	51,184	52,800	81,382	24,081	90,256	213,279	320,579
% Urban	6.4	8.1	7.5	8.7	7.3	6.8	5.5	7.8	5.2	9.1	8.2	8.9
1 million-5 million												
Number of agglomerations	94	173	388	572	50	81	104	118	44	92	284	454
Population (thousands)	173,475	333,042	759,919	1,127,589	89,426	154,733	207,153	228,895	84,049	178,309	552,767	898,694
% Urban	17.0	19.0	21.4	24.3	16.1	20.4	21.6	21.9	18.1	17.9	21.2	25.0
500,000-999,999												
Number of agglomerations	128	245	513	750	80	105	127	167	48	140	386	583
Population (thousands)	90,024	168,534	353,802	515,720	55,449	71,323	85,356	111,166	34,574	97,211	268,445	404,554
% Urban	8.8	9.6	9.9	11.1	10.0	9.4	8.9	10.7	7.5	9.8	10.3	11.2
Fewer than 500,000												
Population (thousands)	660,499	1,040,962	1,826,313	1,967,307	339,536	436,585	508,264	485,245	320,963	604,377	1,318,049	1,482,062
% Urban	64.8	59.4	51.3	42.4	61.1	57.6	53.1	46.5	69.2	60.7	50.7	41.2

Source: United Nations, *World Urbanization Prospects, The 2011 Revision.* New York, 2012.

and less than 200,000 in 1800. Megacities (defined by the United Nations as cities with 10 million or more inhabitants) are increasing rapidly, particularly in LDRs. Whereas in 1960 only two cities (New York and Tokyo) had a population of 10 million or more, by 2010 23 cities had become megacities, as seen in Table 1-7. In 2010, four megacities of 2010 were located in Latin America and the Caribbean (São Paulo, Buenos Aires, Rio de Janeiro and Mexico), two in the United States (New York and Los Angeles), two in Europe (Moscow and Paris), two in Africa (Cairo and Lagos) and 13 in Asia. In 2010, 17 of 23 megacities were in LDRs; by 2025 it is expected that 29 of 37 megacities will be located in LDRs. The geographical shift in megacity growth is repeated in the distribution of "million cities" and in the emergence of "metacities" (defined as conurbations[9] of more than 20 million people) in Asia, Latin America and Africa. Many metacities (or "hypercities") have populations greater than some countries (Greater Mumbai's exceeds that of Norway and Sweden combined).

Table 1-6

The 15 Largest Urban Agglomerations, Ranked by Population Size, 1960, 2010 and 2025

Rank	1960		2010		2025	
	Agglomeration and Country	Population (millions)	Agglomeration and Country	Population (millions)	Agglomeration and Country	Population (millions)
1	Tokyo, Japan	16.7	Tokyo, Japan	36.9	Tokyo, Japan	38.7
2	New York-Newark, United States	14.2	Delhi, India	21.9	Delhi, India	32.9
3	London, United Kingdom	8.2	Mexico City, Mexico	20.1	Shanghai, China	28.4
4	Paris, France	7.4	New York-Newark, United States	20.1	Mumbai (Bombay), India	26.6
5	Shanghai, China	6.8	São Paulo, Brazil	19.7	Mexico City, Mexico	24.6
6	Buenos Aires, Argentina	6.6	Shanghai, China	19.6	New York-Newark, United States	23.6
7	Los Angeles-Long Beach-Santa Ana, United States	6.5	Mumbai (Bombay), India	19.4	São Paulo, Brazil	23.2
8	Osaka-Kobe, Japan	6.2	Beijing, China	15.0	Dhaka, Bangladesh	22.9
9	Chicago, United States	6.2	Dhaka, Bangladesh	14.9	Beijing, China	22.6
10	Moscow, Russia	6.2	Kolkata (Calcutta), India	14.3	Karachi, Pakistan	20.2
11	Kolkata (Calcutta), India	5.7	Karachi, Pakistan	13.5	Lagos, Nigeria	18.9
12	Mexico City, Mexico	5.0	Buenos Aires, Argentina	13.4	Kolkata (Calcutta), India	18.7
13	Rio de Janeiro, Brazil	4.4	Los Angeles-Long Beach-Santa Ana, United States	13.2	Manila, Philippines	16.3
14	Mumbai (Bombay), India	4.1	Rio de Janeiro	11.9	Los Angeles-Long Beach-Santa Ana, United States	15.7
15	São Paulo, Brazil	4.0	Manila, Philippines	11.7	Shenzhen, China	15.5

Source: United Nations, *World Urbanization Prospects, The 2011 Revision.* New York, 2012.

9 This term was coined in Patrick Geddes, *Cities in Evolution: An Introduction to the Town Planning Movement and to the Study of Civics*, Williams and Norgate, London, 1915, retrieved August 7, 2012.

Table 1-7
Number of Megacities

Region	1960	2010	2025
World	**2**	**23**	**37**
More developed regions	**2**	**6**	**8**
Australia and New Zealand	0	0	0
Canada	0	0	0
Europe	0	2	3
Japan	1	2	2
United States	1	2	3
Less developed regions	**0**	**17**	**29**
Africa	0	2	3
Asia less Japan	0	11	20
China	0	4	7
India	0	3	6
Latin America and Caribbean	0	4	6
Argentina	0	1	1
Brazil	0	2	2
Colombia	0	0	1
Mexico	0	1	1
Oceania less Australia and New Zealand	0	0	0

Source: United Nations, *World Urbanization Prospects, The 2011 Revision.* New York, 2012.

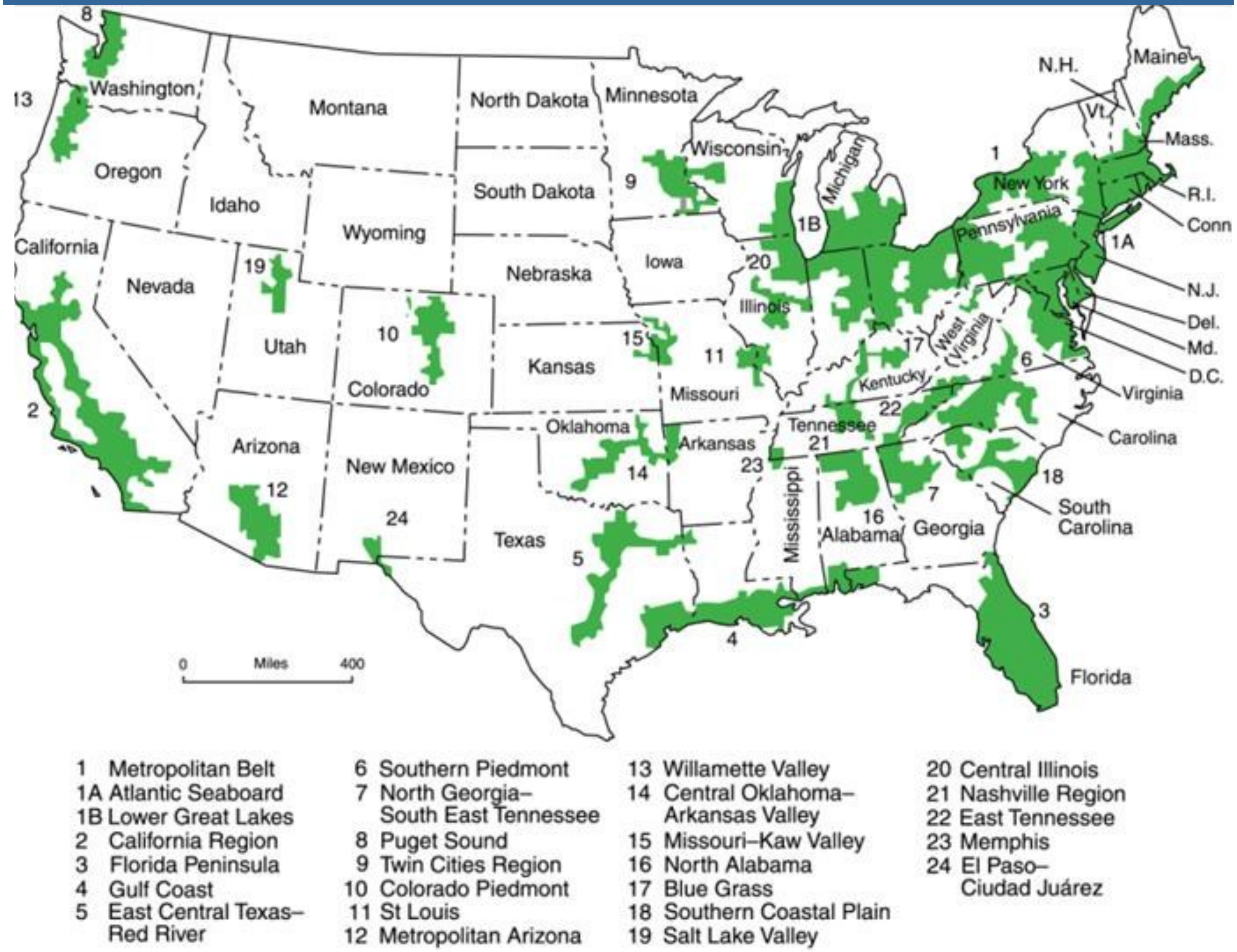
Types of Urbanized Regions

The increasing scale of urbanization, urban growth and development of national urban systems has given rise to a number of different forms of urbanized regions. Major forms include:

1. *The city-region*. This is an area focused on the major employment center in a region and encompassing surrounding areas, for which it acts as the primary high-order service center. The functional relationship between a city and its region was a key feature of central place theory. The city-region remains an appropriate description of monocentered urban areas of up to a million people found in less densely populated parts of even the most highly urbanized countries. Variants employed for statistical purposes include functional urban regions and standard metropolitan statistical areas.
2. *Conurbation*. This term describes a built-up area created by the coalescence of once-separate urban settlement. With improvements in transportation and communications, the functional influence of the conurbation has spread beyond the limits of the built-up area, so the term is now widely used in the United Kingdom and elsewhere to describe multi-nodal functional urban units. The functional relationships within a conurbation differ from those of a city-region; in essence, while there is a degree of dominance by the largest city, the other urban places also have their own functional linkages.
3. *The urban field*. This is a unit, similar to the conurbation, used in the United States. An urban field is generally regarded as a core urban area and hinterland of population at least 300,000, with an outer limit of two hours' driving time. Defined in this manner, urban fields range in population size from 500,000 to 20 million and cover one-third of the United States and 90% of the national population. Urban fields are more spatially extensive than European conurbations, since they are based on higher levels of personal mobility. The southern California urban field extends 150 miles from north to south and includes Tijuana in Mexico (in the process creating a transnational city in which the largest "Mexican" city is Los Angeles). The concept may become increasingly relevant for understanding the functional reality of urbanized regions beyond the United States, as similar levels of mobility are achieved through improvements in transport and communications. The urban field is one form of polycentric urban region. A second is the polynucleated (i.e., several urban nuclei, or cities) metropolitan region or megalopolis.
4. *Megalopolis*. This term, introduced by Jean Gottmann in 1961, described the urbanized areas of the northeastern seaboard of the United States encompassing a population of 40 million oriented around the major cities of Boston, New York, Philadelphia, Baltimore and Washington, D.C.[10] Gottmann subsequently defined a megalopolitan urban system as an urban unit with a minimum population of 25 million. The central importance of transactional activities (in terms of international trade, technology and culture) would indicate a location at a major international "breakpoint" (such as a port city). A megalopolis would typically have a polynuclear form but with sufficient internal physical distinctness for each constituent city to be considered an urban system in its own right. The cohesiveness of the megalopolitan system depends on the existence of high-quality communications and transportation facilities. This megalopolitan phenomenon was identified initially in six zones: the archetype model of the northeastern United States, the Great Lakes area extending from Chicago to Detroit, the Tokaido area of Japan centered on Tokyo–Yokohama and extending west to include Osaka–Kobe, the central belt of England running from London to Merseyside, the

[10] Jean Gottmann, *Megalopolis: The Urbanized Northeastern Seaboard of the United States*, MIT Press, Cambridge, Mass.: 1961.

Figure 1-5
Megalopolises of the United States



Source: Professor Michael Pacione, *Urban Geography: A Global Perspective* (Routledge, London, 2009)

northwestern European megalopolis focused on Amsterdam–Paris–Ruhr, and the area around Shanghai. Since then, 26 growth areas of the United States have exhibited megalopolitan patterns (Figure 1-5), while similar trends are evident in Brazil (between Rio de Janeiro and São Paulo), in China[11] and in Europe[12] (Figure 1-6). At the international level, the notion of connectivity (though not necessarily physical contacts) among different cities has given rise to the concept of the transnational sub-regional urban corridor—evident, for example, in the 1,500 km BESETO urban belt stretching from Beijing to Tokyo via Pyongyang and Seoul and containing 100 million people and 112 cities of over 200,000 inhabitants (Figure 1-7). An even larger international urban system is envisaged based on flows of goods and services, investments, information and people between major mainly coastal metropolitan cities in the Asian-Pacific region. This international regional city system contains smaller scale urban corridors such as BESETO, the Pearl River delta and JABOTABEK.[13]

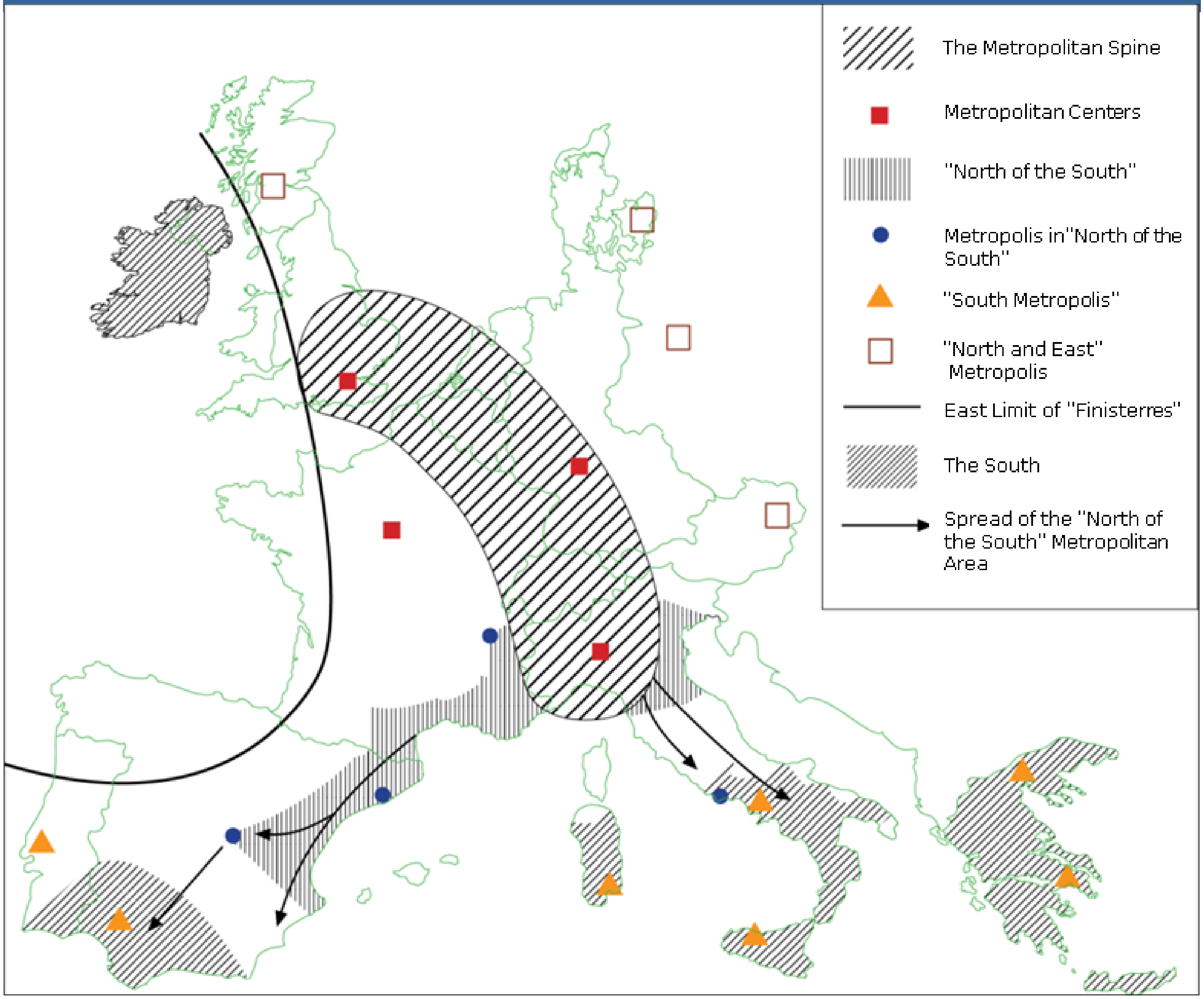
5. *Ecumenopolis*. The ultimate expression of urbanization, this is the term employed by

[11] Anthony G.O. Yeh, "Hong Kong and the Pearl River Delta: Competition or Cooperation?" *Built Environment*, Vol. 27(No. 20), 2001, pp. 129-145.

[12] Frans Dielman and Andreas Faludi, "Randstad, Rhine-Ruhr and the Flemish Diamond as One Polynucleated Macro-Region?" *Tijschrift voor Econemische en Sociale Geografie*, Vol. 89 (No. 3), 1998, pp. 320-7.

[13] Fu-Chen Lo and Yue-Man Yeung (eds.), *Emerging World Cities in Pacific Asia*, United Nations Press, Tokyo, 1995.

Figure 1-6
The Megalopolitan Trend in Western Europe



Source: Professor Michael Pacione, *Urban Geography: A Global Perspective* (Routledge, London, 2009)

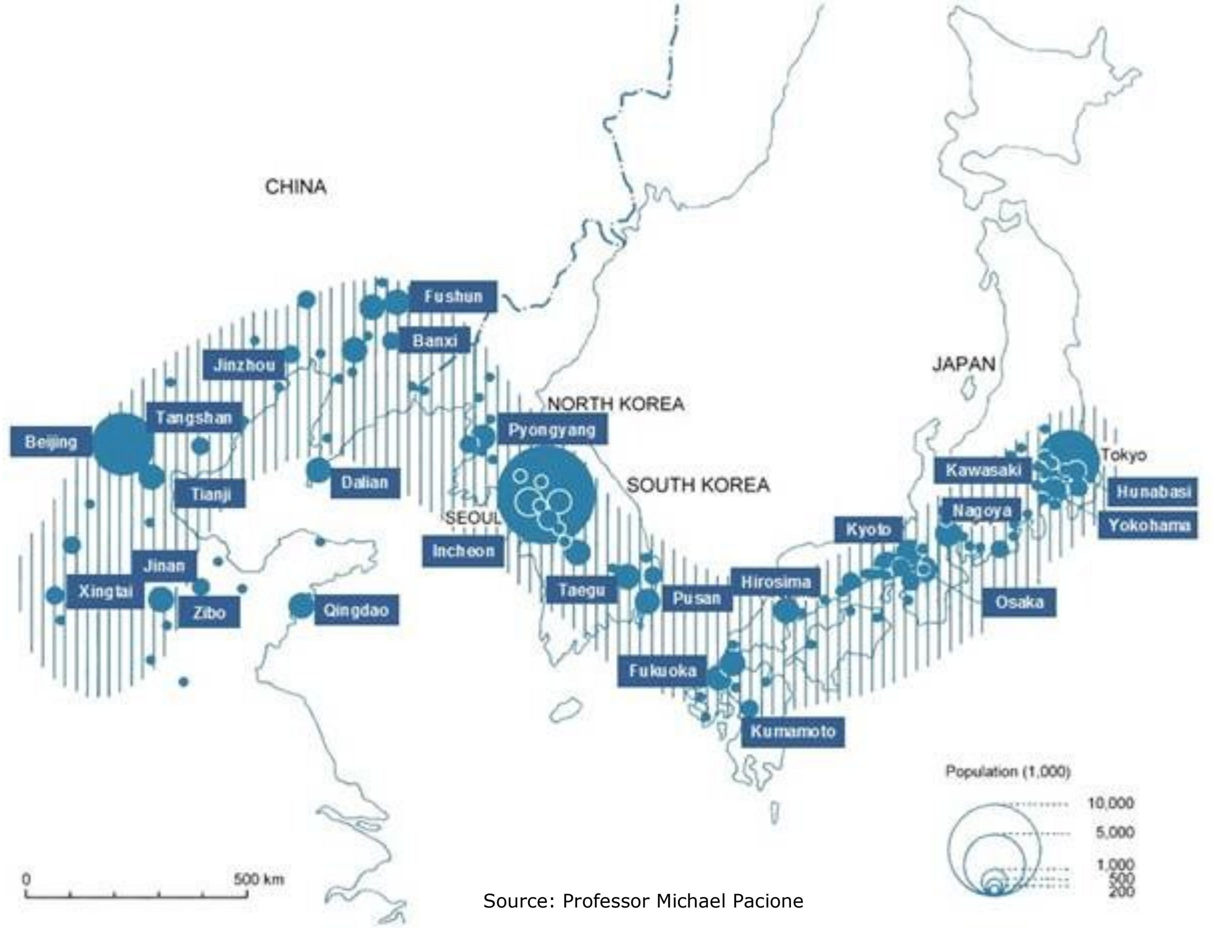
Constantinos A. Doxiades in 1968 to describe a projected urbanized world or universal city by the end of the 21st century.[14] (See Figure 1-8). Although highly speculative, the ecumenopolis concept does focus attention on the potential consequences of unrestrained urban growth and underlines the importance that is currently being attached to the concept of sustainable urban development.

Conclusion

The Chinese symbols for challenge and opportunity are the same. This is a fitting metaphor for the fast pace of change in our contemporary urban lives and specifically for the link between processes of urban change and growing opportunities for retail development. The growth of towns and cities described in this article provides increasing concentrations of population and consumer power that afford expanding commercial opportunities for the retail industry, provided practitioners are aware of the varying lifestyles and forms of urban development taking place in different parts of the world. Knowledge of the nature and geography of the changing urban world is a prerequisite for retail developers seeking to compete successfully for a share of the expanding market emerging in different urban environments across the globe.

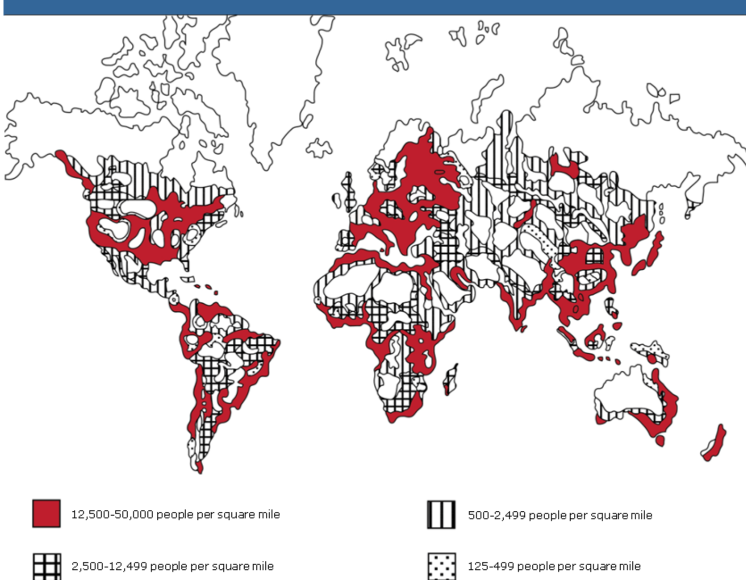
[14] Constantinos A. Doxiadis, *Ekistics*, Hutchinson, London, 1968.

Figure 1-7
The BESOTO Urban Belt



Source: Professor Michael Pacione

Figure 1-8
Ecumenopolis: An Urbanized World at the End of the 21st Century



Source: Constantinos A. Doxiadis, *Ekistics*, Hutchinson, London, 1968.

FEATURES

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Building a Better Foundation for Urban Retail's Future

Heeding Lessons of the Postwar Experience

ROBERT GIBBS*

Abstract: *From the 1950s to 1970s, American cities experienced a significant retail market decline for a variety of reasons that impacted lifestyle choices and the economy. Mistakes made during that time due to poor urban planning and policy decisions left many urban residents looking for other places to shop and live. This article looks at lessons to be learned from these past errors to help plan and rebuild vital cities and walkable communities—and ensure successful retail projects—for extended periods of growth.*

Over 80% of Americans now reside in urbanized areas.[1] Observing this growing preference for urban living, many leading retailers, such as Wal-Mart, Target and Office Depot, have designed new, more flexible store formats that can be adapted to the historic buildings and smaller blocks found in traditional city centers (such as New York's Fifth Avenue in Figure 2-1).[2] As a result, downtowns and other urban areas have an opportunity to experience a rebirth as centers of regional commerce.

Such a situation would constitute a welcome reversal of fortune for American towns and cities, to an age when they still offered a wide range of goods and services, including groceries, hardware, apparel and home furnishings, while including at least one department store (in larger towns, often covering entire blocks). The stores in these sustainable urban centers were accessible to consumers by a walk or short drive.

How many urban areas ceded their historical role as their region's primary shopping destination to the suburbs—and why prospects look better than they have for awhile countering this trend—is analyzed in what follows.

Retail at the Crossroads of Urban Commerce

Retailers have always depended on passing traffic for their livelihood. Villages, towns, and cities have followed the changing fortunes of their major transportation systems: rivers, canals, railroads or highways.

Retailers, offices, and hotels sprang up to service individuals passing along these arteries. City halls, courthouses, libraries and post offices served as noncommercial anchors for communities, that is, as community anchors. Various land uses created a demand for each other by being located within a compact, walkable environment. (See Grand Rapids, Michigan, in Figure 2-2.)

During the peak commercial era of American cities, commonly acknowledged as the 1950s and 1960s, banks, cinemas, department stores, supermarkets and even automobile dealerships thrived as anchors in central business districts (CBDs). In this period, cities also accommodated large volumes of vehicular traffic, mass transportation and plenty of on-street parking. It was not uncommon for 20,000 to 30,000 cars to travel the typical American main street each day. Public and private large-scale anchors supplemented each other's functions and indirectly supported smaller independent retailers and chain stores.

Figure 2-1
Fifth Avenue, New York City

Source: Gibbs Planning Group, Inc.

* Principal, Gibbs Planning Group; Member, American Society of Landscape Architects

[1] Nate Berg, "America's Growing Urban Footprint," *The Atlantic* ("Cities" Blog), March 28, 2012, retrieved September 18, 2012.

[2] Stephanie Clifford, "Retailers' Idea: Think Smaller In Urban Push," *The New York Times*, July 26, 2012, p. A1, retrieved September 18, 2012.

Figure 2-2

Grand Rapids, Michigan Downtown, Circa 1940

Source: Gibbs Planning Group, Inc.

That situation is no longer the norm. Cities are ringed with shopping centers and big-box districts offering name brands and prices no longer available in downtowns. The remaining businesses in many cities tend to be based on entertainment, dining, or tourism, or are so unique that they have limited appeal to local residents. Surprisingly, many well-intended public policymakers have discouraged national chains from locating in downtowns, which has resulted in an undesirable situation: urban residents must drive to the suburbs for most of their primary goods and services.[3]

The success of suburban shopping centers profiting from these reverse commuters compels more downtown retailers to abandon the city for suburban locations. For convenience, urban residents, employment centers, and eventually government facilities follow, and the cycle of suburban sprawl continues.

One stark manifestation of these trends can be found in this statistic: Between 1948 and 1967, the total retail market share in American city centers dropped by 16 percentage points.[4] What happened? Why did so many CBDs lose their commercial market share to the suburbs? Were shopping malls entirely to blame for retail stores leaving downtowns?

To be sure, several well-known trends—the postwar baby boom, federal housing policies and the rise of the interstate highway system—contributed to the suburbanization of America. But many downtowns worsened the situation by implementing a series of well-intended changes in policy planning and "improvements" that ended up negatively impacting their retail sales.

In many cases in this decisive quarter century of urban change, major shifts in a transportation system, such as the construction of a bypass highway or the removal of an entire street, precipitated a sharp decline in traffic and commerce. During that time, many urban planners theorized that reducing vehicular traffic would make downtowns more "pedestrian friendly." Unfortunately, as an unintended consequence, downtown retail sales plummeted and new shopping centers opened along the bypass roads, eventually creating commercial strips. Downtown retailers who could relocate to new suburban shopping centers did so. Sadly, transportation policymakers continue to promote the bypass highway as the best way to increase downtown commerce by removing the car and making the downtown more pedestrian friendly and walkable.

Urban Commercial Challenges

Opening a business in a historic urban area presents physical and political challenges not found in suburban shopping centers. When a business decides to locate in an urban center, it must find a suitable building in an appropriate location. While any given downtown has numerous individual properties available, the buildings are usually too small for modern retailers or require significant improvements for their adaptation. Often, historic buildings are not structurally equipped for contemporary uses.

The timeline for locating a space, negotiating a lease, obtaining the necessary government approvals, and coordinating the store's construction is too unpredictable for most small businesses. The uncertain and often subjective building permit process required in most cities is an unreasonable hardship for the independent and often undercapitalized store or restaurant owner. In many cases, the business owner must pay rent (with no sales revenue) for months while building a new store. Unfortunately, this process favors large regional and national chains over small, innovative start-up retailers and restaurants.

While many city centers have the demographics necessary to support the addition of thousands of square feet of new retail development, potentially generating millions of dollars in annual sales with consequent tax revenue, they often have an insufficient supply of suitable spaces and parking to accommodate such growth. The typical modern retailer requires 5,000 to 10,000 square feet (sf) of area, high ceilings, and on-site parking. Nonetheless, many prime retailers will modify and

[3] Boston, Charleston, Chicago, Portland, and numerous other cities represent an exception to this pattern.

[4] U.S. Bureau of the Census, *Statistical Abstract of the United States: 1984* (104th Edition), Washington, D.C., 1983, Table 1491, "Retail Trade—Summary: 1948 to 1977."

downsize their store prototypes for sites in popular and commercially successful historic districts, such as Charleston, Georgetown and Pioneer Square in Seattle. Smaller, multi-level stores, however, must yield higher sales to offset increased management and marketing expenses.

To create a profitable balance of new retailers in a CBD, older buildings or underused or vacant parcels need to be filled with viable businesses. Extensive interior modifications are often required, such as aligning floor levels, removing floors to raise ceiling heights, and addressing deviations from current building codes. Many small to medium-sized local, regional and national retailers can adapt their standard formats to buildings as shallow as 25 feet and as small as 200 sf. These micro-stores should be grouped around anchor-type tenants capable of attracting shoppers from outside the area. City-owned surface parking lots and underused properties represent opportunities for building in-fill anchors, such as a small department store or larger retailer establishment.

Urban Planning and Design

Urban environments are, by definition, congested, noisy and filled with distractions. The thriving CBDs of this country's past were, by today's standards, fairly utilitarian. Massive billboards, overhead wires, and worn concrete sidewalks were the norm, which did not seem to matter to the tens of thousands of people who shopped or worked downtown.

The commingling of these elements, however, produces unique city centers that are rarely duplicated from scratch. They help give authenticity to the city and should be respected. Taken too far, modern retail planning practices can result in turning a city into a lifeless shopping center.

After suffering the effects of poor planning and policy decisions, as well as losing most of their commerce to suburban centers, many cities attempted to revitalize themselves by turning their downtowns into facsimiles of the suburban malls with which they were competing. In fact, this was often done with great fanfare, and later failure, during the 1960s and 1970s when many streets were turned into pedestrian malls. In some cases, entire downtowns were torn down, forcing businesses to relocate to new suburban shopping malls outside their city limits. More than 200 North American cities closed their primary shopping streets entirely to automobiles and converted them into landscaped pedestrian-only malls.[5] If pedestrian-only walks worked in the suburban shopping center, then why not in downtowns?

Downtowns with busy streets and on-street parking provided residents and commuters with convenient access to a wide range of businesses and government uses. Depriving motorists of the opportunity to drive through the streets of a shopping district and directing them to remote parking lots created barriers too great for busy shoppers.

While parking in a remote lot or garage may make sense for an office worker or someone planning an afternoon of shopping, most quick in-and-out visits to downtown shops do not warrant remote parking. One-million-sf suburban regional malls, on the other hand, provide enough shopping venues to justify the challenge of finding a parking space in a large lot and then walking through it to destination stores and back.

Urban pedestrian malls only quickened the demise of hundreds of struggling small towns and cities. Only a handful of these malls have been successful in the United States.[6]

Today, many underserved city centers refuse to allow leading national retailers or discount department stores to open new units within their CBDs. This has resulted in retail deserts in many major cities, where large populations of urban residents are denied basic shopping necessities and choices.

The retail consumer-based market will eventually prevail. If there is a strong enough demand for an unmet commercial good or service downtown, some developer or retailer will find a way to satisfy that need. Numerous municipal governments have prevented "undesirable" retail stores from opening downtown, only to have one or more of these same stores open just across the city lines in another community.

Visual merchandisers, store planners and shopping-center developers have created proven techniques for attracting the shopper's attention and directing his or her (mostly her) movement and behavior. Store location, stairs, sculptures, benches, lighting, circulation and thousands of other details are precisely calculated and designed to extend mall shoppers' visits and increase their spending. (For example, many malls do not install clocks, since they can remind shoppers that it is time to return home.)

Pioneering shopping-center developer A. Alfred Taubman, while dealing with these factors as a young store planner, coined the term "threshold resistance,"

[5] See, for instance, Randal O'Toole's estimate in the "Room for Debate" blog post, "Pedestrian Malls: Back to the Future," *The New York Times*, February 27, 2009, retrieved Nov. 5, 2012.

[6] Among the more successful pedestrian malls are those in Boulder and Denver, CO; Burlington, Vt.; Third Street Promenade, Santa Monica, Calif.; and Charlottesville, Va.

defining it as: "*The physical and psychological barriers that stand between your shoppers and your merchandise. It's the force that keeps your customer from opening your door and coming in over the threshold.*"[7]

The architectural character and traditional urbanism of a historic city should be treated as assets and thus as beneficial to the planning process. Combined with proven retailing principles, they can create a sustainable urban shopping district, one capable of providing the goods and services needed and preferred by residents and tourists alike.

The shopping-center industry is, by its nature, trendy. Shopping centers also must keep the design and appointment of their stores, common areas, and furnishings as contemporary as possible. While fashion houses can update styles constantly, shopping districts require longer periods to update streetscape designs and furnishings. And unfortunately, newly-installed streetscape furnishings and detailing will inevitably become out-of-date. Even the most carefully designed and crafted bench will appear old-fashioned within 10 years.

Although up-to-date, well-designed, and maintained public spaces are essential to sustainable shopping areas, their contributions to retail sales are generally overrated. In reality, excessively detailed streetscapes, pavers, furnishings, banners, and lighting often distract the shopper's focus from storefronts and their window displays.

Several corollaries follow from the shopping-center industry's "eight-second rule," or the amount of time it takes the average shopper to walk past a 20-foot-wide storefront. If the store's entry is centered, the shopper will reach it in four seconds and, once past it, will rarely backtrack to shop. This leaves only one to two seconds for an arresting storefront display to motivate the pedestrian to enter the store. Overly busy or fussy designs for walkway paving and furnishings can distract the pedestrian's attention from the store window, resulting in a missed opportunity for a visit and a potential sale. A split second's distraction can translate into thousands of dollars in lost sales.

Too often municipal governments and shopping-center developers squander finite financial resources on the ground plane—sidewalks, curbs and streets—and ignore the more commercially important vertical plane: the built environment of storefront design, signage and visual merchandising.

For most of the late 19th and early 20th centuries, American cities prospered without many street trees or expensive streetscape furnishings. Rather, CBDs thrived as shopping destinations by having densely populated cores, mass transportation, large employment centers, on-street parking and numerous governmental and civic institutions. During the 1960s, America's larger cities began installing street trees and furnishings in an effort to revitalize downtowns in the wake of their loss of significant commercial market share to suburban shopping centers.

Even though they are a relatively recent phenomenon in many city centers, street trees enhance a downtown's uniqueness and authenticity, as demonstrated in research by Kathleen L. Wolf, a research social scientist at the University of Washington.[8] A well-planned, tree-lined urban street contributes to the shopper's perception that downtown stores offer quality goods and services not commonly found in shopping malls. (See, for instance, the Naples, Fla., shopping district in Figure 2-3.) However, street trees alone cannot solve the problems and challenges that commercial urban areas face. Frequently, too much emphasis has been placed on planting street trees and installing decorative streetscape enhancements in an effort to improve retail sales in historic downtowns.

In general, street trees should not replace on-street parking stalls. Numerous studies, however, have documented the benefits of tree canopies: they can effectively humanize urban spaces by providing shade and a sense of scale, and with other streetscape enhancements, they can positively affect a shopper's mood and thus increase retail sales.[9]

Studies dating back to the 1970s have documented the effects of greenery and other plant life on the "restorative experience," a concept advanced through two interpretations: *stress reduction theory* and *attention restoration theory*. The former theory contends that environments containing natural elements reduce levels of "physiological arousal" (stress) in the brain; the latter contends that the presence of vegetation in an environment is "uniquely capable" of effortlessly capturing attention, which allows those elements of the brain used for direct concentration to recuperate. This mitigates what is known as "directed attention fatigue" (DAF), or simply the depletion of the ability to focus on a directed task.

[7] A. Alfred Taubman, *Threshold Resistance: The Extraordinary Career of a Luxury Retailing Pioneer* (New York: HarperCollins, 2007), pp. ix–x.

[8] Kathleen L. Wolf, "The Environmental Psychology of Shopping: Assessing the Value of Trees," *Research Review*, Vol. 14 (No. 3), 2007, pp. 39-43, retrieved September 25, 2012.

[9] For a useful summary of the literature, see Mardie Townsend and Rona Weerasuriya, "Beyond Blue to Green: The Benefits of Contact With Nature for Mental Health and Well-Being." Melbourne, Australia: Beyond Blue Limited, 2010, pp. 18-19.

Figure 2-3
Street Trees Along Fifth Avenue, Naples, Florida Shopping District

Source: Gibbs Planning Group, Inc.

These findings have ramifications for urban retail areas. It has been proven that shopping, as a goal-oriented activity constrained by many external factors, can induce a stressed state in the consumer. Research has also documented a positive correlation between shoppers' "mood state" and their willingness to buy; further, the mood state of retail employees correlates with job performance. The vast array of merchandising techniques retailers employ, when aggregated across the urban or mall setting, can result in DAF, a form of "information overload" that affects consumers. It has likewise been proven that DAF results in decreased consumer confidence because of poor or rushed purchasing decisions—which may translate into dissatisfaction with a specific store or the overall retail area.

Professor Wolf has completed several unique studies over the past decade concerning the effects of consumer responses on "forested retail settings," otherwise referred to as "Biophilic Store Design" (BSD).[10] Her results, as well as those of researchers following in her wake, are clear: the benefits of integrating BSD with commercial development outweigh the costs.[11]

Wolf's studies explored the interaction between natural elements in retail environments through extensive consumer surveys conducted at a range of retail settings across the United States. Notable findings include:

- *Image preference ratings of different retail settings increased directly with the inclusion of natural elements in those settings*. Depictions of high-quality settings, once greenery was removed, received scores comparable to those recorded for low-quality physical settings lacking vegetation.
- *Simple inclusion of trees in depictions of retail settings provided a statistically significant increase in perceptions of maintenance and retailer quality* when no other visual elements in the depictions were altered.
- *Retail settings containing trees elicited more positive behavioral expectations on the part of respondents*: they were willing to travel greater distances to those districts, willing to spend more time there, and willing to visit them more frequently.
- *Restorative experiences can provide retail businesses with a strategic advantage*. Wolf concludes that such experiences will "occur in green shopping contexts."[12]

The central plaza or square not only provides a pleasant amenity for a city or town center, it also facilitates the movement of shoppers around the center, making it easier for them to extend their visit and potentially spend more money. Once pedestrians reach the center court, a second department store and other high-volume impulse-purchase-oriented retailers are within plain sight. Since shoppers are already halfway to the second department store, it is easy for them to walk to these other stores for "just a quick look." Surrounding the main court are "must-have" retailer categories, such as coffee, cosmetics, jewelry and shoes, which benefit from high shopper traffic.

Many early town centers lined shops around a square. The square also provides an open area that allows pedestrians to see all encircling retailers from a single vantage point. Squares and plazas are often overly designed and filled with unnecessary furnishings and

[10] Stephen R. Kellert, Judith Heerwagen, and Martin Mador, *Biophilic Design: The Theory, Science, and Practice of Bringing Buildings to Life* (Hoboken, N.J.: Wiley, 2008). An overview of these studies is provided by Yannick Joye, Kim Willems, Malaika Brengman, and Kathleen Wolf, "The Effects of Urban Retail Greenery on Consumer Experience: Reviewing the Evidence from a Restorative Perspective," *Urban Forestry and Urban Greening*, Vol. 9 (No. 1), 2010, pp. 57–64. Included is an extensive literature review of previous findings that document the restorative effects of greenery in human-made environments (though not specifically retail environments). The article was summarized in Sally Augustin and Jean Marie Cackowski-Campbell, "Trees in Shopping Areas Add Value," *Landscape Architecture*, Vol. 100 (No. 5), 2010, pp. 54-56.

[11] Yannick Joye, Kim Willems, and Malaika Brengman, "Is Green Really the Colour of Money? A Conceptual Inquiry into the Effects of Greenery on the Consumer Experience," *Proceedings of the COST Action E39 International Conference on Forests, Trees, and Human Health and Well-Being*, Scandic Hamar, Hamar-Elverum, Norway. Organized by European Cooperation in Science and Technology (COST), August 27-30, 2008.

[12] An exception to these findings: restorative experiences would be relevant in utilitarian shopping centers but not in hedonistic ones.

landscaping. The most effective squares tend to be the simplest in design: walkways and a lawn surrounded by canopy trees are all that is necessary.

Conclusion

Whether a small hamlet nestled on rural crossroads or a major shopping center located at the intersection of two interstate highways, commerce needs both pedestrian and vehicular traffic to be economically viable. Over the past half century, urban planners discovered how the road to retail perdition could be paved by their own best intentions in the form of policy directives that took little account of how consumers act. If they hope to reap the advantage of current favorable demographic trends for urban markets, they will need to apply these lessons with skill and understanding.

Robert Gibbs of the Gibbs Planning Group (GPG) is considered a leading urban retail planning consultant by some of the most respected mayors, architects and real-estate developers in America. He is being honored by the Clinton Presidential Library in October for contributions to his field. Profiles describing his work in *The Atlantic Monthly*, *The New York Times* and *The Wall Street Journal* have noted his direct, unique approach to increasing market share for city-center shopping districts.

Before founding GPG in 1988, Gibbs worked for Taubman Centers. During the past 30 years, he has consulted on more than 500 new town and historic city centers around the world including in Auckland, New Zealand, as well as, in the United States, Cambridge, Charleston, Chicago, Denver, Houston, Portland and Seattle.

Author of *Theory and Practice of Urban Retail* and *The New Urban Retail Smart Code*, Gibbs also teaches a popular Executive Course at the Harvard Graduate School of Design on Urban Retail Development.

Gibbs resides in Detroit and Charleston with his wife of 35 years. He is a graduate of the University of Michigan, a member of the American Society of Landscape Architects, the ICSC and a charter member of the Congress for the New Urbanism. For further information regarding this article, he can be reached at: rgibbs@gibbsplanning.com.

Urban Retail: A Developer's Perspective

Capitalizing on Economic, Demographic and Technological Realities of Cities

*THOMAS R. BERNIER**

Abstract: *The movement of retail development from the outer edges of urban areas to inner cores poses major challenges. Comprehending these challenges will enable success in underserved markets, gentrified/ing markets and central business districts.*

Traditional retail land-use patterns are changing. Beginning with the suburbanization of the United States following World War II through the most recent lifestyle-center trend of the 1990s and early 2000s, shopping-center development has primarily occurred at the urban periphery, characterized by large footprints and widespread automobile use. Now, for a multitude of reasons, developers are focusing on the urban core. This shift brings about its own unique set of challenges and requires that developers establish new definitions and techniques for assessing the viability of urban retail projects.

The Changing Tide

One does not need to be an industry insider to see the changes in the retail marketplace. Traditional big-box retailers such as Walmart, Target and Best Buy have introduced and are aggressively rolling out "urban" concepts with smaller, often vertical, footprints that feature public-transit access and carry a different mix of products.[1]

The primary drivers of this trend are a combination of economic, demographic and technological factors. The 2007-2009 economic downturn in the United States has clearly demonstrated that not all regions are created equally. In general, cities proved to be more insulated from shocks to the housing market, high unemployment and decreased production than suburban or rural areas. While not all cities weathered the storm equally well, a number of the top-tier cities thrived, as development dollars rushed in to compete for a limited number of viable projects.

Due in part to these economic opportunities and in part to changing tastes and preferences, cities also have been benefiting as a result of increased population.[2] This influx of population is altering the demographics of urban centers—and retailers are following these new consumers back to the city.[3]

Moreover, technology is fundamentally changing the way individuals interact with the marketplace. "Smart" inventory systems and advanced logistics, for instance, are allowing developers and retailers alike to create and maintain productive stores in small urban footprints.

Not only were only a handful of U.S. cities deemed unique markets to warrant significant capital investments following the most recent recession, but only specific submarkets within those cities were targeted for those investments. As the economy continues its slow crawl back to prosperity—barring any new recessions triggered by draconian spending cuts or tax increases—a greater amount of capital will be looking for investment opportunities and a greater number of cities will join the ranks of the fortunate few. Knowing this, developers are

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[1] Walmart's Neighborhood Market concept is on average 42,000 square feet (sf) as compared to the company's typical 100,000 to 200,000-sf store formats. Similarly, City Targets are around 80,000 to 100,000 sf as compared to the typical 125,000 to 175,000 sf Target and Super Target. Best Buy has rolled out the 1,200-sf Best Buy Mobile concept, as opposed to its typical 30,000 to 40,000 sf big-box format. The product mix at these stores is tailored to urban living. For instance, rather than carrying large patio sets, the urban stores would stock smaller balcony sets. Similarly, the bulk options will be limited—four-packs of paper towels versus twelve-packs—understanding that the majority of customers will arrive by foot, bicycle or public transportation.

[2] Michael Pacione, "Urban Places: A Global View," *Retail Property Insights*, Vol. 19, No. 3 (2012).

[3] See, for instance, Stephanie Clifford, "Retailers' Idea: Think Smaller In Urban Push," *The New York Times*, July 26, 2012, retrieved December 18, 2012.

Box 3-1

Urban Food Deserts: Quantifying Limited Grocery Store Access

An element of underserved retail markets is limited access to retailers serving basic needs. This limited access might include grocery stores, drug stores, dry cleaners and even gasoline stations in a neighbor. This concept can be measured in numerous ways, across numerous geographies and for a vast array of income groups, but one of the most comprehensive attempts to quantify this concept for grocery stores, which has been dubbed "food deserts," has been done by the U.S. Department of Agriculture (USDA). The USDA's Economic Research Service focused its attention on "healthy food" store access by low-income households. USDA defined "*Low access* to a healthy food retail outlet … as more than 1 mile from a supermarket or large grocery store in urban areas and as more than 10 miles from a supermarket or large grocery store in rural areas. The distance to supermarkets and large grocery stores is measured by the distance between the geographic center of the 1-km square grid that contains estimates of the population (number of people and other subgroup characteristics) and the nearest supermarket or large grocery store. Once the distance to the nearest supermarket or large grocery store is calculated for each grid cell, the estimated number of people or housing units more than one mile from a supermarket or large grocery store in urban tracts (or 10 miles for rural census tracts) is aggregated to the census tract level. (A census tract is considered rural if the centroid of that tract is located in an area with a population of less than 2,500, and all other tracts are considered urban tracts.) If the aggregate number of people in the census tract with low access is at least 500 or the percentage of people in the census tract with low access is at least 33 percent, then the census tract is considered a food desert."[1]

USDA's application of this methodology yielded over 6,500 food-desert census tracts in the continental United States (this methodology has not yet been applied to Alaska and Hawaii) of which 75% are urban and affecting approximately 48 million people (see Table 3-1).

Table 3-1

Urban Area Access to Supermarkets—USDA Study

					Distance to nearest supermarket						
					High access (0.5 miles or less)		Medium access (Between 0.5-1 mile)		Low access (More than 1 mile)		
Population	**Income level of area**	**Number (millions)**	**Total percent**	**Sub-population percent**	**Median (miles)**	**Number (millions)**	**Percent**	**Number (millions)**	**Percent**	**Number (millions)**	**Percent**
Total population of urban areas	Low income	45.3	100.0	24.4	0.57	19.2	42.5	19.0	42.1	7.0	15.4
	Higher income	140.6	100.0	75.6	0.71	42.1	30.0	57.9	41.2	40.6	28.9
	Total	185.9	100.0	100.0		61.4	33.0	76.9	41.4	47.6	25.6

Source: *Access to Affordable and Nutritious Food: Measuring and Understanding Food Deserts and Their Consequences: Report to Congress*, U.S. Department of Agriculture, Economic Research Service, June 2009 (Table 2.5), p. 23.

[1] Michele Ver Ploeg and Vince Breneman, "Definition of a Food Desert," USDA Economic Research Service (Updated July 6, 2012), retrieved January 10, 2013.

rushing to create new guidelines on how to categorize and identify viable urban opportunities.

To that end, cities are being broken apart, with the constituent regions being put into buckets, each with unique characteristics, consumer profiles and opportunities. While the exact classification of these buckets differs from developer to developer and retailer to retailer, in general, three distinct urban retail markets have been identified, each requiring a unique strategy to effectively (re)develop a project: *underserved markets*; *gentrified/ing markets*; and *central business districts*.

Underserved Markets

The underserved market is generally characterized as one lacking basic goods and services. In these markets, demand far exceeds supply, resulting in substantial leakage. That is, residents are forced to commute to other areas of the city or suburbs to obtain the necessities of everyday life. One example of this type of market, an area known as a *food desert*, provides little to no access to a sizable grocery store with both affordable prices and a wide selection of fresh, healthy food. (See Box 3-1).

These markets tend to be ethnically diverse with lower-income individuals. Crime, or at least its perception, is often a significant issue. In some cases, retailers have categorized their "urban" locations as those with high rates of "shrinkage" or retail theft.

These regions, prime markets for developing off-price or discount retailers, offer a high degree of value to consumers with lower levels of disposable income.

Further, these areas may be ripe for a non-traditional "supercenter" that carries some mix of bulk, discount and grocery options. The market for fresh-food options has become so great in some areas that many convenience retailers such as Walgreens and Dollar General are moving into the grocery space.

Gentrified/ing Markets

The gentrified or gentrifying market, at one point in the not-too-distant past, may have been underserved, but for one reason or another has begun to attract an influx of more affluent individuals and is already beginning to be redeveloped with new residential, retail and restaurant options. Typically these regions are branded with "hip" neighborhood names such as the Meatpacking District in New York, Wicker Park in Chicago or the Mission in San Francisco.

In these neighborhoods, a critical mass of the so-called "creative class" has tipped the scales and created a self-perpetuating movement towards gentrification.[4] As property values increase, lower-income individuals are forced out, often into underserved markets. The remaining residential units are improved and area demographics begin to be dominated by smaller households of young professionals with large amounts of disposable incomes. Driving this trend are young college graduates—many of whom grew up with suburban retail—hungering for "true" urban experiences. A bonus for those serving this market niche: direct exposure to trendsetters who are used to social media.

Depending on where the neighborhood falls on the gentrification continuum, there may be a wide range of development opportunities. Towards the beginning of the process, when land values may still be reasonable and the demographics of the population still exist to support them, developments may look like those of an underserved market. As the neighborhood becomes more affluent, there may be opportunities for non-traditional big boxes such as a two-story City Target or higher-end, organic grocery options such as Whole Foods or Trader Joe's.

Central Business District

The third market, the Central Business District (CBD), has been more or less identified for some time. These areas, highly connected to mass-transit nodes, provide almost unlimited access to the greater metro area. Often they also have access to regional air or rail transit, thus expanding potential market areas exponentially. As expected, these areas are dominated by office use and flagship-type retail options such as Fifth Avenue in New York, the Magnificent Mile in Chicago or Union Square in San Francisco.

While these markets do not typically have a great number of residential housing units or "rooftops," they are supported for the most part by office workers, tourists and residents of the greater metro region who make a special effort to visit them. These consumers are characterized as wealthy, with a high degree of disposable income.

Opportunities in this market include high-end fashion such as Louis Vuitton or Saks Fifth Avenue, so-called "disposable fashion" such as H&M or Forever 21, or department stores such as Macy's or Nordstrom. Frequently these (re)development projects require tenants to move into spaces in existing historic or landmark buildings. In these cases, tenants often must make concessions and amend their traditional layouts to fit the limitations of the property.

Challenges to Urban Development

Development opportunities in these markets do not come without their fair share of challenges. Unlike greenfield developments in the suburbs, urban in-fill projects frequently involve a whole host of unique hurdles that must be successfully negotiated—frequently over a longer period of time.

Apart from the difficulty of identifying a potentially viable opportunity, developers will often need to skillfully assemble disparate parcels of land from multiple owners to create a critical mass of square footage for a retail project.[5] This will require that they be able to rationalize to themselves and any other financial partners the prices from a land-cost perspective. Contrasting price levels—$100,000 per acre in a cornfield in Iowa, say, versus more than $5 million in desirable urban markets—reflects the reality that the risks in the latter markets are high.

Further, developers will need to work closely with a variety of stakeholders from the community to the city to work through the potentially lengthy entitlement process. Frequently, these stakeholders will require mixed-use elements (residential, office or hospitality) in the plan. Retailers may complain that they cannot lay out their stores as they would in their suburban locations; that they require parking right in front of their stores; and that current models do not project sales accurately in such centers because of the difficulty in accounting for contributions by office workers, tourists and commuters.

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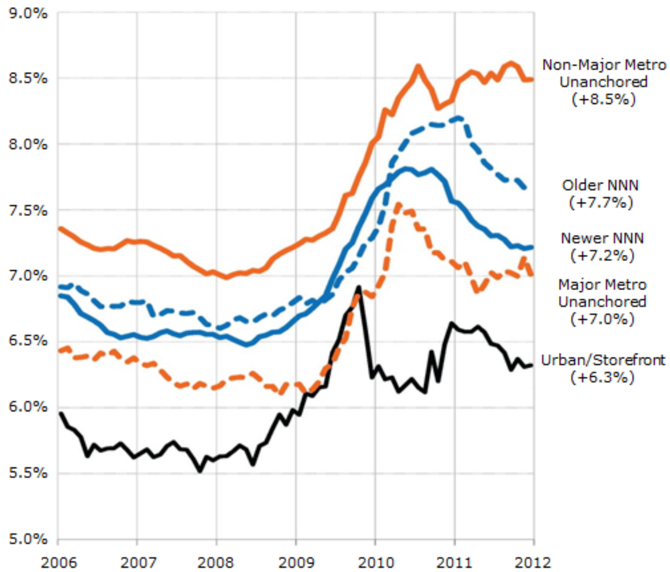
[4] See Richard Florida, *The Rise of the Creative Class…And How It's Transforming Work, Leisure, Community and Everyday Life* (New York: Basic Books, 2004).

[5] Wendy Crites, "Creatively Adapting to Urban Retail," *Retail Property Insights*, Vol. 19, No. 3 (2012).

Chart 3-1

Historical Cap Rates, 2006-2012



Notes: NNN=single tenant; new=built within seven years of sale. Major Metros: Boston, New York, Chicago, San Francisco, Los Angeles, Washington, D.C.
Source: Real Capital Analytics

In addition, developers may have a difficult time convincing national retailers accustomed to suburbs to take some of the non-traditional space discussed above.

While this is not a comprehensive list of the challenges a developer will face, it does help to define urban retail from a developer's standpoint.

Conclusion

As the U.S. economy continues to pull itself out of the deepest recession since the Great Depression, development dollars are limited. Those that are allocated are done so in situations where a return is all but guaranteed. This has driven the prices of these limited opportunities through the roof and driven cap rates lower and lower. (See Chart 3-1.) However, as the economy improves, the amount of capital available for development will increase and the number of markets capable of supporting said development will similarly increase. The challenge, then, will be identifying which opportunities to pursue. Developers who understand urban retail markets and the challenges inherent in them are far more likely to be in a position to identify and capitalize on these opportunities as they present themselves.

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Prior to joining Bucksbaum Retail Properties, Mr. Bernier was SVP, Research and Strategy for General Growth Properties (GGP), where he was responsible for all aspects of research and leasing strategies for the real estate investment trust. During his nine years at GGP, he conducted market-feasibility studies for new developments as well as for expansions and redevelopments.

In 14 years at The Green Group (Howard L. Green & Associates), where he last served as VP, Professional Services, Mr. Bernier assisted national retailers in developing real-estate expansion plans, including Williams-Sonoma, Inc., Ann Taylor, Coach and Estee Lauder, among others. Developer clients included Westcor (Macerich), Cousins Properties and Ramco-Gershenson.

Mr. Bernier is a graduate from the University of Michigan with a bachelor's degree in economics and marketing. A frequent speaker at the ICSC Research Conference, he has served two terms on the ICSC North American Research Task Force and once as its Vice Chairman. He and his wife Sandra live in Naperville, Ill., with their daughter Samantha.

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The New Urban Frontier

Technological, Demographic and Social Changes Are Refocusing Demand for Retail Space

ANDREW J. NELSON and ALAN BILLINGSLEY***

Abstract: *Retail markets are being transformed by a confluence of new retailing technologies, dramatic shifts in the U.S. demographic profile and evolving locational preferences of more affluent and educated shoppers. The net impact of these forces over the coming decade will be an increasing concentration of retail sales in urban and inner-suburban locations, while exurban and most suburban areas will see diluted retail strength. Urban retailers will gain because more shoppers will reside, work and recreate in downtown and other urbanized locations than previously, and also because consumers will seek more specialized types of goods and services these urban stores offer relative to the more commodity-driven suburban retailers. High-street and mixed-use retail should prosper while suburban shopping centers suffer, particularly those in secondary locations or with inferior tenant rosters.*

Introduction

U.S. retail markets since World War II have been dominated by the birth and growth of suburban shopping centers, paralleling the migration of middle-income and affluent households from cities to their suburbs. The housing bubble in the past decade extended these patterns, but the subsequent housing crash beginning in 2006 revealed changes in lifestyle preferences that have been taking place. With these trends as a foundation, we are now witnessing a variety of complementary demographic, technological and sociological forces that are shifting retail back to the urban street retail[1] of metropolitan areas.

There is a promising future for urban street retail in mixed-use environments, due to shifts caused by both these technological and demographic forces. Led by the *Echo Boomers*, all generations will increasingly prefer to live close to their jobs and urban amenities, including retail, entertainment and cultural facilities. This will create pricing pressure on the more desirable urban and inner-suburban communities, thereby attracting the more successful and affluent of each generation—the very demographics most coveted by retailers and retail space owners.

Meanwhile, technology is both enabling and encouraging new retailing business models at the same time that the recent financial crisis forced households to deleverage and rethink their shopping habits. These changes are providing new opportunities for dynamic retailers and retail-property owners alike, but also raise new challenges for tired retail concepts and inferior retailing locations.

While the retail sector overall is firmly on the mend as the economy improves, there is considerable and growing variation underlying the recovery, with some segments and metros in full recovery while others suffer lingering vacancy and declining rents. While not always obvious, e-commerce and demographic changes are key drivers of these trends, to the general benefit of urban retail over suburban. The balance of this paper considers some of the key technological, demographic and socio-economic forces affecting retail in greater detail. With a focus on assessing implications for retail-space markets, it concludes with analysis of these trends on intra-urban market dynamics.

Technological Innovation

Just as retailing is finally recovering from the devastating recession, retailers and landlords are facing a new set of challenges as Internet technology is transforming both consumer behavior and retailing business models. E-commerce[2] is upending traditional retailing strategies by greatly expanding shopping convenience, selection and affordability. On top of this, mobile shopping, though in the early stages of adoption, is enhancing product and price transparency, often to the competitive disadvantage of physical retailers.

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** Retired; former head, RREEF Real Estate's Research team for the Americas

[1] In this context, "urban street retail" refers to higher-density, walkable live-work-play environments, whether in downtown, neighborhoods or in older inner suburbs.

[2] E-commerce (e = electronic) refers to on-line shopping generally, especially via computers, while m-commerce (m = mobile) refers specifically to mobile shopping via smart phones and tablets.

To some extent, these issues are not new.[3] The difference now, though, is that e-commerce constitutes a much larger share of the retail sector, with little doubt that it is growing largely at the expense of traditional bricks-and-mortar retailers. Plus, the move toward online transactions is accelerating as the industry is still struggling to regain its footing after the recession. Consumers are changing where, how, when and even why they shop, forcing bricks-and-mortar retailers to rethink the role of stores in their platform and leveraging technology to reach their customers faster, easier and cheaper.

The implications for the retail sector are numerous, with deep and pervasive impacts for shopping centers and physical retailers.[4] One clear impact is the channel shift of retail sales away from traditional retailers and toward "pure-play," Internet-only retailers with no physical presence (such as Amazon and eBay) and the Internet divisions of "multi-channel" retailers with both e-commerce and physical stores (such as Best Buy and Wal-Mart).

The online share of retailing has grown steadily in the last decade, but remains low, accounting for only about 5% of non-auto sales. However, the online penetration rate varies significantly by retail segment, with the e-commerce share rising to over 10% excluding the types of goods (groceries, personal care items, etc.) that are less amenable to online shopping.

Moreover, e-commerce is on the verge of much greater growth: Capital for new shopping applications ("apps") is flooding e-commerce channels just as consumer adoption of mobile tools—smartphones and tablets—is soaring. The result will be *significantly greater rates of at-home online shopping and in-store "showrooming."* Online sales are expected to double their market share within five years.[5]

The greatest and most direct impact will be on the retailers selling merchandise. This business will quickly migrate online, particularly for stores and chains that do not have a significant, competitive e-commerce strategy of their own. This merchandise falls into two broad categories: products with a high value relative to shipping costs, and commodity items in which the products are relatively undifferentiated or easily compared online, making price the key determinant in the shopping decision. With online retailers able to offer greater convenience and more selection at lower prices, big-box retailers will be at greatest risk. In turn, *the real-estate impact will be felt in the power centers that house these big-box retailers.*

A less direct, but potentially greater, impact will be felt at the nation's marginal centers, particularly those in secondary locations. Retail chains are reducing store counts and sizes in response to financial pressures as well as the opportunities offered by emerging technologies and consumer trends. For the last generation, chains put market share ahead of profitability in hopes of reaching scale and segment dominance, but this expansion was not sustainable. Store sizes also ballooned in the belief that the greater selection of goods would disproportionately capture sales. No longer. Chains began closing stores and abandoning second-tier locations in the last recession, driving up shopping-center vacancy rates in their wake. The new mandates are now repairing balance sheets, restoring profitability and growing sales productivity.

At the same time, technology is enabling retailers to be more efficient, generating more sales per square foot by leveraging Internet and mobile applications. Retailers often find they face only small sales losses when cutting back on the amount and range of merchandise at their stores—no need to stock every color in every size—so long as they can fulfill the delivery promise, as retailers such as Nordstrom are proving. Other chains are starting to follow suit, saving on rent, staffing, utilities and other operating expenses.

As more sales migrate online, *the impact of fewer and smaller stores will be reduced demand for retail space, even once a more robust recovery economic takes root*. Chain after chain has announced plans to close underperforming locations, pushing more sales online, while still selectively opening new stores.[6]

Demographic Changes

Significant changes in the demographic composition of the United States also will alter demand for the quantity and type of retail space and its location. While the demography of the country is ever changing in ways that

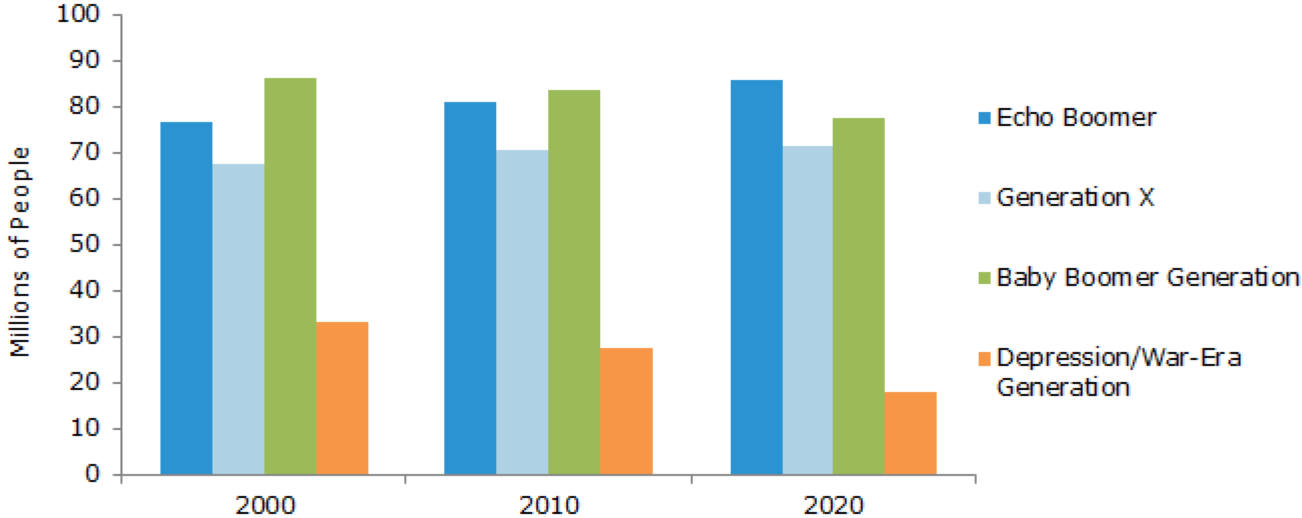
[3] Analysts have been warning about the online threat to shopping centers for over a decade. See, for instance, Chris Christensen and Mark Zandi, "Online Retailing and Its Potential Impact on Shopping Center Sales," RREEF Research, *Strategic Outlook #23*, August 1999.

[4] Conclusions in this section are drawn from a more comprehensive analysis of the Internet's impacts on retail real estate found in: Andrew J. Nelson and Ana Leon, "Bricks and Clicks: Rethinking Retail Real Estate in the E-commerce Era," RREEF Real Estate, *Strategic Outlook* #84, July 2012.

[5] Refer to Nelson and Leon for a fuller explanation of the online growth forecast.

[6] Best Buy, to take a prominent example, is closing 50 full-line stores—generally 40,000 square feet (sf) or more—at the same time they are testing new, smaller "connected" prototypes and opening many 1,000-sf Best Buy Mobile stores that focus on smartphones and tablets. Their goal is a 20% reduction in floorspace.

Chart 4-1
Generation Populations: 2000, 2010 and 2020



Source: Source: U.S. Census Bureau, 2008 National Projections

impact real-estate investment strategy, changes in the coming decade will particularly affect retailing.[7] This section will discuss these changes by major generational groups and their anticipated impacts,[8] as classified in Chart 4-1. The more affluent segments of these age cohorts all favor urban locations, although for different reasons.

The **Depression and War-Era Generation** (also known as the "Silent Generation") comprises those born in the 1930s through the mid-1940s, which was a "baby bust" resulting from a horrific economic environment in the 1930s and World War II during the first half of the 1940s, when child bearing had to be postponed to fight a war. Once past its challenging childhood and youth, however, this generation has generally been privileged, entering adulthood during the strong economic growth cycle of the 1950s and 1960s. This group benefited not only from the war rebuilding effort, but also from advances in science, technology and productivity. Given the relative small size of this generation, they were much in demand in the labor force. As a result, they saw tremendous improvements in their material quality of life.

This generation is currently aged 67 to their early 80s, and most are retired or nearly so. With childhood memories of more difficult times, this generation seeks comfort, and has generally saved and invested. Most are aging in their long-held family homes, but many have been more adventurous. Empty-nester urban or inner-suburban housing, residence clubs, condominiums associated with prestige hotels and second-home communities in mountain, desert or beachfront destinations are products that were largely invented for this generation. A portion of this generation has migrated to Sun Belt states, generally where cost of living and taxes are lower, but more importantly where the climate is more desirable. Others are choosing amenity-rich urban settings.

Though generally with the capacity to spend money, this generation also already owns most of what it wants. Therefore, spending is more targeted. They are likely to continue to support fashion retailing in stores, but also will spend generously on their grandchildren. *While the majority will age in place, a modest portion of this population will live in urban and inner-suburban environments and will contribute to retail sales in these relatively dense environments*. The remainder of this

[7] For a comprehensive assessment of the impact of demographic changes on real estate demand, please refer to Alan Billingsley and Nina Gruen, "Boomers, Echo's and X's: Generational and other Structural Shifts and Their Impacts on Future Demand for Real Estate in the Coming Decade," RREEF Research *Strategic Outlook* #81, May 2011.

[8] The generational-cycle labels are not standardized by researchers and tend to be a short-hand way of using demographics to understand different social patterns as a function of ones' era. As such, there is sometimes significant disagreement among researchers as to when these periods start and end. But all of these breakpoints for defining the periods are judgmental and some researchers, such as Jennifer Deal (*Retiring the Generation Gap: How Employees Young & Old Can Find Common Ground*, Jossey-Bass, San Francisco, 2006), suggest that these stereotypes are wrong. Deal posits from her research that "all generations have similar values; they just express them differently." Either way, these generational cycles will be used as a quick way to explore consumer impacts.

group is likely to be quite dispersed in their residential locations.

The **Baby Boomer Generation** was born immediately after World War II between 1946 and 1964, and is currently 48 to 66 years old. The oldest Baby Boomers will be in their 70s by the end of this decade. Most of this older group is likely to retire soon, producing the beginning of the largest-ever U.S. retiree cohort.

In-town living in mixed-age environments will become an even more important lifestyle for Boomers than it was for the previous generation, who largely pioneered the back-to-the-city movement for empty nesters. Still, this will be a small percentage of overall Boomers, generally some of the most affluent. *Higher-density, walkable, mixed-use suburban locations with retail, food service and entertainment activities also will attract an increasing proportion of Boomers* as they elect to trade down in size but not in amenity value, and seek a more urban setting.[9]

Generation X ("Gen X"), born immediately after the Baby Boomers, from about 1965 to 1982, is a smaller age group due to a tendency of early Boomers to postpone family formations. They are in their prime working years, 30 through 47, but grew up feeling marginalized in the shadows of the massive Boomer generation. They competed for jobs and felt stymied in advancement by the large and more senior workforce. In addition, Madison Avenue virtually ignored them, focusing on Boomers. As a result, this has been a somewhat rebellious, nontraditional generation (think "Grunge" or Rap music). However, in becoming mature adults, they will benefit from a shortage of experienced and trained labor as Baby Boomers begin to retire and as the economy adds jobs in the coming years.

A greater portion of this generation chose urban living than did previous generations, helping to expand the "urban renaissance" pioneered by Baby Boomers. While some will continue to live in urban environments, many will form households and seek more spacious quarters in the suburbs.

While Gen X will be at an age that is more interested in establishing families than the Echo Boomers in the coming generation, they are smaller in number. Gen X is also at the time in their lives when making significant retail purchases is at a high, including products for the home, automobiles, clothing for the family, etc. The volume of retail sales is expected to be restrained, however, because of the fewer number of Gen X buyers.

Members of the **Echo Boom Generation**, as noted previously, were born after 1984, and now range from their teens to 29 years old. At the mid-points of each age range, this generation (sometimes referred to as the "Millennials" or "Gen Y") is about 12% larger than the prior Gen X cohort. This demographic group began to populate colleges and universities in large numbers during the last half decade, and will continue to do so in the 2010s. At the upper end of the age range, many have entered the workforce and established independent households. The recent severe recession particularly impacted their ability to find work; many returned to their parents' homes or doubled up with friends in high-density living relationships.

The Echo Boomers will benefit cities and high-density suburban environments, as well as rental housing. With their outlook affected by the 2009 global financial crisis, this group is highly focused on career and economic growth. They are choosing to locate in cities where they believe they can best meet these goals, while also benefiting from a vibrant urban experience. Diversity of race and ethnicity is more accepted by this demographic group, particularly in large urban areas. Minorities comprise a greater share of this age cohort, and this percentage is anticipated to increase throughout the decade due to immigration.[10]

Family patterns of Echo Boomers will depend greatly on education levels. Relatively affluent professional Echo Boomers will postpone marriage to an even greater degree than their predecessors. With even more career-focused women, they also will postpone childbearing. As a result, they will have fewer children on average than did their parents.[11] This privileged subgroup of the Echo Boomer generation is expected to maintain a greater propensity to reside and work in urban environments. Given their spending power, this subgroup will have a significant impact on urban retail sales, especially for that portion of the retail market not dominated by on-line retailers.

Household composition is also evolving, across all generations. Of the household growth projected during the next decade, only around 5% will comprise traditional married couples with children. Nearly 43% of growth will come from couples without children and over 36% will be

[9] Ania Wieckowski, "Back to the City," *Harvard Business Review*, Vol. 88 (Issue 5), May 2010, p. 23.

[10] See, for instance, the Joint Center for Housing Studies, Harvard University, "The State of the Nation's Housing 2010," June 14, 2010, retrieved October 3, 2012, pp. 4-5.

[11] However, recent immigrants—particularly Hispanic immigrants—and the less educated are anticipated to have larger families into their second and third generation.

Table 4-1 Projected Share Distribution of U.S. Household Growth			
Household Status	**2011-2015**	**2016-2020**	**2021-2025**
Married + Partners, Without Children	47.7%	38.2%	28.5%
Married + Partners, With Children	2.6	8.0	11.1
Single Person	34.5	38.1	42.3
All Other Household Types	15.2	15.7	18.1

Source: Joint Center for Housing Studies, Harvard University Updated 2010-2020 Household and New Home Demand Projections

single persons. (See Table 4-1.) *With so few households involving children, demand for traditional suburban living will diminish, while urban locations will benefit.*

Indeed, the impact of these trends can be seen already. A recent study by the U.S. Census Bureau concludes that "in many of the largest cities of the most-populous metro areas, downtown is becoming a place not only to work but also to live."[12]

Socio-Economic Changes

While the changing demographic composition of the United States will have significant implications for retailing as discussed above, changing income patterns also will be determinative given the importance of income in driving retail sales. These ongoing changes are quite different among the generations, while also having impacts on each generation.

The gap in wealth between older and younger generations is widening. In a study by Pew Research, the median real net worth of heads of household 65 and older in 2009 was 42% higher than for the same age group in 1984.[13] However, for households headed by persons age 35 and younger, net worth was 68% less than in 1984.[14]

While there are many reasons for this trend, declining education relative to global competition for average Americans over the decades is a significant part of the problem.[15] And reversing long-term trends, younger Americans are much less likely than their counterparts in other countries to achieve a higher level of education than their parents. These declines in educational attainment are reflected in weak income growth. In fact, the middle class is shrinking in size.[16]

The Echo Boom Generation unquestionably includes some of the most educated and creative workers the United States has seen, yet many members of this group do not fit this profile. Still, since this cohort is quite large, even a declining percentage of economically successful workers represents a very large consumer base.

These socio-economic shifts combined with demographic changes lead to the conclusion that, while the Baby Boomers will continue to influence the retail landscape, the Echo Boomers will drive retail sales volumes during the coming decade. Though their retail needs are less than before, Baby Boomers will maintain considerable purchasing power due to their numbers and amassed wealth. Meanwhile, Echo Boomers have substantial needs, and their greater size compared to the Gen X cohort means they will disproportionately impact retail demand.

As it happens, both cohorts also favor more urbanized neighborhoods, though for different reasons. A growing share of Baby Boomers are becoming empty nesters, enabling them to downsize their living quarters and seek out more interesting living environments, without the burden of maintaining a large suburban home. At the same time, Echo Boomers are postponing marriage and

[12] "Between the 2000 and 2010 censuses, metro areas with 5 million or more people experienced double-digit population growth rates within their downtown areas (within a two-mile radius of their largest city's city hall), more than double the rate of these areas overall." See U.S. Census Bureau, "Populations Increasing in Many Downtowns, Census Bureau Reports" (September 27, 2012 press release), retrieved October 3, 2012.

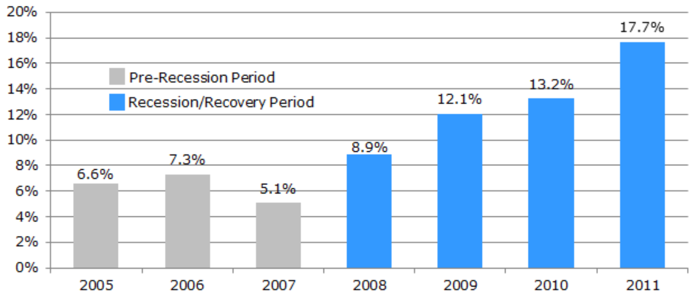
[13] Richard Fry, D'Vera Cohn, Gretchen Livingston and Paul Taylor, "The Rising Age Gap in Economic Well-Being: The Old Prosper Relative to the Young," Pew Research Center, November 7, 2011, retrieved October 4, 2012.

[14] Some of this disparity can be attributed to the disproportionate impact of the economy on the young in 2009, but Pew's research shows that this disparity has continued to rise over several decades.

[15] The United States ranked 24th out of 38 countries surveyed in the number of 15-19 year-olds enrolled in school. See "Education at a Glance 2012: OECD Indicators," Organization for Economic Cooperation and Development, September 11, 2012, Chart C1.2, p. 321.

[16] "The Lost Decade of the Middle Class: Fewer, Poorer, Gloomier," Pew Research Center, August 22, 2012, retrieved October 3, 2012. During the past decade, mean family income declined overall for the first time out of the last six decades. Defined as those with annual income between two-thirds and two times the median, middle-income households comprised 61% of total in 1971 and only 51% in 2011. Meanwhile, upper-income households (earning more than twice the median) comprised 29% of total income in 1970, but 46% in 2011.

Chart 4-2
Inner-Core Share of Metro Retail Construction, 20 Largest U.S. Metros*



* Based on 2011 standing stock
Sources: CBRE Econometrics, RREEF Real Estate

childrearing and are increasingly favoring the live/work/play environments offered by cities.

Clearly, suburban communities will not be disappearing, and will continue to house most of the population. But as the more successful and wealthy households leave the suburbs for urban centers, a growing divide can be expected in the affluence of these areas, and therefore a shift in retail sales patterns.

Prospects for Physical Retailing

The convergence of technological, demographic and social changes projected for the coming decade suggests that urban locations will capture an increasing share of bricks-and-mortar retail sales. The most successful locations will be street frontage retail in historic high-street districts or in new well-conceived mixed-use environments.

This latter change would represent a distinct reversal of the trend that existed since World War II: i.e., retailers following the migration of the nation's most affluent households into suburban and even exurban markets, while urban areas were largely ignored. The last recession revealed the excesses of that approach, as retail development often preceded the population base that could support it. Retailers also began to realize that highly-segmented land-use patterns in suburban markets limited retail demand, with shopping centers often far removed from daytime populations. At the same time, retailers began to rediscover the benefits of urban markets, which offer much higher population density as well as complementary demand from office workers, tourists, students and others. The increasing affluence of city dwellers makes urban markets all the more attractive to retailers.

These forces are already showing up in retail construction trends, as seen in an analysis of intra-urban supply trends in the county's 20 largest metropolitan areas. As shown in Chart 4-2, the urban share of metro retail construction averaged only about 6% of the 2011 standing stock in the three years prior to the real-estate downturn, but jumped to almost 9% in 2008 and has risen each year thereafter, to almost 18% in 2011, 2.8 times the pre-recession average.[17]

Closer review of this data reveals that it is not just that developers have been more enamored with urban locations; they are also retreating from the suburbs. In 2011, new annual supply as a percent of the 2005-07 average was down 80% in the suburbs but only about 45% in the cities. To be sure, much more retail space will continue to be developed in the suburbs than in urban areas—suburbs still offer less costly land, easier permitting, and continued population growth. But the development trend clearly is swinging toward urban street retail in metro areas.

Technological forces are amplifying the urban benefits. Smaller store prototypes enable retail chains to access infill locations that could not accommodate their larger, suburban prototypes. Wal-Mart's new Walmart Express format is just 15,000 square feet (sf), compared to its normal 200,000-sf prototype. Target is opening its new CityTarget format, sized at 60,000 to 100,000 sf, compared to over 130,000 sf for its typical suburban stores. Other chains are moving upscale with specialized infill prototypes, such as Petco's Unleashed urban format and Sports Authority's S.A. Elite format. Both are half the size of their typical footprint.

Consistent with this urban strategy, more retailers are recognizing the benefits of establishing large flagship stores in the best shopping districts of prominent cities. High-street retail has long been the predominant retail strategy in Europe, but in the United States such locations typically were dominated by small boutiques of the most upscale designers and jewelry stores: Tiffany, Chanel, Louis Vuitton and the like. Now Fifth Avenue in New York, Michigan Avenue in Chicago and Union Square in San Francisco are filled with a broad array of outsized flagship stores for mainstream brands such as Abercrombie & Fitch, American Eagle, H&M and Uniqlo.

[17] Analysis based on data from CBRE Econometrics. "Inner-core" determinations are based on the authors' subjective assessment of the most urbanized markets of each metropolitan area.

While these stores generate huge sales volumes that alone justify their exceptionally high rents, retailers also count on the marketing value of these stores to drive sales for the entire chain and especially online. This strategy allows for a handful of flagship stores in key markets around the globe to carry the brand, while shrinking the store fleet in less successful secondary markets. Both demographics and e-commerce are playing a role in driving these concepts and prototypes, as retailers also face market demands to serve their customers as efficiently and effectively as possible.

Conclusion

The technological evolution is both changing and reducing retailer demand for space, focusing this demand on limited categories of goods, services and entertainment. *Demographic and socio-economic trends will make physical stores even more dependent on consumers with substantial disposable income than in the past as commodity needs are filled more through Internet retailing.* Location relative to rooftops (or apartment doors!) will continue to be key, but convenience to the population's live, work and entertainment patterns will be even more important. Converging demographic and e-commerce trends signal a shift in retail space demand.

Along with dominant regional malls, which by definition are in prime affluent locations, the real winners among physical retailers will be urban and inner-suburban retail districts, reaffirming their historical role as the preferred venue for retailers and shoppers alike. In many cases, these are historic street-frontage retail districts, sometimes known as "Main Street" or "High Street" retail. In other cases, particularly where historic districts do not exist in the appropriate locations, developers are replicating them, sometimes as mixed-use environments. These retail areas serve as community crossroads, which have always been a crucial function for commercial areas, at the intersection of living and working environments. Retailers have recently been embracing these areas more, given the visibility they provide to build their brands.

Indeed, these shopping centers and districts should gain not only market share and occupancy, but also see better operating performance. If stores can maintain their sales volumes in smaller spaces, landlords should be able to charge higher rents per sf of space, while also fitting more stores into their districts and retail centers—which should enhance the shopping experience by allowing for a more diverse, exciting mix of retailers.

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The Stages of U.S. Urban Retail: A Postwar Perspective

Expansion, Contraction and Transformation

*JIM SIMMONS**

Abstract: *This article argues that urban retail passes through four quite different forms or stages, each emerging at a different point in time, with a different spatial footprint, and in response to problems generated by the previous stage. The stages are (1) traditional street retail, (2) the shopping center, (3) power retail and (4) e-commerce. A different set of corporate players dominates each stage, providing a different mixture of goods and services for a different group of consumers. Most cities continue to provide all four kinds of retail facilities, so that consumers have a complete range of alternatives.*

Urban retail has undergone, over the last 60 years, massive changes, passing from the traditional retail streets and downtowns of the 1950s, into a period dominated by the hierarchy of shopping centers in the 1960s and 1970s, followed by a wave of power retail development in the 1980s and 1990s, and recently, the introduction of e-commerce. For the most part, these changes in the retail fabric respond to the extraordinary transformation of urban America that took place during this period: great population growth in cities, with higher incomes, widespread automobile dependency and freeway construction, as well as smaller families and the expanded role of women in the workforce. There is a parallel logic within the retail sequence, as deficiencies in each stage are revealed as the city evolves, and lead to subsequent retail innovations.

Urban retail can usefully be generalized around the four stages in this sequence: traditional, shopping centers, power retail and e-commerce. Each stage has a distinctive spatial and temporal footprint. Each one involves a different set of industry players, with different business models and strategies; different firms, products and customers. Each stage shows a characteristic growth surge as the innovation takes hold, followed by a declining growth rate as competition from newer retail stages emerges.

Fortunately, the evidence from Toronto, which may be a model of U.S. urban retail evolution, suggests that the various stages of this evolution need not obliterate all that has gone before.[1] Recent immigrants and high-rise condominium dwellers continue to support the traditional retail of the inner city. Aging malls in older suburbs have been redeveloped and reoriented to new customers. Some power-retail developments attempt to replicate the village street or the fashion mall. E-commerce merchants are exploring the many ways to take advantage of existing stores to display and deliver retail goods. Each stage in the sequence involves a different set of retailers and is especially attractive to certain kinds of customers.

The Sequence of Stages

The retail structure of a major city is enormously complex, embracing thousands of stores, within hundreds of malls and power centers and retail street locations. There are dozens of variations within each kind of retail cluster. This complexity is embedded within larger networks that maintain the city; the transportation and distribution systems; and the residential market composed of neighborhoods and communities of varied sizes, incomes and growth rates. This article constructs a framework for describing the distribution and operation of urban retail. It is based on a detailed analysis of the temporal data from the U.S. *Census of Retail Trade* and ICSC, as well as the Toronto model.[2]

Though the retail stages are familiar, they are defined more precisely in Box 5-1, with the implications of each stage elaborated in terms of the lifestyle it serves and the problems it presents.

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[1] Ryerson University's Centre for the Study of Commercial Activity has the most complete spatial database for urban retail in North America.

[2] A summary is contained in Jim Simmons, "The Evolution of Commercial Structure in the North American City: A Toronto Case Study," *Research Paper 221*, Cities Centre, University of Toronto, 2012.

Box 5-1

Comparing Retail Stages

Traditional Retail is street retail that has gradually built up around transit stops and pedestrian routes over time. In the *Census of Retail Trade*, it is best represented by the non-chain stores with payroll that contributed over 60% of sales in 1948. Over 50% of U.S. stores were traditional, making it the dominant form of retail that year. Another 36% were family-run without payroll, and less than 10% belonged to retail chains. Most of the rest of the sales come from chain stores that included the major department stores in the downtown, some grocery stores in smaller centers and a variety of automotive activities on arterial streets.

Most stores were small, with few retail chains and no shopping centers. At the same time, the duplication of stores meant intense competition within the retail strip. The average sales per traditional store (converted to $2007) was $717,000, compared to $2,038,000 for chain stores. Painful inefficiency (a result of few sources of scale economics) and high prices made traditional retail vulnerable to innovation, but the immediate problem that led to the introduction of shopping centers was the inability of traditional retail locations to adapt to widespread car ownership.

In 2007 traditional retail comprised 37% of retail sales in the United States, much of it linked to the automobile. But street retail has become an attractive option for residents of high-density areas, and for people with high incomes or abundant leisure. Recent immigration and condominium lifestyles also increase the use of retail streets, and downtowns still provide distinctive shopping districts in some of the largest cities. Downtowns in nearby small towns attract visitors for recreation shopping, and recent mall developments try to replicate village-type streets. Although the growth rate in the number of traditional stores from 1948 to 2007 has been low or negative throughout, modest growth in sales is apparent in the early years, until 1977. Thereafter it is quite variable, with an almost miraculous annual growth rate in sales of 4% from 1992 to 1997. Still, it is the lack of sales growth that marks the end of traditional retail.

The **Shopping Center** stage in the postwar period introduced a completely different retail format: a brand new spacious building, with plenty of parking, and the entire project organized and planned by a single developer. This stage of retail emerged during a period of explosive suburban growth and widespread prosperity that permitted most families to purchase an automobile.

The success of the shopping center depended on negotiations with anchor tenants to attract customers; their rents and locations within the mall; and relationships with other retail chains that filled up the rest of the shopping center. Chains were efficient retailers, with scale economies derived from massive purchasing power. The mall depended on monopolies: a spatial monopoly, created by a developer, to serve an entire neighborhood or community, as well as a chain's monopoly rights within its own retail sector: as the only grocery or pharmacy or coffee shop. The lack of direct competition produced predictable profits for both developers and retailers—especially if land-use planners could be induced to exclude competing malls from the trade area.

The resulting network of centers ranged from convenience centers with half a dozen stores, to superregional centers with 200 stores and multiple department-store anchors. Shopping centers more or less replicated the roles and spatial distribution of traditional retail clusters within the city but with less duplication and competition. In 1982, at the peak of this stage, chain-store sales contributed 53% of sales in only 21% of stores. Traditional retail—including various automotive-related activities, from dealerships to drive-ins—retained 44% of sales. Average sales per store was $1.1 million ($2007) for traditional retail, but $2.9 million for chain stores. Shopping centers accounted for about 30% of floor area, with the rest occupied by traditional stores.

The shopping-center era is best measured by the extraordinary surge of growth in sales by retail chains along with the growth of chain stores. The absence of growth in chain stores for 1963-67 may reflect the widespread decline in inner-city retail during this period. By the early1980s, the growth of chain sales was more rapid than the growth in chain stores, as the big-box stores of power retail began to absorb most of the growth. Since 1987, there has been little growth in the number of chain stores.

Power Retail. The spatial and sectoral monopolies of the shopping-center stage were too good to last. After a while, the disadvantages of the shopping center began to be evident: lack of choice among brand names, higher prices and the widespread feeling that all the malls are the same. The monopoly profits enjoyed by retail chains in shopping centers attracted new entrants into the commercial structure in the form of big-box chains. Companies such as Costco, Walmart and Home Depot focused on their brand names. Instead of relying on elaborate shopping centers with their higher costs and restricted competition, they used price and product choice to attract their own customers.

Several variants of power retail have evolved over time. *Big-box retailers*, rebelling against the controls of the shopping-center industry, developed their own stores in highly visible locations. These do-it-yourself formats capitalized on minimal costs for buildings, location and labor. Stores largely competed in terms of price. Many customers found the savings irresistible. Other retailers discovered that over-sized stores in accessible locations could compete successfully with malls with the help of aggressive advertising. One by one, chains adopted the big-box model until almost every sector was affected.

Some developers responded to the big-box innovation by building *power centers*, in which several big boxes clustered around a communal parking lot. These centers grew quickly by adding more stores. There were few amenities, and minimal links among the stores. Eventually traffic to the location attracted other power centers, big-box stores and even shopping centers, into giant retail concentrations called *power nodes*—now the largest retail clusters in many North American cities. Customers perceive them as destination stores, or as single power centers, even though there may be half a dozen power centers within the same cluster. Customers are correct in the sense that a power center or power node cannot provide an integrated set of stores or a complete mix of products; it is nothing more than a random collection of big-box outlets. Power retail can be identified by store size, brand names and the weak linkage among individual stores. Power centers are largely found in that part of the city that has been developed over the last 20 years. Although a few power centers have been retrofitted into older parts of the city, the power retail stage of commercial structure is predominantly suburban.

The rise of power retail began in the mid-1980s, coinciding with slower growth in the number of chain stores. The *Census of Retail Trade* provides further evidence of the growth of big-box activity by aggregating stores according to sales per store. The number and total sales of those stores selling more than $10 million is equivalent, for example, to a 25,000-square-foot (sf) store selling goods at the rate of $400 per sf. The 73,000 stores in this category now account for more than 60% of all U.S. retail sales. Breaking it down by sector, the largest contributors to retail sales are the usual big store activities, such as motor vehicles, department stores (general) and supermarkets. But power retail also includes stores in every retail sector, as well as specialized chains such as Costco, Walmart and Target within the general sector.

Power retail, while continuing to gain in market share, has encountered problems. Though attracting large suburban households, it is less popular with smaller households composed of seniors or young people who prefer to shop nearby in more familiar surroundings. For certain kinds of comparison goods such as fashion or books, or for people who enjoy leisurely browsing in an attractive environment, the familiar shopping mall may be more suitable. Practical constraints include considerable space needed for stores and parking; expensive inner-city locations; planning controls used by upscale suburbs to reject power centers; and rural areas' inability to support projects of this size.

E-commerce. With Traditional Retail, Shopping Centers and Power Retail well-established, urban retail appeared to provide for all sorts of customers and all kinds of goods. The unexpected challenge came from technology, as one by one, a number of retail sectors were displaced from Main Street or the mall onto the Internet. As people began to buy books, music and travel online, and online systems for display and delivery evolved rapidly, the potential of e-commerce for extension into other retail sectors grew.

E-commerce in many ways is the antithesis of power retail: no travel, no parking and endless opportunities for comparison. It attracts young people, seniors and rural residents; and it is (relatively) good for the environment. E-commerce cannot be compared with other retail stages in terms of parameters of store size and location, but it does attract customers and sell goods. It depends on a variety of external conditions, notably computer access and dependable payment and delivery systems.

1) *It may simply extend conventional merchandising by adding an online catalogue within an existing store network*, similar to how Sears continues catalogue sales within its department stores, in addition to maintaining a parallel network of catalogue offices across the country where customers can submit orders and pick up merchandise. A number of major retailers (besides Sears, they include Wal-Mart, Macy's and Tesco) are currently elaborating their websites and integrating electronic orders within the store network as part of an "Omnichannel" system. This approach to e-commerce may result in a variety of outcomes as other retailers explore the process. A key issue is how much the e-commerce component will modify the firm's distribution system (how many stores and how big?) and the actual store locations. Will retailers open new outlets to serve customers in a) high-access locations such as downtown, or b) provide stores or access points in low-density locations where there is little retail competition on Main Street?

2) *The dedicated e-commerce firm—notably Amazon (books and records) or Dell (computers)—operates without any retail locations*, although they require a massive distribution system of warehouses strategically located near transportation terminals. (Amazon currently controls 45 million sf of floor space in the United States.) Firm size (*vis-a-vis* competitors) is important because of the numerous scale economies in national or international distribution systems. As well, customers tend to migrate towards firms with familiar websites that are perceived to carry the best selection at the lowest prices. Variations in e-commerce penetration by location and customers may intensify as consumers become more familiar with the process.

The initial penetration of e-commerce required high-income, well-educated urban consumers with computer skills, but the competitive advantage for e-commerce may now be greatest in low-density rural areas where conventional retail is poorly developed and power retail unavailable. As computer access improves, e-commerce penetration should also increase, although some demographic segments (e.g., the very rich or the very poor) may continue to reject it. Retailers will sort out which products have to be examined personally and which ones are sufficiently generic to sell online–or are cheaper to choose and carry home. The role of the other three retail stages will also evolve as E-retailers target certain products and consumer groups. E-commerce, growing at an annual rate of 20% to 30% before the 2007-09 recession, is currently growing at twice the rate of conventional retail. In the early stages sales from the two kinds of e-commerce grow at roughly the same rate, but since 2006 Amazon has pulled away—especially during the recession.

FEATURES

Table 5-1

Commercial Structures in the Greater Toronto Area, 2010

Type of Facility	Number	Stores	Floor Area (Ths. sf)	Share of Floor Area	Floor Area per Store	Floor Area per Node	Stores per Node
Traditional Retail	224[1]	24,023	38,090	23.2%	1,586	170,000	107.2
Shopping Centers	581[1]	21,951	88,132	53.7	4,015	151,600	37.8
Power Centers	95[1]	2,399	30,592	18.6	12,752	322,000	25.3
Freestanding Big-Box Stores	-	63	7,740	4.5	118,570	-	-
Total	**900[2]**	**48,436**	**164,284**	**100.0**	**3,392**	**174,200[2]**	**53.7[2]**
Power Nodes	33	4,047	35,480	21.6	8,767	1,075,200	122.6

[1] Excludes nodes with less than 50,000 square feet of floor area; includes downtown.
[2] Excludes big-box stores.

Source: Centre for the Study of Commercial Activity, Ryerson University

Specialized Roles of Retail Stages

Each of the four stages in urban retail emerges at a certain location within the city, and within a specific time period. The time sequence is universal across all American cities, but the spatial location is determined by the amount of urban growth within each city during the relevant time period. A large city that has experienced more or less continuous growth over the last century will display a variety of retail environments, each one anchored within that part of the city for which it was designed: the older inner city for traditional retail, the early postwar suburbs for shopping centers, and the recent suburbs for emerging clusters of power retail. It is not yet clear where e-commerce will have the greatest impact. This section will explore how the different stages of urban retail have become specialized to provide different kinds of goods, and serve different kinds of customers.

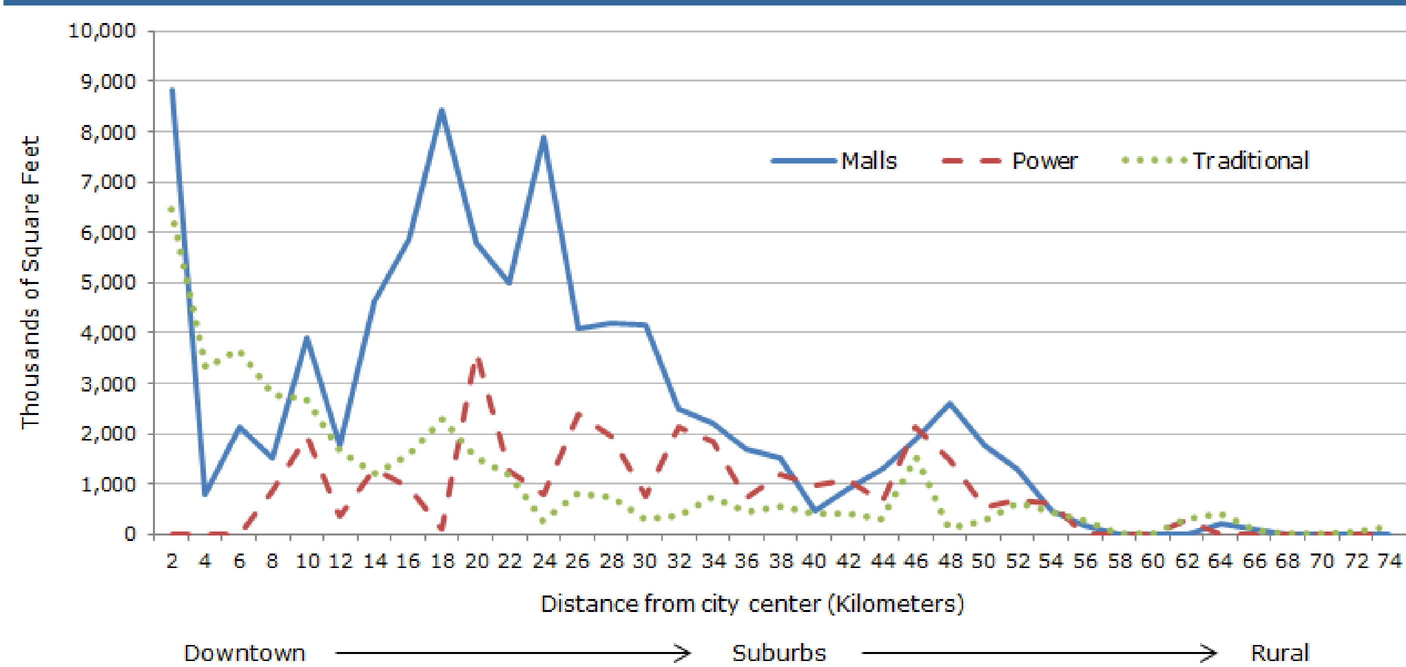
Urban Retail: *Lessons From Toronto*. Toronto is a Great Lakes industrial city, contemporary with Buffalo or Cleveland, but its population (currently 6 million) has continued to grow rapidly since World War II because of its role as Canada's main financial and commercial center and its attraction for recent immigrants.

Researchers identified the retail clusters within the Greater Toronto Area (the metropolitan region) that include at least 50,000 sf of floor area, in order to provide a comparison of the amount, size and distribution of the retail activity. Table 5-1 shows that:

- *Stores in traditional retail are smaller*, and there are more stores competing within each retail cluster:

Chart 5-1

Retail Floor Area by Two-Kilometer Rings: Greater Toronto Area, 2010 (SF)



Source: Centre for the Study of Commercial Activity, Ryerson University

- *Shopping centers* have fewer stores than traditional retail, but on average the stores are larger.
- *Power centers* have even fewer stores, but the stores are much larger and the average cluster is twice the size of retail strips or shopping centers.
- *Power nodes*, the most dramatic innovation in power retail, however, average more than one million sf in area, with as many as 100 big-box outlets.

At present in Toronto, the various shopping centers contribute more than half of the total floor area, with traditional retail and power retail each accounting for about one quarter of the total.

The spatial distribution of the three stages mirrors the growth path of the city. Traditional retail emerged in the pre-war city, with mall growth dominant in downtown and suburban areas until 1980 and power retail appearing thereafter. The distance gradient from downtown, as shown in Chart 5-1, reflects this pattern. In the Toronto area, traditional retail dominates within 10 kilometers (km) (6.2 miles) of the city center, and remains a significant factor within 20 km. Shopping centers dominate from 10 to 35 kilometers out (21 miles) and beyond that they compete with power retail.

Activities and Customers: It seems likely that each stage of urban-retail development will continue to thrive. Each stage has developed a special role within the overall commercial structure, providing different kinds of goods and services. The differing roles of these stages are apparent if one classifies the retail and service sectors into four groups:

- *convenience*, for the day-to-day needs;
- *fashion*, selling clothes and jewelry;
- *destination*, including targeted goods like electronics and sporting goods; and
- *services*.

Traditional retail mostly provides services. Products sold in shopping centers vary by center size: small open-air centers provide convenience goods, and the larger malls specialize in fashion goods. Power retail has become the main location for destination shopping, as the customer targets a big-box chain according to the product, and looks for the chain outlet in the appropriate power node. Of course, the other implication of specialization is the limited ability of traditional retail to provide fashion or destination goods, and the difficulty of finding services or convenience goods within a power center.

Further evidence of the specialized role of each stage in the commercial structure comes from an analysis of the customers shopping in traditional retail, major shopping centers and power nodes, using data from the regional transportation study. Traditional retail serves small households that live nearby, and is especially popular with seniors, as well as transit users on their way home from work. Shopping centers score highest with non-working women and teenagers. Many customers come with friends, travelling as passengers.

The contrast with power-retail shoppers is significant. The latter are more likely to be male, and working, with a higher proportion in blue-collar occupations and belonging to the mid-life age groups. Their households are larger, with more cars, and many have arrived at the target store after previously visiting another store. Clearly, these are destination shoppers, rather than browsers, and people who are in a hurry.

The Proliferation of Retail Alternatives

Retailing has changed enormously over the 60 years discussed herein. America has grown in population and affluence, spending more money on a complex variety of goods and services. Retail has responded accordingly: sales have increased fourfold, although the number of stores is only 50% higher than in 1948. Retail activity is more concentrated, with the share of goods sold by retail chains doubling and the share of goods sold in the very largest chains increasing by 50%. Perhaps most striking, 60% of current sales take place within only 6% of stores.

This expansion and concentration of retail activity has been accompanied by a series of transformations in the characteristics of retail within the city, as it has moved from the traditional street retail to the standardized shopping malls of the postwar suburbs, to the massive power-retail agglomerations emerging in the newer suburbs. Now, there are intriguing signs of a non-store stage in urban retail, in which e-commerce plays a significant role. Each stage is marked by a period of rapid expansion that increases the share of retail facilities operating within the retail stage. Meanwhile, the activities from the previous stage survive, although their growth rates decline. Each one of these retail stages implies a different set of locations, with different retail firms, internal spatial structure and evolution. Over time they attract a distinctive mix of stores, goods, brand names, and customers. Each one makes a distinctive contribution to the urban retail environment and enriches lifestyles and patterns of consumption.

At the same time, each stage leads to problems requiring solutions provided by the next stage in the sequence. Traditional retail was expensive and inefficient, and it could not accommodate the automobile. The efficiency of the shopping center gave control over rents and prices to the developers and leading chains. Power retail emerged to provide location alternatives for other retailers and bargain-hungry consumers. E-commerce serves the people who reject big stores and power nodes, as well as long-distance shopping trips.

In the future, urban retail patterns will continue to evolve perhaps new stages that are yet unidentified to serve new forms of urban life. But more likely, they will represent some kind of retail fusion with smaller big-box stores to serve inner-city neighborhoods, or shopping malls designed to replicate the charm of the shopping street, and e-commerce that combines store ambience with the convenience of the Internet.

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FEATURES

Downtown Retailing in Canada: Clusters of Activity

Surveying the Major Markets—and Beyond

*TONY HERNANDEZ, MAURICE YEATES and ANDREW MURRAY**

Abstract: *Driven by population growth, especially within the major urban centers, Canadian retailers have increasingly been looking to downtowns in new and innovative ways. An analysis of data within 12 downtown markets of varying sizes across the nation reveals a contrast between: (a) the limited growth (or decline) of the selected chain retailers within the smaller downtown markets; and (b) the streetfront-focused growth of selected chains in major urban markets. However, as the residential and employment density of the downtown continues to grow, the viability of the market for future retail expansion increases.*

Downtown Retailing Goes Full Circle

Canadian downtowns reflect the immense diversity of social classes, incomes, ethnicity, lifestyles and business formats that comprise the nation's cities. Over the last century, they have acted as the hub for the trading of goods and services, housed iconic department stores and seen vibrant retail streetscapes evolve, even while experiencing several transformations tied to successive types of urban structure and transportation. Figure 6-1 traces the major phases of evolution of the Canadian retail system from the pre-World War II era through to the present day. Since the early 1900s, the department stores, notably the T. Eaton Company and The Hudson Bay Trading Company, formed the retail anchors of many downtowns. Yet, despite the historical critical mass of downtown retail activity, the advent of ubiquitous automobile ownership led to the widespread suburbanization of the Canadian retail system.[1]

Most recently, the last quarter century has been an era of power-center development, typified by the clustering of large-format (big-box) retailers throughout Canada's suburbs.[2] The resulting power-retail venues have clustered to form, in some cases, extremely large suburban retail venues in their own right. For example, power centers located around the intersection of Highways 7 and 400 northwest of Toronto housed more than 3 million square (sf) feet of retail in 2011—more retail space than many entire downtowns across Canada.

Many would argue, however, that the suburban "white-picket fence" has lost its luster as a result of ever-increasing commuter travel costs (e.g., longer commute times with gridlocked traffic congestion resulting from urban sprawl and increased travel distances), changing demographics (e.g., smaller household size, younger and older age structures) and other lifestyle choices (e.g., concerns over environmental sustainability, aversion to car reliance, work-life balance, etc.). The downtown and proximal urban neighborhoods have seen a resurgence as the place to live, work and play—and with it an urban "downtown" lifestyle has emerged. For example, while in the mid-1970s the population of downtown Toronto was less than 35,000, it virtually tripled to over 95,000 residents by 2011—with many more residents to come based on the current cranes that dot the downtown skyline. As downtown population and employment increases, so does the retail allure of these urban spaces.

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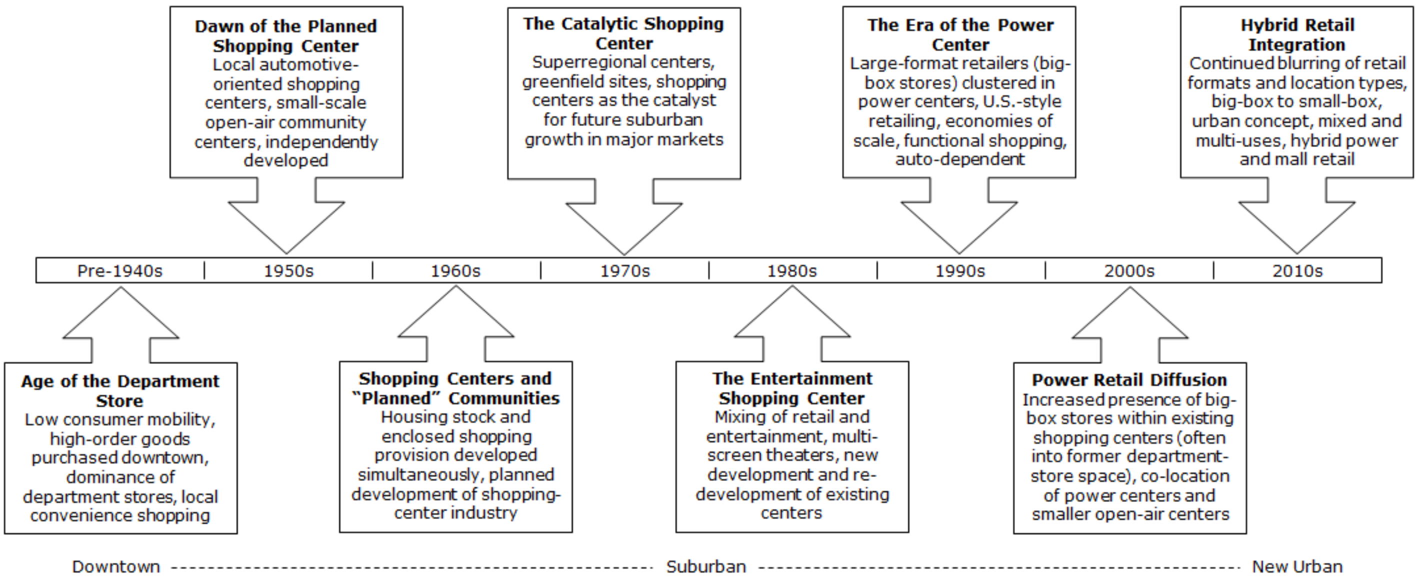
NOTE: The authors would like to acknowledge the support of two individuals associated with the Canadian Urban Institute (CUI): Glenn Miller, Vice President, Education and Research, and Katherine Morton, Senior Planner, Economics and Research. The CUI kindly provided access to a number of their geographic definitions of the downtowns and historic census data. Please note that any views, errors or omissions within this article are solely those of the authors.

1 The evolution of Canadian retail development broadly parallels that of the United States, as detailed in Jim Simmons, "The Stages of U.S. Retail: A Postwar Perspective," *Retail Property Insights*, Vol. 19, No. 3 (2012).

2 Tony Hernandez, Tansel Erguden, and Andrew Murray, *Power Retail Growth in Canada and the GTA: 2011*, CSCA 2012-02, Centre for the Study of Commercial Activity, Ryerson University, Toronto, 2012.

Figure 6-1
Waves of Canadian Retail Development



Source: Centre for the Study of Commercial Activity, Ryerson University

It would appear that "downtown" as a retail venue has gone full circle. Yet is the downtown vibrancy of Toronto or Vancouver replicated across Canada? To begin to answer this question, this article provides a snapshot of the store-location strategy for a sample of established major retail chains operating in Canada.

The Downtowns

Twelve downtowns across Canada are included within this study.[3] Table 6-1, which includes a complete listing of the downtowns, provides details on the changing resident population within each of the selected downtowns and their respective 5-kilometer (km) buffer from the downtown and broader Census Metropolitan Area (CMA) from 2006 to 2011. The study includes downtowns within major urban centers with populations over 1 million, down to smaller urban centers of less than 100,000 residents. (Note that these smaller centers are dominant markets in their regional context). The CMA population of all 12 study markets increased from 2006 to 2011, with growth fluctuating in the order of 1% to just over 2% per annum. The absolute downtown populations varied markedly from just over 500 residents in Fredericton compared to over 95,000 residents in Toronto. The proportion of downtown population equally varied, from 1.7% of the CMA population living in Toronto to less than 0.2% in Montreal. (See Table 6-2). Clearly, downtown population differences are heavily influenced by the definition of their geographic extent. The 5-km downtown buffer provides a comparative geographic measure (e.g., 8.7% of the Toronto CMA population in 2011 resided within a 5-km buffer of the downtown versus 11% in Montreal.) Across all markets, with the exception of Fredericton, the downtowns have maintained or increased their proportion of the CMA population.[4]

[3] The selection and geographic delimitation of the downtowns was based primarily on the markets studied in a landmark report released in 2012 on *The Value of Investing in Canadian Downtowns* by the Canadian Urban Institute (CUI)—a project commissioned by the Canadian Issues Task Force of the International Downtown Association. Montreal, Calgary and Regina, which were not included in the CUI report, were added to the sample for the purpose of this study. It is important to note that there is not a universal definition of a "downtown," as each is geographically delimited within a local and regional context. The definitions used in this study are primarily drawn from the stakeholder consultative process adopted by CUI, with the exception of Toronto, Montreal and Calgary. The definition of downtown Toronto was based on Maurice Yeates, *Charting the GTA*, CSCA 2011-06 (Centre for the Study of Commercial Activity: Toronto, 2011). Analysis in this latter study resulted in a smaller downtown boundary compared to that delimited by the CUI. Montreal and Calgary are defined based on their respective local municipal "Official Plan." Further details on the criteria for downtown definition are provided by the CUI (see CUI, 2012, pp. 6-7, 199-200). In addition to the downtown area: (i) a circular buffer of 5 kms from the downtown, and; (ii) the CMA as defined by Statistics Canada - are also analyzed to provide a broader context within which to assess retail location change.

[4] For example, downtown Toronto increased its share of CMA population from 1.5% in 2006 to 1.7% in 2011.

Table 6-1
Canadian Urban Population Change: 2006-2011

	Population Within CMA*			Population Within 5 Kilometers of Downtown			Downtown Population		
Market	**2006**	**2011**	**Percent Change**	**2006**	**2011**	**Percent Change**	**2006**	**2011**	**Percent Change**
Calgary	1,079,310	1,214,839	12.6%	173,816	179,239	3.1%	5,382	5,688	5.7%
Edmonton	1,034,945	1,159,869	12.1	178,936	181,980	1.7	9,330	11,653	24.9
Fredericton	85,688	94,268	10.0	44,553	47,848	7.4	567	507	-10.6
Halifax	372,858	390,328	4.7	115,409	118,767	2.9	5,040	5,406	7.3
Montreal	3,635,571	3,824,221	5.2	419,898	421,982	0.5	6,125	9,013	47.2
Ottawa	1,130,761	1,236,324	9.3	205,267	208,880	1.8	7,060	10,099	43.0
Regina	194,971	210,556	8.0	118,362	123,954	4.7	630	819	30.0
Saskatoon	233,923	260,600	11.4	111,477	116,614	4.6	2,625	2,817	7.3
Toronto	5,113,149	5,583,064	9.2	449,803	487,717	8.4	76,504	96,716	26.4
Vancouver	2,116,581	2,313,328	9.3	296,030	316,150	6.8	19,720	23,752	20.4
Victoria	330,088	344,615	4.4	153,135	153,900	0.5	1,485	1,701	14.5
Winnipeg	694,668	730,018	5.1	224,204	228,152	1.8	17,157	17,742	3.4

CMA=Census Metropolitan Area
Source: Centre for the Study of Commercial Activity, Ryerson University

Retail Chains in the Downtown

An analysis of retail chains across Canada from the year 2000 onwards[5] only provides a partial view of downtown consumer service sector activity, as it excludes many of the personal, business and food services that are present in the downtown, along with higher-end retailers that also tend to favor downtown locations. It also does not include new international entrants to Canada, many of which have seen the downtown as part of their market-entry strategy[6] or other domestic retail chains that have been operating in Canada for less than five years. With these caveats noted, the analysis does provide a consistent and systematic perspective on the store-location strategies for a large cross-section of mainstream retail chains. Given the sub-sample selection in this study, it is the trajectory of change that is of most importance, as opposed to absolute store counts.

Table 6-3 summarizes store counts of the selected 265 retail chains by market. In 2011, these chains operated 10,337 stores within the 12 CMA markets, increasing their collective store count by 7.4% from 2006. Within 5 kms of the downtown, the store count increased by 1.3% from 2006 to 2011, with the largest percentage increases in Vancouver and Toronto.[7] The presence of the chains within the downtowns changed marginally with a shift towards streetfront locations, replicating the trend seen within the 5-km downtown buffer in Vancouver, Toronto and Montreal. In sum, there has not been a widespread shift in the location strategy of retailers operating downtown.

Instead, the data underline that some chain retailers have opened urban concept streetfront stores in the major markets (e.g., in Downtown Toronto along Yonge St. from Front St. north to Dundas St.: mainstream chain retailers such as Urban Outfitters, Staples, Shoppers Drug Mart, Addition Elle, Atmosphere, Moores Clothing for Men, Winners and HomeSense).

Chart 6-1 provides a breakdown of stores within the downtowns by North American Industry Classification System (NAICS) code. As would be expected given the increased residential populations with the downtowns, there has been an overall increase in the proportion of health and personal care stores, as well as food and beverage stores. This reflects the growing need for convenience-based retail within the downtowns. (Major grocery stores have opened in downtown Toronto, including Metro in College Park, Loblaws at Queen's Quay and the Maple Leaf Gardens on College St., and Sobeys on Yonge Street.) Moreover, the widespread development of mid-rise and high-rise condo towers throughout downtown Toronto has created entire new streetscapes of consumer service-sector activity, from small convenience

[5] The CSCA Leading Retailer Database includes in the order of 125 retail conglomerates that in 2011 collectively operated over 425 retail chains, as well as more than 33,000 retail stores. It accounted for over 70% of total non-automotive retail sales in Canada. A subset of 265 retail chains that operated throughout the 2006-2011 period were selected for the analysis, subgrouped by North American Industry Classification System (NAICS) code.

[6] Joseph Aversa, Tony Hernandez, and Christopher Daniel, *Foreign Retail Chains in Canada*, CSCA 2011-03, Centre for the Study of Commercial Activity, Ryerson University, Toronto, 2011.

[7] Note that a store decline in Halifax is the result of a mall redevelopment undertaken during the study period.

Table 6-2
Downtown as a Share of Census Metropolitan Population: 2006-2011

Market	Within 5 Kilometers of Downtown			Downtown		
	2006	2011	Percent Change	2006	2011	Percent Change
Calgary	16.1%	14.8%	-1.4%	0.5%	0.5%	0.0%
Edmonton	17.3	15.7	-1.6	0.9	1.0	0.1
Fredericton	52.0	50.8	-1.2	0.7	0.5	-0.1
Halifax	31.0	30.4	-0.5	1.4	1.4	0.0
Montreal	11.5	11.0	-0.5	0.2	0.2	0.1
Ottawa	18.2	16.9	-1.3	0.6	0.8	0.2
Regina	60.7	58.9	-1.8	0.3	0.4	0.1
Saskatoon	47.7	44.7	-2.9	1.1	1.1	0.0
Toronto	8.8	8.7	-0.1	1.5	1.7	0.2
Vancouver	14.0	13.7	-0.3	0.9	1.0	0.1
Victoria	46.4	44.7	-1.7	0.4	0.5	0.1
Winnipeg	32.3	31.3	2.0	2.5	2.4	-0.1

Source: Centre for the Study of Commercial Activity, Ryerson University

stores, financial services, dry cleaners, hair salons and fitness centers to coffee shops, restaurants and other fast-food outlets.

Making Downtown Retail Flourish

Retailers are looking at urban spaces in new ways, and innovative urban retail development partnerships are being created. Downtowns provide the opportunity to develop unique locations. In one historic site, Toronto Roundhouse Park, Leon's opened a furniture superstore, while at the same site, adjacent to the Rogers Centre home of the Toronto Blue Jays baseball team, is the Steam Whistle Brewery and Canadian Railway Museum.

Ryerson University has also been part of a number of retail developments, including:

- the Ted Rogers School of Management, located above an urban concept Canadian Tire and Best Buy store at Bay Street and Gerrard Street;
- the Mattamy Ryerson Athletic Centre at The Gardens, a multi-level development with a street-level Loblaws urban flagship store (within the Maple Leaf Gardens, former home to Toronto's Maple Leafs National Hockey League team); and,
- the Ryerson Student Learning Centre, currently under construction just north of Yonge Street and Gerrard Street, which will feature ground-level accessible retail space.

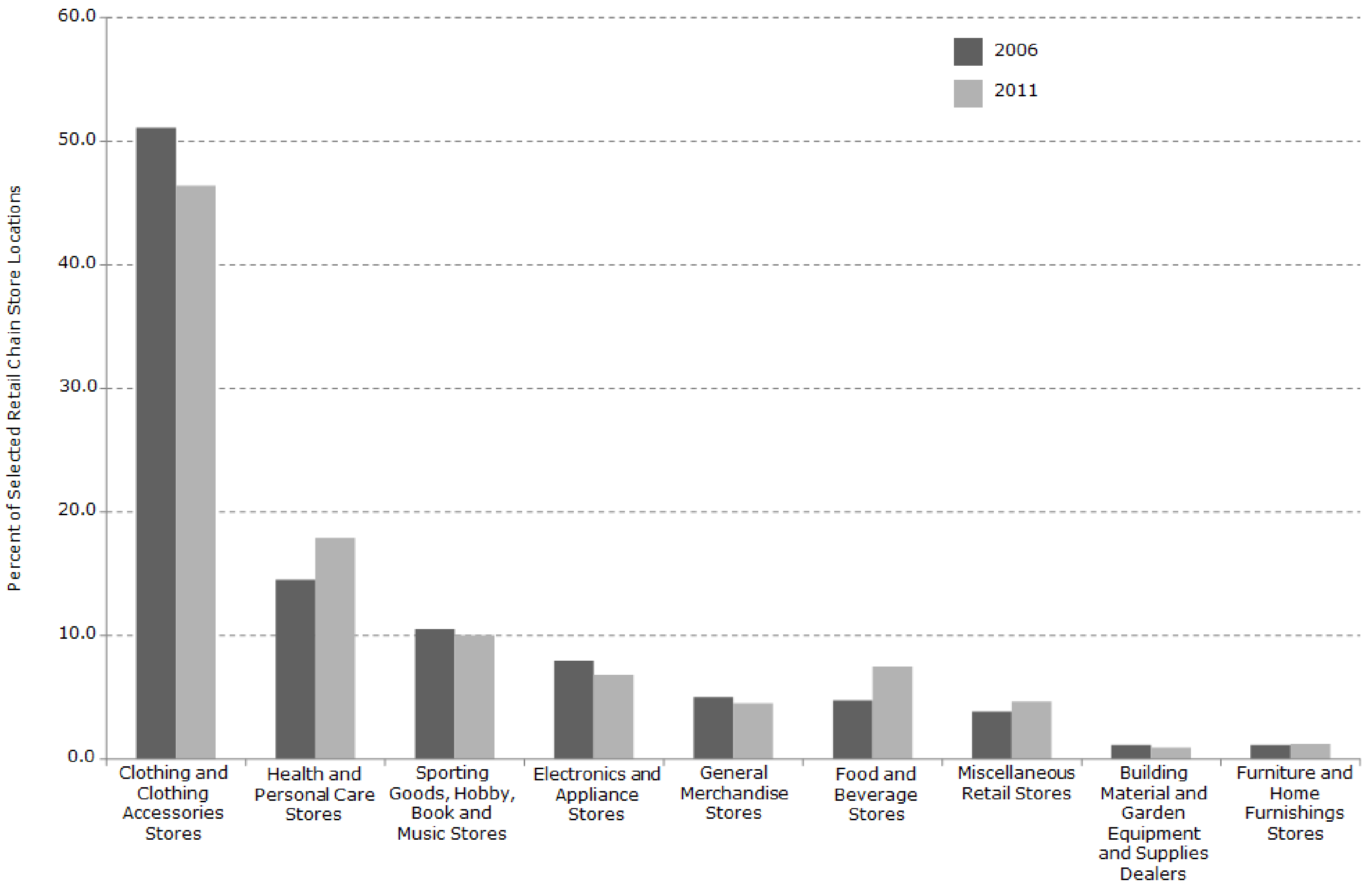
Table 6-3
Selected Chain Store Counts by Canadian Urban Area: 2006-2011

Market	Selected Retail Chain Store Count Census Metropolitan Area			Selected Retail Chain Store Count Within 5 Kilometers of Downtown				Selected Retail Chain Store Count Within Downtown			
	All Stores			All Stores			Streetfront	All Stores			Streetfront
	2006	2011	Percent Change	2006	2011	Percent Change	Percent Change	2006	2011	Percent Change	Percent Change
Calgary	648	727	12.2%	107	105	-1.9%	2.2%	44	39	-11.4%	2.2%
Edmonton	785	841	7.1	165	160	-3.0	-9.1	36	35	-2.8	-9.1
Fredericton	87	87	0.0	82	83	1.2	27.3	6	5	-16.7	27.3
Halifax	323	339	5.0	186	159	-14.5	-7.0	16	14	-12.5	-7.0
Montreal	2,103	2,216	5.4	262	263	0.4	4.4	92	93	1.1	4.4
Ottawa	811	887	9.4	230	235	2.2	13.1	70	64	-8.6	13.1
Regina	163	166	1.8	114	115	0.9	6.3	35	28	-20.0	6.3
Saskatoon	186	192	3.2	158	164	3.8	11.1	45	37	-17.8	11.1
Toronto	2,888	3,142	8.8	366	387	5.7	14.1	223	217	-2.7	9.5
Vancouver	982	1080	10.0	163	209	28.2	50.0	55	53	-3.6	50.0
Victoria	225	222	-1.3	153	145	-5.2	16.7	39	36	-7.7	16.7
Winnipeg	424	438	3.3	170	159	-6.5	8.6	31	27	-12.9	8.6
Total	**9,625**	**10,337**	**7.4**	**2,156**	**2,184**	**1.3**	**12.5**	**692**	**648**	**-6.4**	**8.8**

Source: Centre for the Study of Commercial Activity, Ryerson University

Chart 6-1

Share of Store Locations by NAICS Classification Within the Downtown: 2006-2011



Source: Centre for the Study of Commercial Activity, Ryerson University

These examples reflect the kinds of new downtown investments that mainstream retail chains have undertaken. Within the downtowns studied, they represent a small proportion of the overall retail chain presence, and are largely focused on the major urban centers. They do, however, represent innovative retail development. Moreover, the major malls within the downtowns have also continued to reinvest, providing new internal spaces to accommodate changing retailer space requirements[8] and where appropriate externalizing the mall to the street (for example, the H&M store development at the Toronto Eaton Centre).

Urban size provides the necessary combination of population and employment densities and critical mass of downtown consumers for successful retail. Beyond the major urban centers, as the CUI noted, "*achieving a vibrant retailing sector is a major challenge for downtowns*":

> *"The retailing sector in every downtown was severely impacted by the creation of suburban malls in the post war era and then once more by the emergence of the 'big box' stores in more recent decades. While many downtowns have started to recover and no longer face the reported 'extreme vacancy challenges' of the 1970s and 1980s, the impression that emerged from dozens of interviews is that downtown retailing is still challenged by competition from suburban retailing. Notwithstanding this negative assessment, promising trends for downtown retail are emerging. In the same way that retailers followed residents out to suburban areas in the post war era, so too are retailers following people back into the core."*[9]

[8] Tony Hernandez and Paul Du, *Tracking the Evolution of the Canadian Mall*, CSCA 2009-07, Centre for the Study of Commercial Activity, Ryerson University, Toronto, 2009.

[9] *The Value of Investing in Canadian Downtowns*, p. 16.

Successful retail cannot operate in isolation. It relies wholly on clusters of other activities to flourish. The downtown is essentially a conglomeration, sometimes overlapping at different levels, of special districts. Each special district includes a number of related activities that achieve productive efficiencies, that is, externality benefits, through physical proximity. These include, for example, producer services (e.g., business offices), health care, government and administrative services, education, transportation, entertainment, commercial (including retail, business and personal services)—and of course, an employment and resident population in order to provide both a daytime and evening economy. As Maurice Yeates notes with reference to downtown Toronto:

> "*The downtown has remained commercially healthy because it has managed to reinforce a concentrated mix of clusters of activities, which individually reap externality benefits because of proximity to other activities of the same type and other clusters that relate to them in some way. This agglomeration of clusters is strong when the compounding of externality benefits works, but can become quite fragile when particular components weaken…private investments require a downtown economy that consists of mutually reinforcing clusters of business and commercial activity. If these mutually reinforcing clusters dissipate, downtowns disintegrate.*"[10]

The challenge for downtown retail store development, therefore, lies in understanding the dynamics and externalities of these mutually reinforcing clusters. How best can the downtown store retail offer be positioned in order to provide the highest return on investment (i.e., financial and brand equity)? Retailers in Canada are now faced with a wide range of real-estate options from which to choose within the downtown—many of which require thinking beyond conventional wisdom. This may mean new-store concepts that challenge their *modus operandi* and move them beyond existing-store development pro formas and checklists. While the risks may be heightened (e.g., high cost, smaller space, multi-level, mixed-use, etc.), the rewards may well serve the retailer's brand beyond the balance sheet.

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[10] Yeates, *Charting the GTA*, p.99.

Urban Retail Evolves in Asian NICs

Special Advantages of Inner Cities

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*JULIET CHA and DANNY GOLDMAN LEE**

Abstract: *Cities and locations in the so-called "Newly Industrialized Countries" (NICs) of Asia—namely Taiwan, South Korea, Hong Kong, Singapore and Malaysia—have witnessed the expansion of retail formats following similar growth in size and sophistication in this region by Japan and Australia. This article argues that key inner-city retail flourished because it retained its strategic locational importance.*

Defining the NICs and Their Growth Trajectory

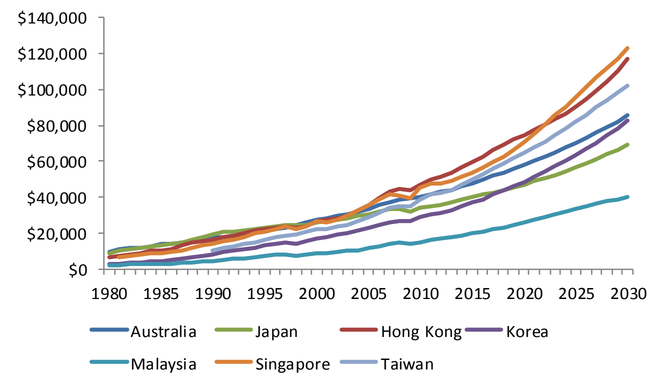
Defining Newly Industrialized Countries (NICs) could be challenging if not problematic because no single set of criteria would fit them all. Generally speaking, NICs are countries whose economies have not yet reached "Developed Country" status but have, in a macroeconomic perspective, outpaced their developing-country counterparts for an extensive period of time. NICs have not only undergone rapid economic growth (usually export-oriented) but at the same time experienced rapid urbanization. Over the past three decades, Korea, Taiwan, Hong Kong and Singapore are the most well recognizable NICs in Asia, with Malaysia joining them more recently. They have moved rapidly from manufacturing bases into high-tech and higher value-chain manufacturing, as well as into the services sector (financial and business services, retail trade and tourism among the most important).

In 2000, Hong Kong and Singapore joined Australia and Japan among the world's top 20 countries in terms of Gross Domestic Product (GDP) per capita power-parity (PPP) terms. By 2020, they are forecast by the Economist Intelligence Unit (EIU) to be joined by Taiwan in the top 10 ranking list while South Korea is expected to join Australia and Japan in the cohort of the world's top 25 list. (See Chart 7-1.) Such a broad metric generally implies higher living standards for a given population, and this in turn encourages a better quality and larger quantity of real-estate stock, most especially of retail space.

High savings and wage growth outpacing inflation generally has characterized these Asian economies during their respective rapid development. The Asian NICs have time- and savings-deposits growth of 7% or greater per annum from 2004 to 2011. Such savings are now being put to use in a period when domestic growth must be actively generated through government intervention in the era following the global financial crisis. Urban economic and demographic elements of growth tend to be self-reinforcing, and one of the most basic prerequisites for real-estate demand in any city is its growth fundamentals (i.e., the source of consumption demand). As a result of rising living standards benefiting from rapid economic growth and urbanization, the retail industry in the Asian NICs has dramatically expanded and become more sophisticated over the years. Department stores had been the dominant retail format in the inner-urban areas in the 1980s and 1990s, following the older street-front shops occupied by small-scale retailers. Often those high-street shops co-exist with even more traditional formats of marketplaces, especially of "wet markets" that sell fresh produce, a much-valued attribute in Asia. Such traditional formats have persisted in a number of large Asian cities, just as

Chart 7-1

Historical/Forecast GDP in Selected Economies



GDP=Gross Domestic Product (U.S. Dollars Per Capita PPP)
Source: Economic Intelligence Unit

* Authors from CBRE Global Investors

the return of the broadly comparable "farmers' markets" have made an inner-city comeback in large United States cities and elsewhere. More recently, not only have shopping centers across Asia become increasingly popular, but the location of these retail premises also spread from traditional inner-city markets to suburban locations. However, inner-city high-street locations remain popular for flagship stores and other more modern retail concepts.

South Korea

Since the 1970s, the South Korean retail sector has been expanding because of an increase in the working population, industrialization and urbanization. Substantial growth in retail development followed the higher income levels and led to very strong expansions of the department store business by big local conglomerates in the 1980s. In step with Korea's swift economic development and rapid pace of urbanization, there have been marked changes in the retail industry. Notably the emergence of new department stores (in both inner-city and suburban locations) and then the introduction of hypermarkets (much more likely in suburban and peri-urban locations), and these led to strong growth in the 1990s. As Korea continues to urbanize and modernize, consumers exhibit a growing propensity for more Western-type retailing formats. Given that it has one of the world's highest Internet-penetration rates, Korea has also led in online retailing and inner-city concept stores that promote new goods and services, as well as in adapting to rapid changes in technology.

In Korean cities, inner-city retail formats typically consist of a mix of high-street stores, department stores and shopping malls. In both number of stores and total sales, specialized high-street retail dominates, while large-scale retail formats continue to expand.[1] Recently, international brands, which are interested in the urban Korean consumer market, have tended to prefer spacious lifestyle-oriented retail space. In addition, mixed-use, multifunctional complexes that provide a quality environment and offer a wide range of goods and services are increasing in inner cities.[2]

In South Korea, eight major metropolitan areas can be considered inner-city locations: Seoul, Incheon, Daejeon, Gwangju, Gyeonggi-do, Daegu, Ulsan, and Busan. Several cities have made considerable progress attracting retail establishments; however, other stagnating or regressing cities have seen the better retail development and activity move to selected suburban areas and avoid the inner areas. Success has occurred where a close working relationship has developed among retailers, city officials and community leaders.

Considering the high spending capacity in major Korean metros, densely populated inner cities continue to offer significant growth opportunities for retailers. Although retailers and retail property developers have sometimes viewed inner cities as fraught with physical, economic and other barriers that are difficult to surmount, such as strict urban building restrictions, high construction costs and lack of assembled sites allowing plots of sufficient size to develop modern retail, many companies that persisted have been rewarded for their efforts.

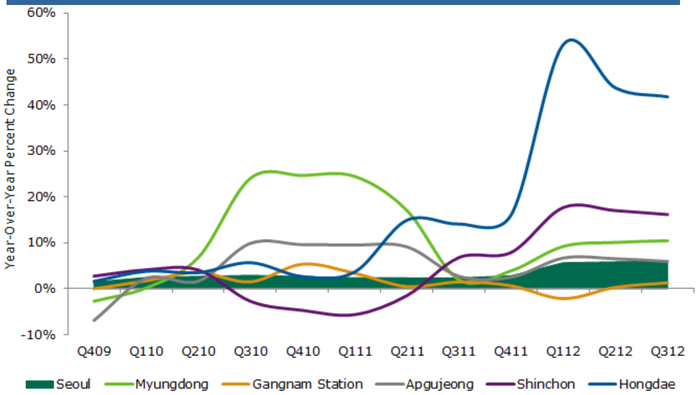
With respect to retail demand, the vacancy trends of regional cities are more volatile than the national average and for Seoul.[3] As a sizable demographic and economic share of Korea is quite centralized in Seoul, retail demand in that city is stronger and more stable. Good medium-to-long-term economic growth fundamentals characterize Seoul's retail markets. (See Chart 7-2.) Supply-demand fundamentals look positive, given that long-term growth is expected in retail sales. Consumer preferences and needs have resulted in a shift of urban retail formats to mall formats. There may be upside potential from transforming outmoded retail formats, and even other types of real estate such as offices, into modern retail facilities. With favorable currency conditions and increased interest in Korean pop culture, the country has experienced an unprecedented surge in international visitors since 2010. As a result, several retail sectors benefited from a boost in sales volume, most notably luxury goods and cosmetics sold in department stores, along with local retailers in popular tourist areas such as Myungdong, Hongdae and Gangnam. The Korean won has since appreciated. Yet downtown Korean locations continue to be popular among foreign tourists who come primarily to shop in the wide selection of formats. Due to positive macroeconomic fundamentals, foreign retailers continue to expand operations in Seoul and the other main cities, including: SPA brands-Zara, Inditex group brands, Uniqlo, H&M, James Icon, Starluxe Inc., Charles & Keith, Paul Smith, and Codes Combine, among others.

[1] Few malls of the size and composition of the United States, Europe, Japan and Hong Kong, for instance, are found in South Korea. Rather, department stores and high-street shops remain the most common format.

[2] "Inner cities," as used in this article, are core urban areas which usually exhibit higher unemployment and poverty rates and lower median-income levels than the surrounding Metropolitan Statistical Areas, yet they also play host to key corporate headquarters, banks, hotels and other institutions that draw large, wealthy daytime populations. They usually coincide with the historic city center.

[3] CBRE Global Investors *Research and Strategy* forecast retail in Seoul as a "positive growth" market for the period 2013-17. See CBRE Global Investors *Research and Strategy*, November 2012.

Chart 7-2
Seoul Retail Rental Growth by District



Source: Ministry of Land, Transport and Maritime Affairs, Korea Association of Property Appraisers and Korea Real Estate Research Institute (September 2012)

Taiwan

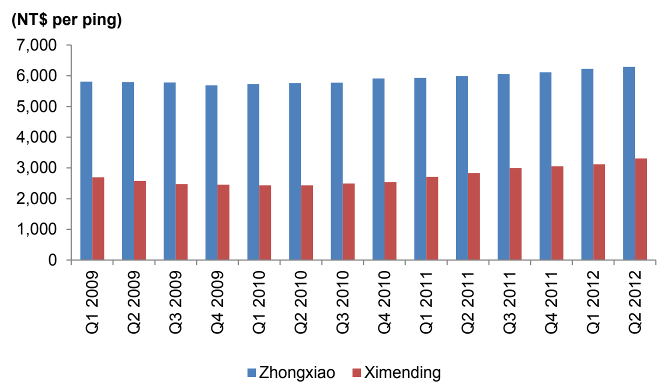
Taiwan's retailing continues to mix both traditional and modern styles, offering a diversity of goods and services catering not only to a comparatively wealthy local consumer base but also to fast-rising numbers of foreign tourists, notably from Mainland China. Department stores, shopping centers, street shops and convenience stores are the main retail formats. Given rising real-estate costs in many emerging economies, big-box retail formats can only be found in a few selected areas, such as Neihu in Taipei. In the key cities of Taiwan such as Taipei, Taichung and Kaohsiung, real-estate costs and the supply of commercial space play a key role in determining the viability of different retail formats.

In Taipei, the political and economic capital of Taiwan, department stores and street shops are the main inner city retail formats. Xinyi and the Eastern districts (Zhongxiao Road) are the most prestigious shopping areas occupied by chain department stores such as Sogo and Shinkong Mitsukoshi. Some department stores operate similarly to mini-malls as they lease floor space to individual merchandisers, who sell goods at their own profit and loss and pay commission as rental of floor space used. Over the past 10 years, department-store sales accounted for roughly 7% of total retail trade in Taiwan.

Some notable clusters of higher-end street shops are located in the Western and Eastern Districts. In the Western district in Taipei, the Ximending submarket has been occupied by creative-design boutiques and weekend cultural-creative bazaars, which are dedicated to the younger generation. Heritage complexes were revitalized and redesigned with modern retail concepts.

Increased retail activities, supported by both domestic spending and mainland tourists, have spread throughout the street shops, department stores and shopping centers. For example, many luxury international watch retailers chose Zhongxiao to expand their footprint in Taipei. Other players such as Uniqlo, targeting younger consumer groups, established their presence in Ximending. In general, robust demand caused retail rents to rise and the availability ratio for streetfront shops to decrease through most of 2012. In terms of rental rates, Zhongxiao is the most expensive among all key retail submarkets at NT$6,300 per ping (one ping=36 square feet) per month, rising +2.9% during the first half of 2012. Rental growth in Ximending area outperformed the other submarkets at +8.4% for the first six months of 2012, resulting from gentrification of under-utilized properties in the area. (See Chart 7-3.)

Chart 7-3
Taipei High Street Shop Retail Rent



Source: CBRE Research

Xinyi is an emerging retail district in Taipei, where most of the shopping malls and department stores have been built in recent years and several more are currently under construction. The district, anchored by "Taipei 101" (formerly the world's tallest building), is the symbol of Taiwan's modernization. The 135-hectare Xinyi Planned District is located at the eastern part of Taipei City, serving as a new central business district. Formerly a military site (of which the government owned two-thirds), it was proposed as the site of a new, mixed-use business center to accommodate the further expansion of the city in 1977. Separate land-use regulations, such as relaxation of building height and change of land use and plot ratio, were implemented to facilitate landscape changes in the area. Not until some later stages in the phased development of the area were shopping malls and department stores proposed in order to generate new and advanced service industries for the whole of Taiwan.

New hotels, restaurants, cinemas and art centers emerged after 1997. Moreover, the commencement of the metro lines since 1999 has greatly improved Xinyi's accessibility. After its grand opening in 2004, Taipei 101 became one of the most popular tourist attractions on the island. Nowadays, Xinyi houses exotic restaurants and luxury boutiques and retail offering a wide range of goods and services where visitors and office workers are able to shop and dine. The district has a high concentration of financial buildings, high-end residential areas, shopping malls and upscale hotels. Xinyi is thus an example of a new "central business district," built largely from scratch and not an inner-city precinct which always had such a central role to the wider city.

Hong Kong

As a "city-state," Hong Kong is home to over 7 million residents, hosting over 41 million foreign tourists in 2011. Many who go there list shopping as one of their main reasons for visiting. Inner-city retail, as well as decentralized retail submarkets, has flourished.

Tsimshatsui (TST), located in the southern part of the Kowloon peninsula, has long been the premier tourist precinct in Hong Kong. With a mix of backpacker and luxury hotels and a key, centrally-located tourism hub, the area needs heritage conservation and redevelopment. As with various urban-renewal strategies and plans elsewhere in Hong Kong, the Urban Renewal Authority is taking the lead in redevelopment and rehabilitation. For instance, the government granted Cheung Kong Holdings, one of the leading developers in Hong Kong, a 50-year land-use right to preserve and redevelop the historic former Marine police headquarters building into a heritage tourism facility. The project, renamed "1881 Heritage," opened in 2009 and has been occupied by a number of high-end retailers and restaurants.

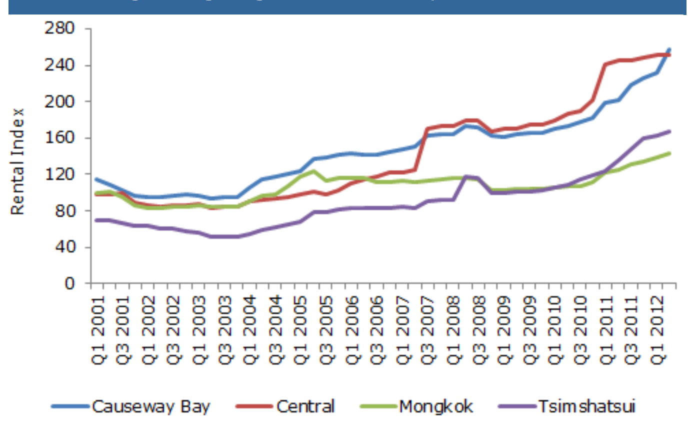
High real-estate costs also attracted private developers participating in urban-renewal projects in other areas within TST. The Masterpiece, another mixed-use redevelopment project in this tourist district, was jointly undertaken by the Urban Renewal Authority and New World Development. This 67-storey tower consists of the Hyatt Regency Hotel, the K11 shopping mall and apartments. As part of the redevelopment plan, launched in 1997, 20 aging blocks were demolished on the 7,600 sq m site around Hanoi Road. Another project, the iSquare vertical shopping mall, is a redevelopment of the former Hyatt Regency Hotel on Nathan Road, which closed in January 2006 after 36 years of operations.

As the world's most expensive location for prime retail space, Hong Kong has spurred acceptance of the vertical retail concept in inner-city submarkets. High costs associated with land scarcity have led retailers over the last decade to seek alternatives to expensive street-level shops, a need that developers have fulfilled by building multi-level shopping centers on smaller pieces of land. More recently, development in the core TST submarket has been marked by the opening of such vertical malls as iSquare, k-11 and The One. These new malls are chiefly characterized by their great height. For example, iSquare contains 31 floors, with its basement level directly connected to the TST mass-transit station. Many of the upper floors are dedicated to restaurants facilitated by elevators, with prime levels at and just above ground level accessible by both escalators and elevators.

The vertical retail concept has been spreading to other commercial buildings, with some under-utilized office buildings in prime precincts having converted to retail use, particularly for food-and-beverage (F&B) establishments. In Hong Kong this is commonly called a "Ginza-style" commercial building. In Causeway Bay and Mongkok, the highest retail rental areas in Hong Kong, smaller restaurants chose to operate in upper levels of commercial buildings in order to keep costs down.[4]

The potential upside of rent for retail conversion in such commercial buildings has already been reflected in market prices. The asking price could be lower than a 3% yield, similar to that of high-street shops. Strong demand and a dearth of space combined to make the rents of Hong Kong's high-street shops the costliest in the world over the past two years, easily outstripping runner-up Fifth Avenue in Manhattan. Luxury-brand and jewelry retailers are among the major high-street tenants in core

Chart 7-4
Hong Kong High Street Shop Rental Index



Source: CBRE Research

[4] Some of these buildings were eventually fully occupied by different types of restaurants. The Cubus, a 28-storey building in Causeway Bay, is a successful example.

retail districts (notably, Russell Street in Causeway Bay and Nathan Road in Kowloon).

Among the four major submarkets in Hong Kong, the rent of high-street shops in Causeway Bay is the highest in both absolute and in growth terms, as seen in the rental index in Chart 7-4. High-street retail rent grew 28% year-over-year (Y-Y), or 11% quarter-over-quarter for Q2 2012.[5] In general, capital values for overall Hong Kong high-street shops rose 29.8% Y-Y, further accelerating from 21% Y-Y in Q1 2012.

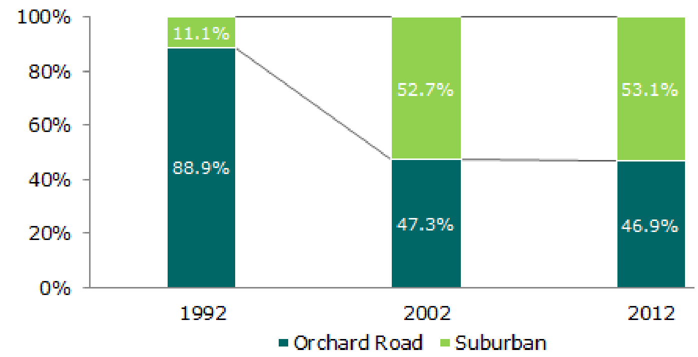
Singapore

In the late 1960s, the Singapore government embarked on a program of urban renewal and city development, aiming to create a centralized prime shopping district in downtown Singapore. Orchard Road was the chosen location given its good proximity to other commercial functions and its accessibility for both locals and international tourists. The 1970s through the 1990s marked the beginning of decentralization and suburbanization of some retail trade, in tandem with the development of regional satellite towns and mass rail transit (MRT) lines, along with the government's push to redistribute the population.[6]

In the past 10 years, those shopping centers became larger, better managed, with more sophisticated marketing strategies and a wider variety of tenant mix. Developments in the suburbs intensified competition and with degrees of success, were able to draw crowds away from Orchard Road. This was evident particularly in the relative decline in the share of retail stock in Orchard Road compared to the share of suburban retail between 1992 to 2002, as seen in Chart 7-5. More recently, Orchard Road embarked on a major restructuring to minimize the loss of shoppers to suburban malls. To date, Orchard Road has risen to the challenge to maintain its status as a premier shopping destination in Singapore and in Asia more widely, attracting both locals and international tourists. Its current success—and its future competitiveness—rests on new concept retailing, unique brands, a growing lifestyle hub and government support.

Chart 7-5

Relative Share of Retail Stock Between Orchard Road and Total Suburban Location



Note: Relative share of stock based on summation of private ownership, thus excluding stock owned by government or its agencies.

Source: Urban Redevelopment Authority Singapore, CBRE Global Investors, October 2012.

With larger and better suburban malls, retailers and developers on Orchard Road underwent strategic changes to maintain their edge in an increasingly competitive market. In 2005 the government aided this process with a tax incentive to new flagship concept projects in retail, F&B and entertainment establishments, encouraging more foreign retailers to set up flagship stores in Singapore.[7] Since then, a slew of new concept stores began to emerge along Orchard Road, particularly in 2009, after three large quality malls (ION Orchard Road, Orchard Road Central and Somerset 313) opened.[8]

Dozens of new brands have popped up over the last few years on Orchard Road, including several with their first locations in this area.[9] Most of these brands can only be found on Orchard Road, giving it a competitive edge.

Shoppers are increasingly being offered a new experience with a variety of specialized F&B services within a fashion retailer or department store or on a dedicated floor.[10] Other F&B establishments seek to offer memorable dining experiences. Technology is also being used to entice consumers, as with iPads and smartphones

[5] Rents in the TST submarket moderated but still increased 23% year-over-year for the same period.

[6] Sim Loo Lee, *A Study of Planned Shopping Centres in Singapore* (Singapore: Singapore University Press, 1984).

[7] Singapore Tourism Board, *Investment Allowance Scheme for Flagship Concepts*, November 2007, https://app.stb.gov.sg/asp/ina/ina05.asp, retrieved January 9, 2013.

[8] Both ION Orchard Road and Somerset 313 offered, for the first time in Singapore, flagship stores taking up consecutive double storeys, where shoppers could find unique products and services. Orchard Road Central included a dance class, indoor rock-climbing center, and a live radio station broadcast on the ground floor.

[9] Tommy Bahama, a popular lifestyle brand, and Tory Burch, a luxury lifestyle brand, both marked their presence in Singapore by opening at Wisma Atria in May 2012. TAG Heuer opened its first duplex store a month later at the same center, taking up about 2,580 sf of retail space. Flagship stores were opened in Q3 2012 by Carven, A. Lange & Sohne, Vivienne Tam, and Crate & Barrel. New F&B outlets such as Paris Baguette in Wisma Atria and 1 Market by celebrity-chef Wan in Plaza Singapura also opened recently. See CBRE *Singapore Market View Q3 2012*, retrieved January 9, 2013, p.3.

[10] For example, at Dean & DeLuca, which took over 3,200 sf in Orchard Road Central in June 2012, patrons dine in a New York City café atmosphere and shop for specialty delicatessen items.

used to notify shoppers about promotions and events in major malls on Orchard Road.

Rising purchasing power among Singaporeans fueled demand for such lifestyle shopping experiences, as well as for the higher-end goods and services primarily offered on Orchard Road. With GDP per capita of roughly US$48,000,[11] Singapore ranks among the highest nations in the world in terms of buying power.[12]

Currently, over one-third of households earn more than US$100,000 per annum.[13] A study by Ipsos PAX recorded wealthy Singaporeans buying more luxury watches, with purchases up from 19% in 2011 to 24% in 2012. Purchases of designer goods also increased from 11% in 2011 to 17% in 2012.[14]

Increased luxury spending coincides with Singaporeans becoming more sophisticated and educated, as well as well-travelled and well-informed. Exposure to foreign media and culture has altered their lifestyles and tastes. They value contemporary and lifestyle products, as much as service, quality and design. While they are more selective about products and services, they are also more willing to pay a premium for what they desire. Shopping on Orchard Road is also seen as a status symbol among Singaporeans. Thus, fueled by such consumer behaviors and an appetite for luxury goods and services, more high-end luxury stores can be expected to continue to debut on Orchard Road.

Government support helps to maintain Orchard Road's position as the premiere shopping destination in the country. The Singapore Tourism Board continues to promote it to locals and international markets.[15] In 2008, the government spent S$40 million on renovations.[16] Currently, a study is underway to map out a five-year plan to maintain Orchard Road's reputation as the nation's top shopping belt. On the other hand, without similar government support for upgrades and promotions, suburban malls can only undertake such tasks by relying on their operators or owners such as REITS.

However, Orchard Road is more exposed to the cycles of international tourism. Tourist arrivals were affected by the Asian financial crisis in 1997, the outbreak of the severe acute respiratory syndrome (SARS) in 2003 and the global financial crisis in 2009, with Orchard Road suffering declining foot traffic, retail sales and rental values.

Suburban malls will continue to cater to the mass market and low-to-mid income cohorts, but Orchard Road will likely maintain its attraction to the middle-income cohorts and higher. Singapore's prime shopping belt justifiably claims that it embodies all that is future forward, stylish, inventive, engaging and youthfully spirited. Over the years, Orchard Road has presented such signature events as Christmas in the Tropics, the Great Singapore Sale, Singapore JewelFest, as well as late-night shopping on Saturday nights, concerts, parties and street performances. With continued government support and demand for high-end product and services, it will likely remain the premiere shopping district of Singapore.

Malaysia

Located about 60 minutes north of Kuala Lumpur International Airport, Bukit Bintang is the prime shopping belt of the inner city of Kuala Lumpur, Malaysia. Offering the most diversified retail offerings in the nation, it is home to a number of large and modern high-end malls such as Pavillion KL, Star Gallery, Lot 10 and Fahrenheit 88, along with sidewalk cafes and high-street fashion stores. Bukit Bintang specializes in Middle Eastern food and culture, as well as Chinese hawker food stalls.

The transformation of Bukit Bintang began in the 1960s, when the Chinese started to build shophouses[17] that were four or five storeys high. In the 1980s, YTL Corporation started retail developments in this area, hoping to rejuvenate the retail cluster and brand the area as Bintang Walk.[18] A slew of malls and hotels were developed in this decade, including Sungei Wang Plaza, BB Plaza, KL Plaza, Kompleks and Star Hill. However, due to fragmented ownership and often inadequate asset management, retail stock became dated and run-down in the 1990s, with little redevelopment.[19] Only in the last five years was Bukit Bintang truly transformed, as Malaysian REITS and foreign real-estate funds began to purchase and redevelop the aging malls.[20] Upscale cafes,

[11] At purchasing power parity. See EIU, October 2012.

[12] From 2002 to 2011, Singapore reported increases of 4.4% in household income and 6.1% in personal disposable income per person, along with a 2.1% gain per annum in its consumer price index. Thus, real income increased over the last decade.

[13] Data compiled from the Department of Statistics Singapore, October 2012, reflecting the end of Q2 2012.

[14] Ipsos PAX press release, October 9, 2012, "Ipsos PAX Study (formerly Synovate PAX) Launches for 16th Year, Revealing Latest Trends for Asia's Upscale Affluent Population on Lifestyle, Spending and Media Consumption," p. 2.

[15] Singapore Tourism Board, "Orchard Road—A Great Street!," April 28, 2009, retrieved January 9, 2013.

[16] These included repaved pedestrian malls, coordinated street furniture, tree lightings to showcase the street's greenery after sundown, and ambient lighting to highlight new glass panels along the Orchard Road Zones.

[17] A building type common to Southeast Asia, with shops for mercantile activity on the ground floor and residences above.

[18] Bintang Walk refers to the more developed stretch along the main Jalan Bukit Bintang and Jalan Sultan Ismail roads, with the intersection of these two roads as its axis.

[19] Ross King, *Kuala Lumpur and Putrajaya: Negotiating Urban Space in Malaysia*. Honolulu, Hawaii: University of Hawaii Press, 2008.

[20] These included Lot 10 and KL Plaza (renamed Fahrenheit 88) in 2010, and an expansion of the high-end Pavilion KL in 2007.

restaurants and clubs now fill this shopping belt, along with all kinds of festive events throughout the year.[21]

The revitalization of Bukit Bintang is also due to three fundamental pillars:

1) *Changing consumer behavior and purchasing power*. Malaysia's GDP per capita more than tripled from under US$5,000 in 1990 to US$17,000 in 2012, achieving an average growth rate of 6.1% per annum. With a 90% correlation between GDP per capita growth and retail sales from 1996 to 2012,[22] gains in GDP per capita will likely lead to higher purchasing power and, thus, increased retail sales. Furthermore, disposable income, which has consistently risen over the last decade, is forecast to continue growing, by more than 7% per annum from 2013 to 2017, according to the EIU. Demand for lifestyle products has risen, supported by a young customer base in Malaysia (51% of the population is under 29 years of age), particularly in KL City. According to a forecast by the United Nations, the percentage of youth will still be over 50% in 2020. Thus, key lifestyle and leisure concepts such as fitness, fashion, health and beauty, cinemas and fast-food restaurants are expected to continue gaining the attention and money of domestic consumers.
2) *Significant urbanization in Malaysia in general and Kuala Lumpur in particular spurred the need for more housing in the past decade*. This has also necessitated more retail development, as home furnishings and related goods have been in demand due to strong household-formation rates.
3) *The government's "Vision 2020: Plan for a Fully Developed Country" has led to more development revolving around the office, residential and tourism sectors*, particularly in Kuala Lumpur's "shoppertainment" hub, the "Golden Triangle." Office stock is projected to grow between 3% and 4% per annum from 2013 to 2017.[23] Over the longer term, the government plans to increase the service-sector contribution to GDP to 65% from 50%. The additional 8 million sf of office space in Kuala Lumpur City (KLC) anticipated to result from that gain should widen its catchment area to include more office workers, who will likely possess high purchasing power and desire high-end goods and services.[24] An additional 1,000 residential units annually are expected for the next three years.[25] Furthermore, government promotion of foreign tourism, especially from the Middle East, has resulted in tourism now comprising approximately 30% of all retail sales.[26] With the EIU forecasting international-arrival growth of 4% per annum over the next five years, the impact of tourism (including in high-value goods and services such as spas) is likely to intensify, particularly in KLC, site of most of the nation's upscale malls. (Chart 7-6 shows the relationship between international tourist receipts and total retail sales in the nation since 1995.)

Chart 7-6
International Tourism Receipts and Total Retail Sales

Source: EIU

The revitalization of Bukit Bintang in the past five years has sparked the influx of new foreign brands in Malaysia, including (but not limited to) Michael Kors, Uniqlo, and H&M. More such brands are expected to establish or expand their footholds, given that the retail market has yet to reach full maturity.[27]

Confidence in Kuala Lumpur's retail sector was reflected in tenants' high pre-opening commitments at major malls in 2012. (Setia City Mall and Paradigm Mall opened with over 90% occupancy rates.) Paradigm Mall, with a net lettable area of 680,000 sf spread across six levels, boasts established local as well as international retail names such as Tesco, Golden Screen Cinema, Harvey Norman, Marks & Spencer and Zara as its major tenants.

[21] Fiona Ho, "Malaysia-International Fashion Week Set to Dazzle," *The Star* Magazine, October 2010, retrieved January 7, 2013.
[22] EIU, October 2012.
[23] CBRE ERIX System, Q3 2012.
[24] CBRE Global Investors Research and Strategy projection, October 2012.
[25] Over 80% of units in the projects have been pre-sold, and the expected gain in occupancy (including to many expatriates, likely with higher purchasing power) will also increase the catchment area for malls in KL City.
[26] EIU, October 2012.
[27] Muji, which opened a store in Pavilion KL in Q2 2012, plans five more stores over the next three years. Victoria's Secret and Denim and Supply Ralph Lauren, which opened their first stores in Pavilion KL in Q3 2012, are also opening a few more outlets throughout KL.

Conclusion

The dynamic inner city sub-markets and precincts of Seoul, Taipei, TST and Causeway Bay, Orchard Road and the Bukit Bintang/Golden Triangle area of Kuala Lumpur offer insights into the diverse and dynamic nature of retail. All these precincts have held fairly long-standing positions of importance by virtue of their centrality and locational advantages and earlier formats of retailing, including traditional stall markets. As these Asian countries rapidly transformed in the past few decades, the pace of economic, demographic and cultural changes have continued to confer special advantages upon these inner cities. They have proved to be cases where some elements of traditional forms of retailing have persisted, yet also locations which have seen successively new formats added to the mix.

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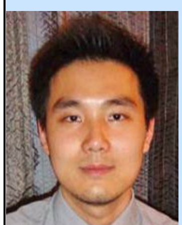

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CBRE Global Investors CBRE Global Investors is one of the world's largest real estate investment management firms with USD 90.4 billion in assets under management as of Q3 2012. The firm sponsors real estate investment programs across the risk/return spectrum in North America, Europe and Asia for investors worldwide including public and private pension funds, insurance companies, sovereign wealth funds, foundations, endowments and private individuals. Programs include core/core-plus, value-added and opportunistic strategies through separate accounts and commingled equity funds, debt investment, global multi manager programs and listed global real estate securities vehicles.

Public Space Opens Urban-Retail Opportunities

Lessons from Two City Centers in Europe

HERMAN J. KOK and PETER TRIMP***

Abstract: *The development pendulum has swung from serving basic needs to satisfying aspirations and emotions. This article discusses how that swing is manifested in retail properties located in the inner-city urban settings of Europe, particularly those locations in close proximity to well-established neighborhoods and communities.*

Design and Aesthetics in Consumer Places

Urban retail integration with public spaces has become increasingly more important for durable and successful new inner-city retail projects. Recognition of this fact coincided with the growth of the service-based economy—which accounts for as much as 70% of final demand—as well as a push by urban planners to attract businesses and investors by making the city more attractive for workers, visitors and residents.[1] As a result, the design of inner-city retail development is evolving from simple functionality (serving a need to buy an item) and standardization to a focus on identity and experience.

Adding to that unique character is that they are often in historic places. This requires new retail development to be integrated into an existing retail environment, which is likely to be a design and execution challenge, but if executed correctly will produce a confluence of identity, experience and emotion around the project.

Rather than being designed as closed environments, today's dynamic retail and lifestyle projects are urban quarters with streets, squares and alleys embedded into the surroundings. This integration tends to yield more successful urban retail projects as visitors see them as integral parts of the city, rather than just a shopping center. As such, this design integration has given rise to a new, renewed or expanded vibrant urban *town center*—a scheme that is here to stay, evolve and serve many generations.

The "Third Place" is First-Rate Design

It is often said that good retail design creates a "third place"— a place that people like to visit and come back to frequently. Retail-led urban development can serve this role even when the shops are closed.

The term "third place" was coined by sociologist Ray Oldenburg.[2] It is based on the Freudian belief that we are happy when we have someone to love and are employed. Oldenburg, however, believes that Freud was wrong in assuming that friendship and work are the only requirements for happiness, and he asserts that human beings also need a place to get away from families and colleagues from time to time. Oldenburg's assertions gave rise to growing awareness of the importance of public spaces and broadened the concept of third place. The past decade and a half has seen a much broader social and cultural understanding of the general public's desire to create and maintain public and accessible spaces. This spans the entire spectrum of communal places ranging from pubs to parks and theaters to public squares. Shopping centers are also well-positioned to perform this role.

History has taught that for centuries the Forum (plaza) was a pivotal third place in ancient Roman society. Throughout history, town squares performed not only an economic but also a social and cultural role. They were and are places where people congregate for commerce, entertainment and to meet in a pleasant setting. Within private developments, public spaces—which include space reserved for squares and places, for streets and alleys

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[1] Jungyoon Park, "Comprehension of Urban Consumption Spaces in Strategies for Urban Attractiveness Improvement," *Scienze Regionali*, Vol. 2005/3 (Issue 3), 2005.

[2] Ray Oldenburg, *The Great Good Place: Cafes, Coffee Shops, Bookstores, Bars, Hair Salons, and Other Hangouts at the Heart of a Community*, New York: Paragon House, 1991.

and for parks and roof terraces—are ever more important today. They provide a social relief valve for those people working and living in high-rise buildings and an offset to the public sector's gradual elimination of urban structures that have historically furnished attractive public spaces.

These open spaces are socially and culturally vital. The fact that they also include a commercial element (the opportunity to buy something) is not what matters most—the most important thing is that these spaces are enjoyable havens. Lastly, creating attractive third places with identity is important from the perspective of sustainability, because when people fall in love with a place they will be committed to preserving it for generations to come.

A number of projects have been developed with high-quality design and a strong third-place component. Among these are Cabot Circus in Bristol, UK, Southgate in Bath, UK, Stadsfeestzaal in Antwerp, Belgium and Forum Aveiro in Portugal.

The following section reviews and assesses two design-based urban projects. Inner-city project Forum Duisburg in Germany is evaluated from a market perspective and the Dutch community center Vleuterweide is assessed from the view of the customer.

Re-making a City Center: Forum Duisburg

Totaling 57,000-square-meter (sq m), or 612,000 square feet (sf) in gross leasable area (GLA), Forum Duisburg (Figure 8-1) is located in Duisburg, Germany, a city with 490,000 inhabitants in the Ruhr industrial conurbation in the west of the country. The development opened in 2008 and transformed the city center of Duisburg.

Figure 8-1
Forum Duisburg

Photo: Edwin Brugman (2008). Source: Multi Development

The city center, devastated during World War II, was rebuilt in accordance with the urban principles of the 1950s, relying on functional buildings situated in a rather large-scale urban grid. Following a period of de-industrialization in the 1970s and 1980s, Duisburg continued to be a blue-collar city with relatively high levels of unemployment. As a consequence, the city's population peaked at 590,000 inhabitants in 1975 and, without any strong prospects for reversal, business continued to deteriorate. About 10 years ago, the city center had evolved into an old and unattractive place with socioeconomic problems, while shoppers frequented suburban malls and high streets in neighboring cities.

Commercial activity was declining and Duisburg was losing its relative position in the German retail centrality index.[3] A number of the main retail brands in the Duisburg high-street area also were considering leaving the city or scaling down. Not surprising, a new retail center was being considered elsewhere in Duisburg to recapture consumer demand and excite the consumer. However, department-store and high-street anchor Karstadt turned out to the agent of change. The store indicated it too would leave Duisburg, unless there was a substantial rejuvenation of the city center. The city government took on that challenge.

The City of Duisburg invited Sir Norman Foster to prepare an urban master plan for the city-center area. Foster conceptualized a commercial and cultural axis between the central railway station and the old port, in which Forum Duisburg was envisaged as the retail anchor. The plan proposed the renovation of the theater, the construction of a new city library and a music hall with shopping gallery, and the upgrading of many buildings in the area. Residential upgrading between the city-center corridor and the old port was to revitalize the demographic base. The city's population and local traders were very supportive of the project and its aim to revive the city center. A local referendum in June 2005 was in favor of Foster's proposal. and therefore supportive of Forum Duisburg.

To make this plan work for retail, the Karstadt premises, together with some neighboring buildings, became the re-parceled space for a new retail anchor—Forum Duisburg—within the city center. Rather than a traditional inner-city mall, the design was based on the creation of three urban blocks with a system of streets and squares that were re-parceled vertically and horizontally.

[3] The concept of a "centrality index" is the share of retail spending in a town compared with the national spending, which captures the town's drawing power for people, businesses and shopping centers. In Germany, the retail centrality index is the official index to rank retail areas. A score below 100 indicates a net outflow of retail spending from a city; a score above 100 indicates a net inflow of retail spending into the city.

All facades on the retail buildings were individually designed to blend uniqueness with a historic character. The industrial history of the city was incorporated into that design to create identity in the area. Though the project was designed as a covered area, the height and the transparent glass roof provided a sense of openness. The entrances and the outside facades were oriented and designed in a way to maximize the connection and synergy with surrounding streets and alleys, making Forum Duisburg a part of the city center network.

The project was the first sustainable project in Germany that was accredited by the BRE Environmental Assessment Method and it won the ICSC 2010 large "New Development of the Year" and sustainability "ReSource" awards.

A wide range of new retail formats have arrived in the city, and the strength of the city center has improved substantially, implying that a higher proportion of expenditure by inhabitants of the city and the region is retained in the city center of Duisburg, as indicated by the retail centrality index. The index for Duisburg stood at 94.5 in 2003,[4] the year in which the project was initiated, and improved to 102.0 in 2012.[5] Not only has Forum Duisburg been a success so far, but the retail streets in the surrounding areas, such as Königstrasse and Sonnenwall, also underwent a considerable upgrading. On the other hand, the Münzstrasse, historically the prime location for national retailers, saw some decline as many retailers relocated to Forum Duisburg. Nonetheless, that negative trend seems to be reversing, and Foster's master plan, which foresees upgrading and improvements in the city center area over the coming 10 years, is likely to economically lift the whole city center of Duisburg.

Vleuterweide—An Urban Concept in a Suburban Setting

Effective urban-retail design can work in suburban areas as well. One such example of that is Vleuterweide, a 15,000-sq-m (161,000-sf) community-convenience center located in a new suburban housing area west of Utrecht in the Netherlands. (See Figure 8-2.) The center is located at the heart of the suburban area, thus encouraging people to arrive by foot or bicycle, while having good vehicle and public transport access from the neighborhood as well. Considerable attention was paid to the concept, design and tenant mix to create a meeting place for the neighborhood, shaped as a town center with more than just community convenience shopping. The center consists of 13,500 sq m (145,000 sf) of retail, and 1,500 sq m (16,100 sf) of cafés and restaurants, which is a high ratio for community centers in the Dutch context. Vleuterweide totals 52 commercial units: 36 retail, nine service, and seven food establishments. The retail mix is relatively typical of a large Dutch neighborhood center, with an Albert Heijn full-service supermarket, Lidl discount supermarket and Hema variety store as the main anchors, alongside other shops such as Blokker home equipment and decoration store and a Kruidvat drugstore. However, rather uniquely, there is a high share of independent entrepreneurs among the operators, especially those with relevance in the region. This was an explicit wish of the community and was intended to generate business opportunities for local entrepreneurs and contribute to the town-center identity, which often goes hand in hand with a mix of chain operators and independent operators. Of the 52 units, almost two-thirds are leased to independent entrepreneurs, especially for restaurants and services.

Libraries, schools and a cultural center are connected to Vleuterweide. Above the retail space are 293 apartments, which contribute to livelihood and social activity in the area during evening hours and on Sundays when the shops are closed. The high ratio of restaurants and cafés, the connection to public functions and the residential accommodation were conceptualized as a town-center environment with several streets, squares and terraces on the waterfront facing a small lake. The architecture resembles a traditional Dutch small-town environment, with a high diversity of facades and tiled roofs. As such, Vleuterweide is, along with the ambition of the municipality, the developer and other stakeholders, positioned to be the "heart of the neighborhood," as a meeting place for shopping, eating

Figure 8-2
Vleuterweide

Photo: Benjamin Struelens (2010). Source: Multi Development

[4] Kemper's, *City Profil Duisburg*, 2003.

[5] Jones Lang LaSalle, *On Point: Retail City Profile Duisburg 2012*.

and gathering, rather than just a functional neighborhood shopping center.

The project was launched in autumn 2010, when most of the new suburban area was completed with nearly all of the envisaged catchment area in place. In summer 2011, a survey was conducted by students of Utrecht University for a master's thesis, "Heart of the Neighborhood: Does It Tick?"[6] to investigate to what extent residents in the catchment area view the center as the heart of the neighborhood and whether they use the center as a meeting place.

The key conclusion was that the majority of the visitors are attracted by the concept and design of the scheme, which, according to their feedback, is "village-like" with a high level of intimacy. Due to the mix of functions and the significant number of eating places, Vleuterweide is seen as more than just a shopping center—it is perceived as a place where one can go and relax. In that sense, it has become a wider focus point for the people in the neighborhood.

An interesting element of the center that is contributing to the neighborhood concept is its website, used for more than just information about the center, but as an information board for the community. It includes details of community activities, sports events, and local neighborhood and political discussions.

Vleuterweide shows that with a multifunctional program and a neighborhood-based concept and design, a developer can create a sense of community within a town-center setting.

Conclusion

The case studies of Forum Duisburg and Vleuterweide highlight the advantages of urban mixed-use place-making based on a high-quality design and third-place concept embedded in the urban context. Forum Duisburg, situated centrally in the city, took advantage of the synergy with the surrounding area. Together with the establishment of a library, a cultural center and the renovation and upgrading of the main theater, Forum Duisburg led the way to a complete revitalization of Duisburg city center. Vleuterweide illustrates that a community center positioned as the heart of the neighborhood can contribute to the creation of a sense of a town center in a newly established residential area. Together these urban-design elements will increasingly determine the long-term success of developments.

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[6] Danielle Reith, "Wijkwinkelcentrum Vleuterweide als 'hart van de wijk'. Klopt het?", Master's thesis. Utrecht University, Faculty Geosciences, 2011.

The Anthropology of Consumer Behavior in an Urban Retail Setting

Lessons From Copenhagen

KATHRINE HEIBERG*

Abstract: *For urban retail to succeed, one must understand the needs and desires of consumers and inhabitants, the way people use the public space and the history of the location. This article provides insights into the experience of urban retail development in Denmark's capital, Copenhagen, and, presents two case studies highlighting both the successes and pitfalls of retail redevelopment in an inner-city location.*

Introduction

The phrase "mixed-use project" became popular in the mid-2000s. In Scandinavia it soon became a buzzword, with all the industry players talking about mixed-use developments, studying examples from the United States and discussing how these projects were going to transform the retail-property industry. Many found it difficult to comprehend this new paradigm and the theory behind it. It was obvious that it referred to a project where the development was to include more than one type of user; however, it could be argued that this practice has been in existence for many years. Two hundred years ago in the center of Copenhagen, it was commonplace to have a store at street level, a stable on the first floor and an apartment on the second floor. The animals produced heat for the apartment and goods for the store. In later years, as technology advanced, the stables were transformed into offices with electricity. A change in tenant type, yet the building remained mixed use.

This article will share the experience of urban retail in Copenhagen, a city with a long tradition of mixed-use development. The article is divided into three sections. The first introduces an analytical paradigm[1] to define consumers' needs and wants. The second part is a case study illustrating the transformation of a shopping mall into street retail. The final section is a case study showing how a residential street was turned into a combination of housing and retail.

1. Urban Paradigm

The key to understanding what is appropriate in terms of design, master planning, communication, and tenant mix in a location is to recognize the needs and desires of the potential visitors and consumers. Through a comprehensive study, in which more than 4,000 interviews were conducted, each of 7 to 10 minutes duration in five countries in street locations as well as in shopping malls, reteam was able to distill three reasons for people to be at a public space, each of which calls for individual solutions with regard to tenant mix, master planning and design.

1. "*To Go to Market*"—A consumer is at a location because she wants to buy goods or services. For example, she sees no milk in the refrigerator, so she goes to the grocery store; it is getting colder outside, so she needs new clothes for the coming season; or she wants to go to a movie or restaurant.
2. "*To Meet*"—This covers all kinds of social activity, such as meeting a friend, hoping to make contact with people one doesn't know yet, or asking one's family what to do on Saturday and they want to go to the mall—not to buy anything specific, just to spend some time together.
3. "*To Move Through*"—When one is at a location on the way to another place (e.g., en route to a job or at an airport for business or leisure travel).

A specific location, for example, is an airport—only travelers are allowed to pass through security control and everybody is on the move. Before travelers can focus on any kind of shopping, they want information about the departure gate and the boarding time, as missing a flight can be expensive and impede plans. Therefore it is a good idea to have a huge information board with gate numbers and the walking distance. Most

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[1] This concept has been dubbed the Replacemaking© model and was developed by the reteam group for prescriptive insights.

airports are created this way and, if they do not have this design from the outset, complaints from travelers would result in changes to fulfill the need for information.

After World War II, many family houses were built outside the city core. Initially there were no retail facilities; however, the rise of local demand to buy food and products led to the construction of a number of shopping centers. These malls were the new markets, built with the sole purpose of distributing products to consumers. The "Market" force was dominating the design, the master planning and the tenant mix. In most shopping centers this is still the case today, even where there are many malls to choose from. The master planning, the tenant mix and service offer are, in most cases, defined and designed by the developer with input from consultants. Only rarely are consumers asked what is most important to them and what kind of needs and wants they would like fulfilled at this location. Fundamentally, however, the more saturated the shopping-center industry gets, the more important it is to implement what consumers really want.

It is not unusual that more than 40% of visitors in a mall state that the reason they are there is "Meeting"—some kind of social activity. Fewer than 50% will be in the center because they actually want to buy something.[2] Most of the time, however, they will spend money anyway, consuming food and buying products. In essence, the more attractive the communal area is for socializing, the more frequently visitors will choose the mall for meeting friends, and thus the likelihood of spending increases.

There are ways of finding out how people use urban infrastructures (squares and streets), including learning the anthropology of the city's commercial centers and by discovering the motives and drives of consumers. In urban markets, this anthropology has been shaped by organic growth, starting with one intersection (soon to become a square) that may have been a good location for trading goods and exchanging information. Moreover, with growing populations, citizens need more goods and services, more housing and more pedestrian and vehicle networks, which catalyze urban-infrastructure development. As a consequence, one street can be a fantastic market place, whereas the next street is used primarily by local inhabitants as a moving street. And while some squares are famous destinations, other squares are unable to entice people to visit.

2. Case Study: From Cityarkaden to Galleri K

Before refurbishment in 2004, Cityarkaden was a small shopping mall with 20 stores, with the entrance located on the main pedestrian street "Strøget" in Copenhagen city center. Cityarkaden was regarded as an unorthodox place, with an unusual mix of stores considering the location. The location offered a solution to the daily needs of the local population—shoe repairs, grocer, supermarket, bakery, as well as local shops with an individualistic selection of bags, belts and clothing. Cityarkaden was designed as a long singular walkway with an exit to a small secondary street. As a result, though sales were good, it was not necessarily seen as a traditional shopping center.

In 2003, a consortium acquired Cityarkaden and transformed it into Galleri K (K for København—the Danish spelling of Copenhagen). The new owners decided to close down the existing shopping center and transform the three streets surrounding the building into vibrant retail thoroughfares (the fourth street is pedestrian-only).

It was not a straightforward project, as tenants are protected by the Danish law for lease agreements. In order to empty the center, the new owners had to pay tenants to leave, as the plan was to turn the location "inside out" and update the tenant mix to contemporary lifestyle fashion stores. Instead of being developed around an indoor shopping-center corridor, all shopfronts were designed to face the streets. A new shortcut, with beautiful architecture, was created with stores on two levels. The majority of units were leased to fashion retailers, with the exception of a Nespresso store, a hairdresser and a restaurant.

When Galleri K opened, the initial reaction was that nobody could find it. Visitors would stand in front of the building asking for Galleri K. With a specific name for the place, people were expecting more than just shops on the street.

The second observation was that the stores facing the pedestrianized street were doing well, but the shops on the street with traffic, as well as the stores in the courtyard, did not work at all, and consequently the first retailers started to leave.

The transformation from an indoor galleria to outdoor street-façade retail was not a problem in itself, but the retail mix was out of date, especially because several owners had not renovated their stores for a long time. But some stores could not be found anywhere else in this part of the city, and therefore that location was a destination. The new store mix in the building does not

[2] Data based on a reteam survey.

offer the same distinctive locations as before, except for the Nespresso store. All the pedestrian streets, as well as many surrounding streets and the department stores, follow the same fashion- and footwear-oriented retail mix.

Streets C and D are both moving streets, not destinations in themselves. Street C has always been a moving street, as it did not have any stores. (The facades did not allow for retail.) Even after Galleri K opened facades and created retail space, it continued to feel the impact of the other side of the street, which remained unchanged.

Figure 9-1

Street D, With Pedestrian Street

Source: reteam group

Street D (depicted in Figure 9-1, with the pedestrian street) is one of the main moving streets in Copenhagen city center. Going through this part of the city either by car or bike, one will inevitably pass by this street. There is 15-minute parking available, and, if one lives in the area, there is a good chance of getting a parking space—a perfect location for needs on the move. A discount supermarket and a shoe-repair shop are just across from Galleri K. It is not, however, considered to be a place to shop, despite being only 20 meters from the pedestrian street.[3] The street has much car traffic and the sidewalk is quite narrow.

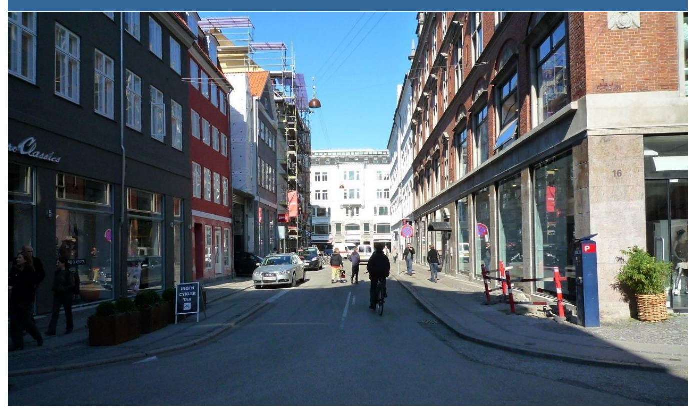
Street C is also a moving street, but without any parking and only one small store opposite the façade of Galleri K. (See Figure 9-2.) The new "shortcut" through the courtyard is not regularly used, as it is parallel with Street C and, in practice, does not offer any time savings.

The old Cityarkaden was a market destination, an indoor walkway with retail on both sides, with high product density. By turning the retail space inside out, the building transformed from a distinguished retail location to a normal street retail experience, and the total façade length was significantly reduced.

The aspiration of the developer to improve the quality of the stores and make some changes to the tenant mix was an inspired idea. But with a little more insight into consumer behavior, the needs and wants of people at this specific location and the way people use the infrastructure in Copenhagen city center, it is highly likely that the decision to turn the project inside out would not have been made. On reflection, given its history as a retail destination, it is possible that at least 50% of the stores would have been more successful with an indoor double-sided retail facade.

Figure 9-2

Street C



Source: reteam group

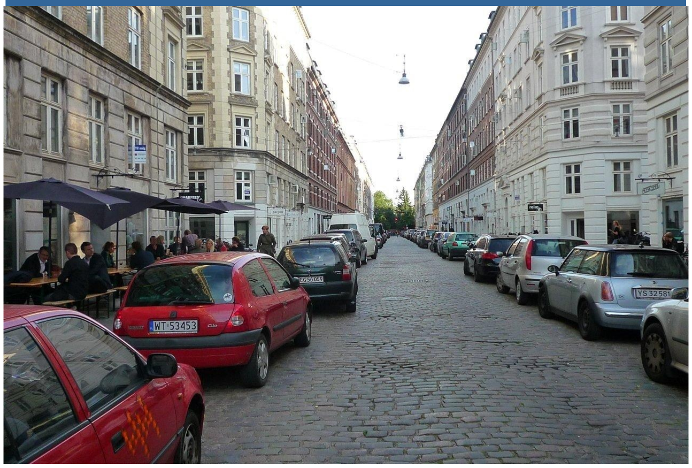
3. Case Study: Jægersborggade

Jægersborggade (Figure 9-3), a small street three kilometers from the center of Copenhagen, has a checkered history. A hundred years ago it was a vibrant retail street—a mixed-use location with stores on street level, manufacturing in the courtyards and housing above. More recently, however, the street has become synonymous with crime, drugs and gang warfare.

Over a year and a half ago, the police and the city's inhabitants concluded that the situation was intolerable and instigated a plan to "clean up" the street. Today Jægersborggade is one of the most vibrant retail streets in Copenhagen with over 40 stores, cafes and restaurants, including a Michelin-star establishment. There are late-night openings, market days, a jazz festival, and a variety of other events, similar to what any dedicated manager would advocate in a shopping center. But the big difference is that this transformation

[3] The street has much auto traffic and the sidewalk is quite narrow. Two streets, smaller in scale with very limited car traffic, are parallel to each street of Street D, so many find it preferable to walk on them instead.

Figure 9-3
Jægersborggade



Source: reteam group

has been shaped by the people living in the street and the local retailers. The street is not covered by a roof; it is regular street retail. No developer has been involved and there was no huge financing of the redevelopment. Instead, the old stores at street level have been repainted, the signage program is simple and cheap, and local manufacturers and artists are back in the courtyards.

The whole development has been driven by inhabitants as, unsurprisingly, they thoroughly understand the needs and wants of people living there. It does not seem that the financial crisis has had any impact on the project. The price level is diverse; shoppers can get a good bargain at the secondhand stores, or indulge themselves with handmade clothes and a fantastic organic wine.

There are three reasons why this development project is a success:

1. The street had an established history as a retail location.
2. As the development team consisted of individuals living in the street, they understood the needs and wants of people in the natural primary catchment area.
3. The cost of redeveloping the stores was low.

Had traditional developers been given the opportunity to redevelop the street, it is likely that they would have secured both the street and first-floor levels to create generous two-story retail units, altered the shop fronts by installing full-height windows and then leased the new large stores to well-known retail and restaurant chains. Ideally, the developer would have sold the scheme to a foreign investor prior to completion.

The development of Jægersborggade is an example of the new paradigm that should apply to urban retail projects. It is necessary to understand needs and desires of consumers, the way people use the public space and the history of a city. It is important to avoid overspending on design, architecture and materials so that tenants other than major fashion chains and cafes can afford the rental level. The role of the developer is metamorphosing into the "organizer of space."

Conclusion

Developing an urban location is a different challenge from building a shopping center on a greenfield site. Cities are owned by their inhabitants and are defined by their daily use. It might be that a shopping mall in the traditional context is appropriate accounting for the market, meeting and moving criteria, whereas in a different location this approach might be problematic.

For urban development to be a success, there needs to be a profound understanding of anthropology. The paradigm outlined here identifies the motives and desires of consumers, and its application at the outset of a project can help avoid many development pitfalls. Furthermore, this approach can help planners and developers comprehend why some existing schemes are not as successful. Today's environment demands understanding of—and respect for—how human beings shop and interact in a complex urban environment.

Kathrine Heiberg is CEO of reteam group, which she founded with Lasse Brodén in 2001. Ms. Heiberg is a graduate of the Copenhagen Business School (Master of Science degree, law and economics), a member of ICSC's European Research Group since 2007, and a board member of Qubulus, an indoor-positioning company. Reteam group specializes in refurbishments and turnarounds of retail locations in distressed situations. The operational strategies it conceives for clients enables management, leasing and marketing professionals to transform locations into desirable retail destinations. In addition to its Copenhagen, Denmark headquarters, the company has an office in Poznan, Poland, as well as affiliates in Montreal and Detroit. One of the firm's major achievements is the research project that resulted in mind16, which defines the values of consumers, retailers and competing marketplaces. That socio-graphic development tool is used to secure value creation and long-term competitive advantage for both shopping malls and retailers. For further information related to this article, Ms. Heiberg can be contacted at: kh@reteamgroup.com.

Avoiding Missteps in Downtown Retail Development

A Small-Business Plan

RICK FERRELL*

Abstract: *This article explains how independent property owners can embrace a more proactive and leveraged approach to plan for urban growth to attract new businesses, capitalize on new trends, utilize available resources, produce more viable and sustainable small businesses, stabilize rents, increase real-estate values and bring value back to downtown.*

In recent years, downtown-revitalization practitioners have seen an influx of professional investors buying multiple downtown properties, and then redeveloping them according to industry best practices, which include leveraging co-tenancies to make a more compelling line-up of goods and services. This is no doubt fueled by the rethinking of site-selection practices on the part of many national retail brands. Many of these brands are building smaller stores in high-density urban markets. The rationale, in part, is that small footprints, but high customer traffic, will drive average sales per square foot. Wal-Mart, Target, Radio Shack, Best Buy, Staples, Office Depot, Office Max, Lowe's, and Destination True Value have all recently reduced their store size (or created new prototypes) in efforts to penetrate new markets and grow revenue and profitability.

In contrast, independent urban property owners and small-shop retailers operate differently from those who routinely invest in real estate. Typically controlling a single property or store, they have limited awareness of available market-research tools or how to use them. In addition, being often under-capitalized, they frequently select tenants based on the ability to pay the rent (carry debt service), rather than on what is right for the market or on building long-term real-estate value.

Similarly, many downtown independent retailers select sites based on a single factor such as perceived "affordable rent" whereas national retailers tend to forecast sales to determine if the rent can be supported by annual sales volume.

What follows is a series of steps taken by—and resources available to—independent property owners and small-business retailers alike that can be used to improve their real-estate and business-investment performance.

Step 1: Perform an Organizational Assessment

Many downtown and urban environments have organizations focused on supporting small-business and property-owner success. Small businesses and independent property owners should assess the organizational support available as a part of their due diligence when seeking new opportunities.

For instance, *Main Street* has spanned three decades and taken root in more than 2,000 communities. This national movement was started by the National Trust for Historic Preservation as a demonstration project to emphasize historic preservation as a tool for revitalizing traditional business districts, and has evolved to provide a myriad of tools and resources to advance downtown economic-development and small-business growth.

The National Main Street Center synthesizes and disseminates best practices to coordinate Main Street programs around the country through:

- *Professional Training*—regional and national conferences.
- *Network Access*—best practices and new research in published materials such as *Main Street Now*, or ongoing support services available through the National Main Street Network® membership services.
- *Technical Assistance*—regularly launches new programs, engages volunteers, builds leadership capacity, conducts market analysis, and supports local entrepreneurship through their field staff and partners.

Business Improvement Districts, or "BIDS," offer another form of support and downtown management. BIDs are defined areas within which businesses pay an additional tax or fee in order to fund improvements within the district's boundaries. There are more than 1,000 across

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the country.[1] BIDs provide services, such as cleaning streets, providing security, making capital improvements, construction of pedestrian and streetscape enhancements, and marketing the area. BIDs may go by other names, such as business improvement area, business revitalization zone, community improvement district, special services area or special improvement district. A *Community Benefit District* is similar to a BID except property owners, not the businesses, vote to pay an additional property-tax assessment.

Besides Main Street and BID organizational structures, the Local Initiatives Support Corporation, the International Downtown Association and local Chambers of Commerce also provide growth-oriented small-business development services. The bottom line is that small businesses and independent property owners have tools at their disposal and do not have to go it alone today. These supporting organizations give independent downtown property owners and prospective investors access to resources and information beyond their individual "silos," and many are acting upon this information in more coordinated and less insular ways.

Step 2: Tap Government Financing Programs and Incentives

Public-private partnerships provide small business with a valuable partner and project promoter. In an effort to be more competitive and attract new business growth, many municipalities around the United States have grown their economic-development resources. Here are some examples of current municipal programs and incentives:

- *Site Location Assistance:* Many local governments maintain an inventory of available land and buildings and work with businesses to realize the potential of their properties.
- *Technical Assistance:* Entrepreneurs and business owners are provided with business-planning aid, including assistance with applications and compiling documentation needed to secure funding, determining licenses, permits and regulatory requirements, available workforce development and related assistance.
- *Funding Resources for Revitalization and Economic-Development Efforts:* These provide financing and funding for creating and/or retaining employment opportunities, low-to-moderate-income city residents, addressing blight and more.
- *Market Analysis:* Many downtowns have invested in comprehensive market analysis and can provide a great deal of useful information about the trade area, demographics, psychographics and related information regarding sales potential and access to quality customers/consumers.
- *Facade Programs:* These provide grants or low-interest loans for restoring storefronts, building facades and signage in designated areas.
- *Enterprise Zone Incentives and Other Similar Programs:* In an effort to encourage private investment, promote job growth and economic development, many states have designated areas for business growth. For instance, the Pennsylvania Department of Community and Economic Development authorizes tax credits for certain specified Pennsylvania taxes to private companies making qualified investments in rehabilitating, expanding or improving buildings or land in designated Enterprise Zones. Low-interest loans are available for property and building acquisition, renovation and machinery and equipment purchase for businesses located within the Enterprise Zone.
- *Emerging Growth Companies:* Special assistance programs are offered to relatively new companies experiencing growth.
- *Relocation Assistance:* Developers, businesses and industries are aided in moving to targeted growth areas.
- *Business Expansion, Retention and Recruitment Assistance:* These encourage businesses to remain or expand in targeted areas.
- *Entrepreneurial Incentives:* These assist higher-risk businesses that meet general program criteria and provide compelling reasons to locate or expand in targeted areas.
- *Loan-Guarantee Programs:* Risk-management assistance is given to commercial lenders for start-up businesses that might not otherwise be underwritten.
- *Utility Abatements and Assistance:* Some municipalities that provide utility service will abate costs and/or offer special utility rates to new business customers.
- *Gap Financing Tools:* Some programs such as "The Upstairs Program" in Wilmington, Delaware, encourage the conversion of upper-story space into affordable and market-rate housing units, giving preference to

[1] Jim Cloar, "Latest Census Sheds Light on BID Characteristics," International Downtown Association, 2010, retrieved December 12, 2012.

residential projects over other types of use. The purpose of such programs is to cover the extraordinary costs of historic renovation and code compliance by financing the gap between rehabilitation costs and post-development market value and revenue projections.

Step 3: Embrace the City's Master Plan for Development/Redevelopment

For many cities, the master plan is about embracing the human element and creating places where people will want to live, work and play. Understanding the city's motivation, as well as the breadth and scope of its vision, will help focus on how and where the retail component will fit, thus providing a context for small-business investment.

To gain this insight, small businesses and property owners should review the municipal websites in their targeted markets as part of their due diligence when searching for growth markets and opportunities. Communities engaged in master planning and related growth strategies often have links to download this information.

Step 4: Seek and Use Experts

Learning from others is a great way to avoid obstacles. Area business professionals and organizations can serve this role, including:

- *Local and Regional Real-Estate Brokerage:* Real-estate professionals are familiar with available sites (land and buildings),often have relationships with key stakeholders and decision-makers, and can assist with financing alternatives and deal structuring.
- *Community Lenders:* Community lending organizations around the country provide an array of financial and business development services for small-business growth such as Technical Assistance Services, Microloans, Business Growth Loans, Community Development Loans and Affordable Housing Loans.
- *Accessing National and Regional Retail Databases:* Sources such as Crittenden, Plain Vanilla Shell and Dealmakers provide analysis, forecasts and other information delivered through various reports, directories, special real-estate briefs and e-mails. The retail tenant databases provided by these sources offer useful site-selection information for small retail businesses. By emulating the criteria of their more experienced national counterparts, small retail businesses can accelerate their learning curve, particularly in the areas of store size, co-tenancy preferences and key demographic considerations.

With such tools available, small businesses and independent property owners are better able to understand the implications of factors such as visibility, accessibility, regional exposure, drawing power, population density, population growth, operational convenience, safety and security, adequate parking, and adequate signage in ways that would have been much more difficult on their own. In turn, this will better set the course for an investment strategy and growth built on solid information.

Conclusion

A cooperative partnership between government, property owners, community, financial institutions, non-profit organizations, neighborhood organizations and other resources is essential to achieve downtown revitalization, and the time is ripe to develop these partnerships.

By making use of the resources outlined in this article, small-business and independent urban-property owners will go a long way toward avoiding the missteps that can occur in even the best-laid downtown revitalization programs.

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In 2003 Mr. Ferrell co-founded a program for downtown revitalization focusing on sustainable and preferred-growth strategies, and provided consultation services to communities throughout Pennsylvania, New Jersey and Delaware. He refined his approach to downtown revitalization and formed RMA, which specializes in economic and strategic planning, business development and implementation services in accordance with "smart growth" principles.

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FEATURES

The Value of Forging Partnerships for Urban Development

Strategies for Increasing Collaboration Among Retail Professionals and City Planners

*JIM ANDERSON and DAVID FITZPATRICK**

Abstract: *The often adversarial relationship between retail developers and city planners can be lessened by constant communication. Case studies on specific projects draw lessons in how these two groups can achieve greater collegiality, as well as retail developments that are not only mutually beneficial to both sides, but advance the interests of the community.*

Urban development should be based on collaborative relationships between retail developers and planners. This article first explores possible causes for lack of collaboration between city planners and retail development professionals, then maps the priorities of both groups, uncovering mutually reinforcing benefits and shared interests. Through industry project narratives, relevant case studies offer key points for consideration. Finally, a series of questions pertaining to collaboration are presented to prompt ongoing thinking and action.

The History and Impact of Adversarial Relationships

Such shared goals can help immensely when the two sides begin to work on a project. "Having a predetermined road map for action in response to anticipated glitches allows for swift and professional resolutions in a 'partnerlike' manner," writes David Wallace, a past ICSC Research Scholar for Economic Development. "Simply put, if time is spent up front on the development or other operative agreements, it can result in less heartache and disagreements down the road. Additionally, it provides a basis for addressing unanticipated challenges in the same manner.[1]

However, under the pressures of tight deadlines, project milestones, restricted budgets, multiple stakeholder demands and stringent policies, it can seem as if planners and developers are miles apart. This creates a "counter-collaborative" environment, wherein many city planners retreat, imposing stringent rules and stipulations. This may be perceived as policing retail developers and forcing urbanism. Similarly, retail developers may be inclined to withhold information and resist input. This may be perceived as misleading and conservative. These understandable, but counterproductive, responses have not only perpetuated adversarial relationships between retail developers and planners, but have resulted in a number of failed projects.

If viewed from a thousand feet above, the retail plaza in Figure 11-1 might look like a success story. It has all of the right ingredients: stores adjacent to the street, gateway architectural elements at the entrance, landscaping, sidewalks and hidden parking. However, when viewed from street level, as in Figure 11-2, the storefront demonstrates a lack of robust conversation and collaboration between planners and developers. The rules were followed, but the potential of the development was not fulfilled. For example, the blanked-out storefronts facing the street with inoperable doors prevent pedestrian access and fail to showcase a dynamic retail environment. Instead, this prime area is used for loading and shipping. As density intensifies with the growth of residential condominiums, it will become more apparent how these oversights impede the overall performance of the development and its connection to the community. While it is impossible to know the details of the conversations that took place between city planners and retail developers, it is clear that they failed to achieve their shared goal of developing a site that both responds to and grows with the community.

*Principal and Urban Planner, respectively, DIALOG

[1] David Wallace, *Retail Development Through Public-Private Partnerships* (New York: International Council of Shopping Centers, 2011), pp. 26-27.

Figure 11-1
Retail Plaza: Aerial View

Source: ©Google Maps

Figure 11-2
Same Retail Plaza: Street Level

Source: DIALOG

Identifying and Mapping Shared Interests

Identifying shared interests is inarguably the most critical step in building trust and laying the foundation for collaboration. Unfortunately, these conversations about shared interests are rare, leading to missed opportunities and unnecessary conflicts.

Prior to coming together, retail professionals and planners should have a clear sense of their aspirations, priorities and areas of flexibility. These three areas should be discussed before diving into project details such as floorspace area, parking ratios and building heights. Doing so will not mitigate the contrasting ways that retail developers and planners prioritize and articulate their goals. What it *will* do is create space for big-picture thinking, building on each other's ideas and identifying "hot buttons." This is the process of creating a team. Once the retail developer/city planner team is created, then it will be prepared to dive into the details. Table 11-1 is a checklist developed to map the interests shared between retail developers and planners. It can also be used as an actual meeting resource or conversation guide.

As aforementioned, priorities and articulation of project goals vary across groups. However, the shared-interest column in the table highlights how these seemingly divergent priorities and goals overlap and can be mutually supported. Given the significant risk and investment made by retail developers, it would make sense to combine all of the available "team" resources and thinking to achieve long-term goals.

At the outset of a new project, it may be helpful to fill out this table of goals and invite the planner(s) to do the same. However, the middle section can be completed together. These goals should be kept in mind during initial meetings.

Collaboration in Practice: Project Examples

The following project narratives illustrate the challenges and opportunities that can arise in the working relationship between city planners and retail professionals.

1. *"Jordan from RioCan expressed his desire to work with us right from the very beginning*."

Recalling a recent successful project, Lynda MacDonald, Manager of Community Planning with the City of Toronto, explains how the developer, Jordan Robins, Senior Vice President for RioCan, quickly established rapport: "He said, 'I'm not here to have a fight, I want to work with you,' which started us off on a positive note."

RioCan was initiating a new retail center with a Loblaws store on Queen Street in downtown Toronto. The challenge was to ensure that the development related to the vibrancy and uniqueness that defines the project's hipster-oriented surroundings. As with all collaborative working relationships, there were moments of discomfort. Thankfully, the developer was not just humorous, but also transparent, tabling concerns and key priorities. Though a back-and-forth conversation can take time, Lynda reports that the eventual outcome was positive.

The project has been financially successful with retail sales per square foot (sf) performance exceeding expectations and the residential condos quickly selling out.

Table 11-1
Shared Goals of City Planners and Retail Professionals

Goals of City Planners	Shared Interests	Goals of Retail Professionals
Complete communities	Creating "complete communities" requires giving local residents the types of goods and services that match their market needs.	Ability to effectively respond to market needs
Enhanced pedestrian realm Transit-supportive density	In dense urban environments, strong pedestrian and transit connectivity creates a captive pool of potential customers.	Easy customer access Large nearby customer base
Mixed-use developments Vibrant and active 24/7 spaces	Mixed on-site uses and active public spaces help drive foot traffic at more hours of the day.	Enhanced shopping hours High customer traffic
Efficient use of land Reduced automobile reliance	Using land more efficiently through increased density and lower parking provision reduces development costs.	Reduced development costs
Public support	If planners believe a proposed project is beneficial, both groups have a vested interest in achieving public support.	Minimized public opposition
Long-term resilience	Planners' desire for economic sustainability and stability is closely aligned with retail professionals' interest in achieving a long-term position in the market.	Protected long-term market positioning
Ability to undertake future intensification	The desire to maintain long-term redevelopment potential is mutually shared.	Redevelopment / repositioning flexibility
Occupied store frontages	Leased and actively used retail spaces are necessary to achieve place-making goals and to enhance the pedestrian realm.	Leasable retail space
Identifiable neighborhood character Safe environments Preservation of cultural and environmental assets	Making places welcoming and creating points of differentiation from competition improve customer loyalty.	Strong sales performace Customer loyalty
Socially inclusive and environmentally sensitive	Improved reputation in the community provides marketing / branding opportunity.	Developer credibility and reputation

Source: DIALOG

Equally important, Lynda highlights the value of the mutual learning between city planners and the developer due to the positive connection established at the onset of the project and open communication on both sides throughout. "We really worked with RioCan to do an urban format store; there's room for improvement but we are happy with the outcome," says Lynda.

Key Considerations:

- *Transparency and openness are important* at the beginning and throughout the process.
- *Trust is not solely built through positive interaction*; articulating discomfort and concerns are important.
- *Retail developers and planners should see each other as dependable allies*.

2. "*View disagreements as an opportunity to share expertise and build capacity*."

Faced with stringent planning requirements, many retail developers feel as if they only have two options: push back or bow to pressures in order to obtain development approvals. Retail developer Wally Ciastko proposes a third option.

"The planners on one of my projects took a pretty bureaucratic approach to the site and were unwavering on all applicable regulations regardless of their impact, but I didn't become reactionary; I saw it as an opportunity to help educate them on the nuances of retail design," says Wally.

This approach led to more substantive debates with senior planners about project outcomes. (See the site plan in Figure 11-3.) This is important because the success factors for retail are extraordinarily nuanced. By taking the time and effort to engage planners, Wally made them more receptive to his ideas, many of which were implemented. His only regret in the project was conceding to the requirement that buildings be placed immediately adjacent to the main corner of the site with retail space fronting onto an internal passageway.

"Although I didn't follow my retail instincts on a key issue, I'm pleased that I didn't lose my cool and was able to debate the important points," Wally says.

Figure 11-3
Wally Ciastko Site Plan

Key Considerations:

- *Resist immediate reactions*. When things get tense, positively push back with one's expertise; the other parties may simply require more information.
- *Collaboration is not synonymous with perfection*. The goal here is to achieve the best possible outcomes.
- *A professional reputation is among one's greatest assets*. It is important to leave each project feeling

proud of one's work and conduct.

3. "*Make understanding 'hot-button' issues a priority*."

Having brought over 100 commercial projects through the municipal approval process, Ron Richards, CEO and President of R.G. Richards & Associates, can speak with experience to the relationship between city planners and retail professionals. According to Ron, working successfully with planners requires retail professionals to be highly aware of the overarching objectives of municipalities.

Ron points to First Capital's commercial developments in Toronto's Liberty Village (see Figure 11-4) as an example of aligned retail and planning principles. First Capital used heritage buildings and constructed new space to service this dense and rapidly growing community. By understanding planning hot buttons, and implementing the ones that made sense for the development, developers created a bridge connecting to planners from the onset.

Figure 11-4

Liberty Village, Toronto

Source: First Capital Realty

Key Considerations:

- *Ensure that knowledge of planning concepts and community cohesion are reflected in initial pl*ans. This will secure credibility and demonstrate broad perspective.
- *Address planning "hot buttons*," regardless of one's feelings about them.
- *Address the intent, not the letter, of planning policies* in order to move past barriers.

4. "*Getting buy-in on the front end saves time*."

Vermilion's Managing Director, Chris Dillion, has worked on a landmark project, Harper Court (see Figure 11-5), that demonstrates collaboration and consultation. The Hyde Park community and University of Chicago students had long been vastly underserved in the quantity and diversity of retail. Recognizing this shortfall as a barrier to urban revitalization and to enhancing the quality of campus life, the University of Chicago and City of Chicago teamed up to create a redevelopment project to facilitate

Figure 11-5

Harper Court, Chicago

Source: Vermilion Development

change.

"To address strong sensitivities within the community, an extensive planning consultation process was undertaken that created an opportunity for local residents to work through redevelopment challenges while enabling developers to gain much-needed buy-in on the front end of the project," explains Chris.

This project, although unique in many aspects, has emerged as an industry best-practice model.

Key Considerations:

- *Collaboration, though time intensive, can turn potential opponents into strong advocates*.
- *Effectively articulating shared concerns and connecting with communities* positions retail developers as important contributors and partners.
- *A flexible approach* is key to staying ahead of a rapidly changing local market.

Conclusion

Developing and maintaining deeper levels of collaboration requires time and complexity. However, this expenditure of effort, strategic thinking and professionalism represents just a fraction of the ongoing investments made in retail projects. Furthermore, by embracing more collaborative relationships, retail developers will garner the recognition they deserve for contributing to the health and vitality of their communities.

Rather than providing a series of rigid rules or limited findings, the following questions help instruct and guide city planners and developers alike.

- How can all parties work together to eliminate unnecessary competition to lay claim to design's coveted role in the development process?

- How and when should other parties who may oppose ideas, such as traffic engineers or bank lenders, be engaged in the collaboration process?
- How can developers and planners tease out and manage both political and project priorities?
- What can be done to shift the institutional paradigms held by both retail developers and city planners to encourage new ways of viewing old problems?
- How can one ensure that the right people are engaged in the process?
- How does one balance the financial investment with the time associated with establishing more collaborative relationships?
- How can the power dynamic between developers and planners be managed to create an even playing field for greater collaboration?

Moving forward, retail developers and city planners have an emerging opportunity to reformulate their relationships by framing conversations around key issues and identifying mutual interests. As professionals with a vested interest in creating healthy urban environments, they have an onus and responsibility to strive for enhanced collaboration, explore unorthodox solutions, and create places that better serve the needs of local consumers and communities.

Jim Anderson, a Principal with DIALOG and member of the firm's leadership team, is an architect and advisor to countless client partners. Jim has successfully led a number of projects in Canada and the United States, including Hamilton Multi-Agency Training Academy, Fort Wellington Visitors Centre, Durham Region Police Complex, and the Canadian Forces Military Police Academy. Jim is currently working with a number of developers and national retailers to "green" their portfolios. Additionally, he is developing a White Paper in partnership with Queen's University.

David Fitzpatrick is an urban planner at DIALOG with public and private-sector development experience, both in Canada and internationally. He has conducted site planning and project feasibility for large retail and mixed-use projects in cities for private-sector developers and investment funds. His experience includes financial assessments, market viability, project-risk assessment, benchmarking, tenant recommendations, layout planning, market positioning, project branding, and marketing. David has provided inputs for official plans and community-revitalization strategies of city-planning departments, and has worked with stakeholder groups and planning authorities.

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Creatively Adapting to Urban Retail

Challenges of Meeting Specific Retail Needs

*WENDY CRITES**

Abstract: *There are many challenges when assembling land in urban areas. Since land is scarce and parcels typically smaller, it takes great strategy, planning and creative adaptation to bring a project to fruition. Urban-retail project costs run higher due to the costs of land, renovation (including remediation and demolition), and additional permits needed to complete work. Therefore, it is necessary to evaluate the feasibility of a retail urban assemblage upfront to efficiently budget for the expense of adapting to the urban parcel and structures.*

In the past, retailers built or retrofitted space to serve the suburban market to accommodate the extensive selections they offered. Parking lots sprawled across fields of acres to accommodate hundreds of vehicles that could carry away shoppers' selections ranging from sodas to sofas, detergent to dishwashers, and tea sets to tires. It was an endless opportunity to supply all needs of any size in a pay-and-carry system. However, this strategy does not work in an urban environment where a customer is walking or riding public transportation.

Some retailers, such as Target, BJ's Wholesale Club and Sports Authority, have built two-level stores to adapt to available properties. Shoppers experience the store's basic model vertically versus a single level.[1] *RetailWire* recently reported that Target fits into the space available within a building rather than adapt a space to their prototype.[2]

Revitalization of the American City

"The core primary cities of the nation's fifty-one metropolitan areas with populations exceeding one million, grew faster than the suburbs of those areas between July 2010-2011," noted the Brookings Institution.[3] Moreover, the past 10 years have witnessed neighborhoods reclaimed[4] and mixed-use projects reviving formerly blighted areas. People living in the new urban landscape work, shop and play in areas that now thrive. The Brookings Institution further stated, "American cities are growing faster than their suburbs for the first time in almost a century."[5] With this revitalization of the city, retailers have had to create opportunity, adapt to their surroundings and focus on an entirely different mentality of shopper.

Industrial Assemblages: Environmental and Financing

Developers have latched onto this trend and are now creating micro-cities within cities. To do this, they must first find available land which is sparse or appears non-existent in highly dense areas. Often, vacant land has been contaminated, which results in development challenges and high costs. Issues of liability and clean-up expense, for example, often outweigh the feasibility of development, as private lenders rarely provide loans for impaired lands.[6]

However, due to limited land availability, developers have returned to these larger parcels, making their assemblages more achievable but challenging. The industrialized land can then be evaluated for its highest and best use.

Today, self-reliant micro-cities are popping up, providing housing, employment, services, and retail from the ashes of once-abandoned urban centers. Retailers have discovered that they can participate by taking advantage of new construction. Frequently, high-rise structures support retail on the first floor at street level.

* Executive Director, DMS Development

1 Susan Piperato, "American Cities are Revitalizing Their Downtowns and Recreating Their Profiles," *National Real Estate Investor Online*, March 28, 2012, retrieved August 6, 2012.

2 George Anderson, "Target to Tackle the Big City," *Retail Wire*, July 2012, p. 1, retrieved July 25, 2012.

3 William H. Frey, "Demographic Reversal: Cities Thrive, Suburbs Sputter," *Brookings Institution*, Series State of Metropolitan America, Series Number 56 of 56, June 2012, p. 1.

4 Alan Ehrenhalt, *The Great Inversion and the Future of the American City*, Alfred A. Knopf. New York, 2012, p. 65.

5 Frey, p. 1.

6 U.S. Environmental Protection Agency, "Anatomy of Brownfields Redevelopment," *Brownfields Solutions Series*, EPA-560-F-06-245, October 2006, p. 1, retrieved November 26, 2012.

Table 12-1
Roles and Interests of Participants

Participants	Examples	Role	Interest
Property owner		Sell or develop the property	•Want to receive a fair value of their property depending on the extent of environmental contamination. •Want to manage any liability concerns upfront.
Public-sector stakeholders	•Local governments •Community groups •EPA grant recipients •Nonprofit organizations	Redevelop the property from a community and economic development perspective	•Want to see the project revitalize blighted properties and generate economic or community growth. •May want the successful property assessment, cleanup and reuse to enhance the community's image.
Private-sector stakeholders	•Investors •Lenders •Developers •Insurers	Provide resources to develop the property	•Want to see the project revitalize blighted properties and generate economic or community growth. •Want to earn an appropriate return on investment. •May want to tie the property redevelopment into a larger redevelopment plan for the neighborhood or community.
Other parties	•Attorneys •Environmental Consultants •State and federal regulators	Provide technical , regulatory or other guidance	•Want to ensure that the property is cleaned up and safe for appropriate levels of use and/or reuse. •Want to alleviate future environmental concerns on the property.

Source: U.S. Environmental Protection Agency, "Anatomy of Brownfields Redevelopment," *Brownfields Solutions Series*, EPA-560-F-06-245, October 2006, p. 2

Some contaminated sites are called brownfields, which the Environmental Protection Agency (EPA) defines as "real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant."[7] Development becomes more complicated and expensive if there is ongoing environmental clean-up. Depending on the land's toxicity, clean-up can include soil, surface or groundwater remediation. These issues can require groundwater pump and treatment systems, wells, ongoing monitoring reports, asphalt caps, deed restrictions or easements.[8]

Additionally, as seen in Table 12-1, funding retail developments on this scale takes a multitude of people, including property owners, public and private sector stakeholders, attorneys, regulators, and others, to pull together. The EPA provides a web site to search by state (http://www.epa.gov/brownfields/state_tribal/state_map.htm) to locate programs in that specific area.

As the only areas where large land parcels are now available, vast vacant industrial areas make brownfield development appealing. To counter the costs of such an enormous undertaking, the developer needs to identify sources of funding, which may include tax credits, tax abatements, tax-increment financing districts, grants, subsidies, bonds or loans, property owners, developers, investors and even non-profit organizations.[9] Box 12-1 lists sample programs offered by the EPA.

Assembling Multiple Parcels: Land, Buildings and Overcoming Obstacles

Other aspects of urban development also offer challenges. Assembling properties in the middle of a heavily populated area can be an enormous undertaking. In suburban and rural areas, one parcel of land would fit a retailer's prototype including parking. However, in the city, 10, 15 or more properties may need to be assembled to gain a quarter acre. At times, land owners may hold out selling to developers because they know they are holding the key parcel. If paying a higher price does not entice them, developers might try offering help relocating the property owner or their business, or including them as part of a joint venture.[10]

In areas where the local government is pushing for revitalization, there may be an opportunity to use condemned properties for the assemblage. The city may offer various incentives to a developer in the form of tax

[7] U.S. Environmental Protection Agency, Brownfields and Land Revitalization, "Brownfields Definition," updated July 26, 2012, retrieved August 6, 2012.
[8] U.S. Environmental Protection Agency, "Anatomy of Brownfields Redevelopment," p. 4.
[9] *Ibid*., p. 7.
[10] Resurgence Group Front Street Analytics, "Plan It Piqua," *Redevelopment Analysis Report*, April 2010, City of Piqua, Ohio, pp. 19, 48.

Box 12-1
Sample Programs Offered by the U.S. Environmental Protection Agency

- Area-Wide Planning Pilot Program
- Assessment Grants
- Revolving Loan Fund Grants
- Clean-Up Grants
- Environmental Workforce Development and Job-Training Grants
- Multi-Purpose Pilot Grants
- Training, Research and Technical Assistance Grants
- Targeted Browfields Assessments
- State and Tribal Response Programs
- Sustainability Pilots
- Discounted Loan Programs
- Voluntary Clean-Up Programs
- Land Restoration Programs

Source: U.S. Environmental Protection Agency, "Anatomy of Brownfields Redevelopment," *Brownfields Solutions Series*, EPA-560-F-06-245, October 2006, p. 2

abatements and bonds that help secure and finance their efforts. Obtaining necessary zoning changes and permits will be easier when local governments encourage revitalization.

In areas of highly dense population, at the core of cities, developers must become more creative about finding the necessary space. Retailers, too, have to think outside "the box" by reimagining how to adapt and confirm their footprints to existing buildings, some of which may be historic. These challenging sites have their own complexities. The costs for retailers operating in adapted buildings are typically higher. Older structures may not meet current standards for energy-efficient products, such as lighting, insulation and other building materials.

Securing demolition permits can stall a project for months, if not years, especially when it is necessary to close a heavily travelled street, as is the case when using a crane or other heavy equipment.

Buildings that are being remodeled or demolished may need to be remediated due to the presence of asbestos, lead paint or other contaminates that must be contained.[11] Removing these contaminates is costly and must be done in strict accordance with EPA guidelines.

Developers and their project teams must scout for any additional space that can be used to park and store equipment, vehicles and dumpsters. Arrangements must be secured for hauling away debris. All of the limitations of working in an urban setting increase costs that need to be analyzed closely before any project begins.

Public Jurisdictions

It is extremely helpful to get to know local politicians and community-group leaders. Initiating contact before a project begins gives the community a chance to provide input and to air concerns. It is a more neighborly approach for both the developer in the short term and the retailer in the long term, which could be 25 years or more.[12]

Political leaders often want to understand a project and how it will affect their constituents. Getting their buy-in can help with the process of obtaining permits and variances within the local jurisdictions of the project's plan. Politicians are also eager to promote their roles in bringing jobs to a struggling area.

Although commercial-revitalization programs provide positive incentives for retailers and developers, they can also add cost. Community pressure to have developers share expenses can lead to area improvements such as adding new street lighting, benches, trash receptacles, bike racks, sidewalks, curbing, trees, bus shelters, signage, banners and even murals.[13]

Fortunately for both developers and the urban communities targeted for revitalization, public agencies can conduct or help with community-needs assessments, reviewing zoning guidelines and identifying sites. During the lengthy process of abandoning a road or railway, for instance, in which title issues can arise, federal, state and local jurisdictions (including the Department of Transportation) can facilitate conversations with the appropriate agencies. They can also advocate for smart-growth policies that offer financial incentives, fee waivers and even a fast-track approval process.[14]

Good Neighbors

Working with community groups may even assist in solving problems. Partnerships can help the community undertake efforts to improve code enforcement against

[11] "When asbestos-containing materials are damaged or disturbed by repair, remodeling or demolition activities, microscopic fibers become airborne and can be inhaled into the lungs, where they can cause significant health problems." U.S. Environmental Protection Agency, "Asbestos: Why Do You Need to Be Concerned About Asbestos?", retrieved September 26, 2012.

[12] Michael D. Beyard, Michael Pawlukiewicz, and Alex Bond, "Ten Principles for Rebuilding Neighborhood Retail," Urban Land Institute, Washington, D.C., 2003.

[13] "What Difference Can a Few Stores Make? Retail and Neighborhood Revitalization," Center for Community Innovation at the Institute of Urban and Regional Development, Berkeley, CA, June 2010, p. 5.

[14] Kameshwari Pothukuchi, "Attracting Supermarkets to Inner-City Neighborhoods: Economic Development Outside the Box," *Economic Development Quarterly*, Volume 19 (Number 3), August 2005, p. 6.

property owners with blighted properties, to remove graffiti and to increase or enhance neighborhood greenspace.[15]

- *Example 1*: The alleyway behind community row homes is pitted with holes. Additionally, there is a desperate need for lighting to help keep vagrants away. Overall, repaving the alley and adding several light poles may be a nominal expense to pay to convince the community not to fight any zoning, variances or permits that are required because the developer and retailers are "on its side."
- *Example 2*: When access to and from an urban retail project involves a public right-of-way (ROW) such as an alley, it is necessary to obtain an agreement with any property that abuts the ROW. A community-group leader can assist in tracking down homeowners and bridging communication gaps.

A neighborhood may reject a retailer out of the belief that the project will destroy the historic character and charming appeal of the community. A solution may be as simple as matching brick color or as complex as leaving the front façade of a 100-year-old building to appease an historic committee. By working with these groups and addressing concerns upfront, both the developer and retailer, with their openness to working through issues, can gain momentum for their project. Either way, it is a win-win scenario as long as demands do not outweigh the financial feasibility or the retailer's overall identity.

Parking

Lack of parking can represent a source of extreme tension between retailers and communities. Residents do not want an increased numbers of vehicles in their neighborhoods where there is already a limited parking threshold.

To help resolve this issue, retailers try to locate near transit hubs. Assisted by the green movement in the United States, municipalities are promoting walkable communities that do not require cars for living, working and shopping.

In these situations, retailers carry products more appropriate for their neighborhood. Someone who walks or rides the metro will not be purchasing a treadmill.[16] However, an advertisement hung on a wall may inspire a shopper to return with a vehicle to carry away the purchase.

Because of this limitation, retailers may rely on the $8 billion U.S. parking lot and garage industry.[17] Approximately 105,000,000 parking spaces exist in the U.S., on streets and in garages.[18]

If the local revenue authority recognizes a need for public parking, it may either create a joint venture with a developer or fund the development as a capital project. Some challenges with land assemblage for parking include vacating streets to create parcels desired by the urban market, title blending and altering misconceptions of an area.

The cost to retailers of including parking generally outweighs the rent-to-floorspace ratio and is often not in the retail development budget. Therefore, innovative parking designs must be used in dense urban locations. This may include configuring parking behind, above or below the store.[19]

Other concerns that retailers must review prior to development in an urban environment include zoning-code regulations for loading and unloading products, locating trash receptacles, and permitted store signage. New CityTarget stores have adapted to smaller delivery areas by using 28-foot long trucks instead of their typical 53-foot trucks.[20]

Many of these challenges can be deal-breakers when a retail site, presented by a developer, heads to committee for approval.

Conclusion

As the world population continues to undergo the largest wave of urban growth in history,[21] retailers are redesigning store formats to accommodate landmark buildings, converted warehouses and former brownfields. They are adapting to meet the unique demands of urban settings.

In urban environments, land is scarce and creative re-adaptation, renovation and environmental clean-up is just the beginning of the process. Partnering with various jurisdictions and communities assists in addressing

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15 "What Difference Can a Few Stores Make?" p. 5.

16 Susan Piperato, "Urban Retail Continues Its Evolution," *National Real Estate Investor Online*, December 7, 2011, p. 1, retrieved November 28, 2012.

17 "Research and Markets: 2012 Report on the $8 Billion US Parking Lots & Garages Industry," *Business Wire*, press release July 30, 2012, retrieved September 26, 2012.

18 U.S. Census Bureau estimate cited in "Overview of the U.S. Parking Industry," International Parking Institute, retrieved September 26, 2012.

19 Beyard, Pawulukiewicz, and Bond, p. 13.

20 Jessica Wohl, "Target Shrinks Stores, Boosts Design to Appeal to City Shoppers," Reuters, July 18, 2012, retrieved November 28, 2012.

21 "Urbanization: A Majority in Cities: Population and Development," UNFPA (the United Nations Population Fund), p. 1, retrieved August 27, 2012.

everyone's concerns, including developers, retailers, neighborhoods and city officials.

Additionally, local jurisdictions can direct a developer to financial resources, including special programs that assist in funding parts of the project by offering tax incentives, EPA program availability and community-revitalization funds.

Assembling urban land, whether one or 100 parcels, can involve years of negotiations with land owners and jurisdictions. Land owners, if aware of an assemblage, may overvalue their property. A business or property owner may need relocation. Land costs can escalate quickly and ultimately determine a project's initial feasibility.

Therefore, it is important to have a development plan that details the core strategy of the project and timeline. For instance, all expenses should be projected and reviewed prior to tackling an urban project. Not only are land costs higher due to limited land availability, but project feasibility is determined by many elements, including remediation, remodeling, parking, environmental and jurisdictional laws. Knowing the scale of a project and all expense components, such as the cost of closing a street and re-routing traffic, determines if the cost per square foot meets the retailer's affordable per-square-foot ratio. Additionally, projecting an accurate timeline will help steer the project successfully while meeting development goals that are set by both the developer and jurisdictions.

Wendy Crites, a specialist in land acquisition, is Executive Director of DMS Development, a Towson, Maryland-based company that is a preferred developer for national and regional retailers in Maryland, Delaware, Virginia, and Pennsylvania. The company also has several mixed-use projects in various stages of development. For additional information on DMS Development, or for questions related to this article, please visit www.dmsdevelopment.net or email wendy@dmsdevelopment.net.

Urban Site Selection With High Definition

Amending the Rules

*JACK HALL**

Abstract: *Although location remains the major criterion for retail site-selection decisions, technology is enabling greater sophistication in these processes. In particular, it has introduced greater nuance into four long-accepted—but little-examined—factors, including: 1) drive time; 2) higher costs providing higher returns; 3) high-traffic locations producing appropriate customers for a retailer; and 4) the importance of locating near a traffic-building co-tenant.*

"Location, location, location."

Since the dawn of the retail industry, the "three most important" governing rules have remained unchanged. Location is still the critical factor in determining the success of a bricks-and-mortar retailer. However, technology is challenging some of the traditional criteria used for identifying the ideal location for any given business.

Recent years have seen an explosion in the depth and scope of what is known about people, communities and markets. Demographics, psychographics, traffic patterns, computer modeling and other analytic tools have emerged to provide dynamic new methods of identifying and evaluating prospective locations.

Nowhere are the analytics more revealing and enlightening than in heavily populated urban areas. Even a cursory look at a sophisticated market-analytics database will prompt a re-evaluation of some of the industry's widely held assumptions about what makes a great location.

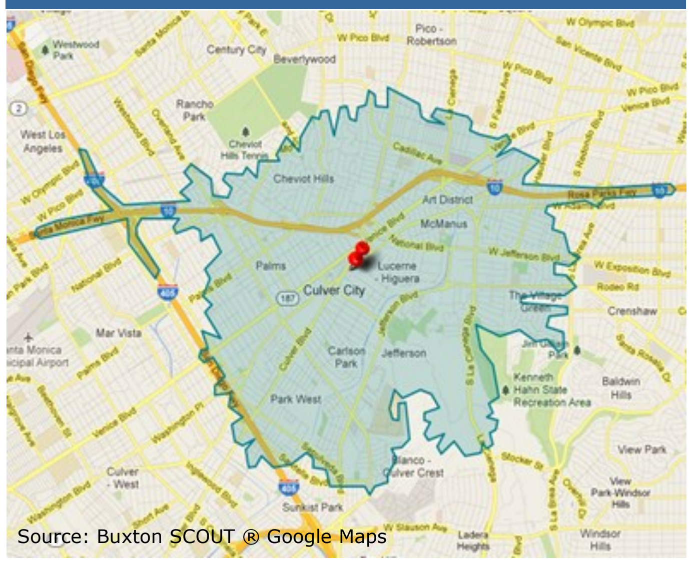
Rule #1: Look Beyond Drive Time

Historically, one of the leading factors in selecting a suburban retail site was the number of people within an "x-minute" drive time of that site. However, this does not always work in an urban context.

Modern analytic tools provide the capability to use other criteria to select the prime locations within any given urban market area. Some of these other criteria include: traffic and commuting patterns; location of pedestrian hubs, such as subway stations and bus stops; proximity to other businesses; and proximity to underserved areas.

Consider the advantages and disadvantages from various site-selection criteria.

Map 13-1
Conventional Approach to Site Selection



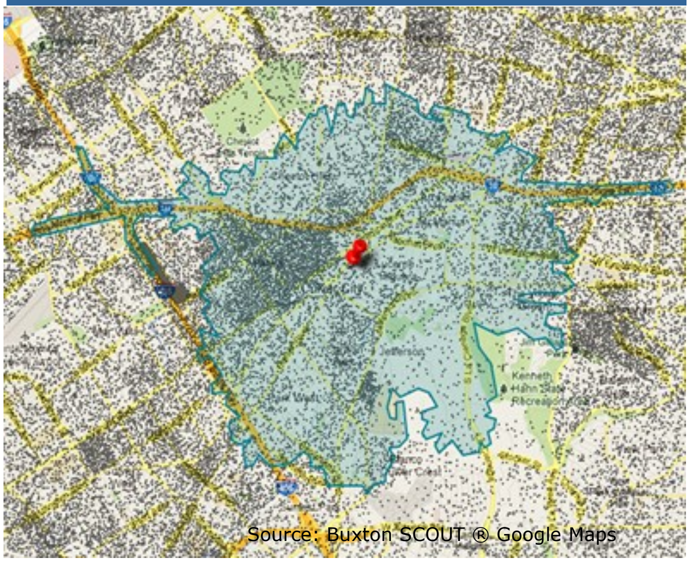
Source: Buxton SCOUT ® Google Maps

Geographic Mapping. Map 13-1 for Culver City, California spotlights the conventional approach: The selection of a site with the hope of staking out and laying claim to a trade area. This approach is based on the size of the local population and geographic characteristics. For example, the presence of two interstate highways through the trade area implies a healthy amount of drive-thru or transient traffic near the site. However, this approach has obvious setbacks: It does not reveal exactly who the surrounding residents are, whether they are the best prospects for the business, or whether pockets of residents within the area would provide a more promising location.

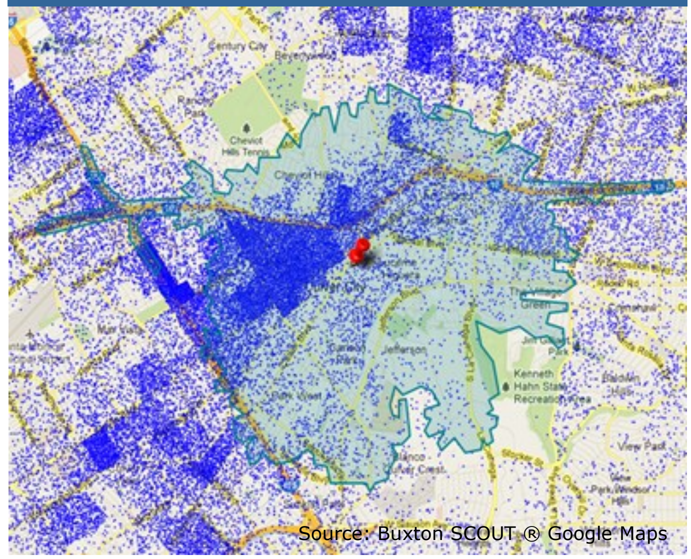
Household Mapping. This approach provides a deeper view of the area by revealing where the people are. Each dot in Map 13-2 represents a specific number of households. With this approach, it becomes clear that, while the selected site may be in the center of a specific

* Vice President of the Account Management team, Buxton Co.

Map 13-2
Household Mapping Approach to Site Selection



Map 13-3
Core Customer Mapping Approach to Site Selection



geographic area, it may not necessarily be at the center of the *population*, nor in the most convenient location for the majority of people in the trade area.

Core Customer Mapping. Household mapping allows for specific demographic data to be overlaid onto a geographic region. This can be broad criteria (such as age and income) or more subtle psychographic attributes (such as product preferences and behavioral patterns). When demographic and psychographic criteria are applied, it becomes easier to see where a retailer or restaurant's most promising core customers reside. In Map 13-3, the chosen location is within close proximity to an area that is rich in prospects. But it is also clear that the areas just to the west of the trade area may be ultimately more lucrative.

Rule #2: High Rent Does Not Always Correlate With High Returns

The old adage "you get what you pay for" is accepted as a fundamental truth by many people. But savvy retailers know there is not always a direct correlation between price and quality. This also holds true when it comes to lease rates and the potential return from retail locations: Some locations are bargains, while others come at a steep price that is not necessarily accompanied by a high return on investment.

Everyone would love to have a Times Square or Rodeo Drive address. But in some cases, successful locations may overestimate their true value, charging rates that make it difficult, if not impossible, for many retailers to maintain a decent margin. Other locations may provide high traffic, but the type that presents opportunity for only a narrow range of retail categories.

By the same token, an area that straddles two suburbs, or is located on a busy corridor between two cities, might represent a tremendous opportunity. On the other hand, areas underserved by retail establishments might, in effect, "bleed money" into other centers. In these cases, retailers, restaurants and other businesses that find hidden, underserved pockets can reap substantial rewards for their foresight.[1]

Rule #3: All Traffic is Not Created Equal

On the surface, it seems logical: If Location A has an exposure to 50% more traffic than Location B, then Location A should automatically yield 50% more sales.

But intuition says otherwise. For example, a subway stop located by a college will likely generate a totally different customer base than a subway stop near a hospital. Moreover, an area that generates substantial tourist or convention traffic may be ideal for a convenience store or drug store, but completely inappropriate for a furniture store or jeweler.

While the fallacy of this assumption is easy to see, it poses a question that is much more complex: Once the premise that all traffic is not created equal is accepted, how does a retailer find the high-traffic areas that are rich in a particular type of audience?

This is where sophisticated data and analytics can give retailers a distinct advantage. Modern analytic tools

[1] See, for instance, *Developing Successful Retail in Underserved Urban Markets* (New York: International Council of Shopping Centers and Business for Social Responsibility, 2004).

Figure 13-1
Street in Fort Worth, Texas

Source: Buxton SCOUT ® Google Maps

Figure 13-2
The Same Street, Several Years Later

Source: Buxton SCOUT ® Google Maps

enable businesses to view prospective locations not only in terms of raw traffic generated, but by virtually any demographic criteria: Age, income, profession, family size, shopping patterns, consumption behaviors and many other criteria.

In addition, market-analytic tools provide a clearer picture of which areas may be reaching a saturation point, and which markets are underserved.

Equally as important, analytical models can be used to predict the future performance of a site by incorporating expected changes in population and demographics. For example, if a company is torn between locating in Newark or Houston, looking at the present opportunity only reveals a part of the story. *Predictive modeling* can show how each market might evolve in the coming years — and the impact that the evolution will have on the site's overall success.

A good location today may not be as desirable tomorrow. Conversely, a location with limited promise now may rapidly evolve into an attractive retail location. Predictive modeling, which uses population trends and growth patterns, attempts to evaluate the type of opportunity a location will offer in the years ahead. It can be done across an entire city or market, or down to the specific street level. As Figures 13-1 and 13-2 illustrate, a few years can make a tremendous difference in the desirability of a specific location.

Rule #4: Do Not Always "Follow the Leader"

Discount stores and open-air centers find locations near large shopping malls desirable. It makes sense to have a nearby establishment that attracts people with disposable income and generates traffic.

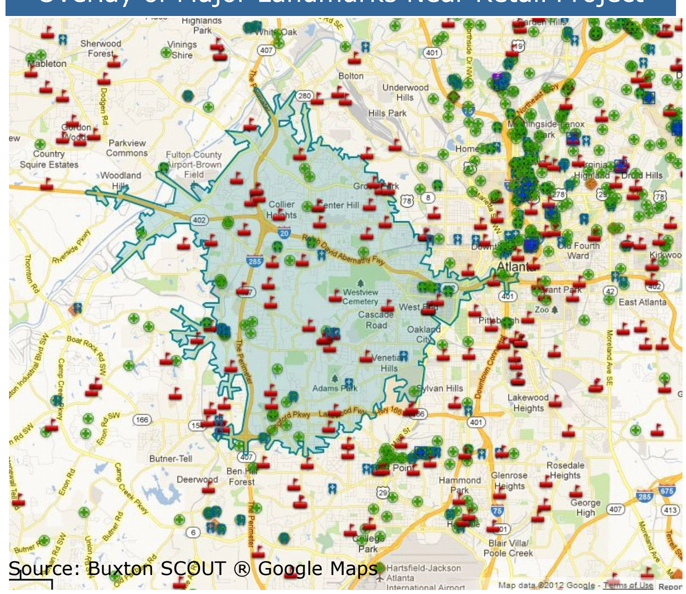
However, such locations come at a premium price—and do not always deliver the anticipated results. Take the following scenarios, for example:

• *Large hotels can generate traffic—but what kind*? Understanding whether it is convention traffic, vacationers, residents within a 60-minute drive time, or people from half a continent away can play a critical role in selecting a site.

• *Not all locations near a large, traffic-generating tenant are equal; traffic patterns to and from a single destination can vary greatly*. For example, if 80% of traffic for a large mall or open-air center feeds from the north and west side of the complex, locations on the south and east sides may experience little advantage from their established neighbor.

• *Large co-tenants may have reached a saturation point in particular categories*. Especially in the case of hotels, the type of traffic generated may not be appropriate for specific retailers. It may be wiser to locate near schools, hospitals or other types of traffic-producing structures.

Map 13-4
Overlay of Major Landmarks Near Retail Project



Source: Buxton SCOUT ® Google Maps

Close proximity to specific kinds of businesses, organizations or destinations can have a profound effect on the bottom line for many retailers. Map 13-4 shows landmarks such as schools, hospitals and healthcare-related offices that are overlaid across the geographic area. Other overlays that may be relevant include hotels, bus stops, subway and train stations and tourist destinations, to name a few.

Five Questions Every Retailer Should Answer

How can retailers be sure that they are making sound decisions when selecting a site?

Five basic questions should be asked before committing to any urban retail location.

1) Of the traffic generated, exactly what percentage of it consists of primary or target audiences?
2) Is there a clear indication of whether or not this market is reaching a saturation point?
3) Is there a reasonable snapshot of what the demographics surrounding this area may be in five or ten years?
4) Does the opportunity in this area support the costs that will be incurred?
5) Is there a location in this market or general vicinity that presents an even better potential?

If these questions cannot be answered with a reasonable degree of certainty—one that is supported by data, analysis and demographics—further evaluation of the urban site is warranted or the site should be rejected.

Risk in selecting urban sites cannot be eliminated, simply reduced through a "high definition" view and review of the site's characteristics and future. Who knows—in the future, the familiar retail real estate adage "location, location, location" may very well be amended to "location, data, data, data."

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