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DRIVERS FOR TOWN CENTERS

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What models of public/private cooperation for town center development will be the most relevant when the economy recovers?

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Some ethnic markets are currently underserved and ethnic retail is on the rise, which may favor the redevelopment of centers into places such as Plaza Mexico in Lynwood, California, shown before redevelopment (left) and after (facing page).

THE RETAIL REAL ESTATE MARKET currently suffers from an oversupply of space—the result of overbuilding before the financial crisis struck in 2008—plus a dearth of retailers now willing and able to fill space. Consumer spending is down for the foreseeable future as the buying public remains wary of returning to the days of large credit-card debt. While well-located retail destinations may continue to thrive and maintain national retailers, plenty of others are going to keep losing tenants. In this environment, town centers and mixed-use centers may have an edge over their mall counterparts.

Many of the trends that have shaped traditional retail development have peaked and are no longer sustainable. At the same time, the mall's relationship with the freeway system is challenged by rising fuel costs, reducing the desirability of driving to suburban retail centers and hunting for parking. As transportation becomes a greater consideration for consumers, town centers—especially those with a mix of housing, offices, and retail space and those with easy access to mass transit—will offer better retail development opportunities than sites on the suburban edges.

Development patterns in general are shifting, with more people choosing walkable urban areas—or walkable suburban places served by public transit—over the car-oriented suburbs. People want to live close to where they work, shop, and play. As Brookings Institute visiting fellow Christopher Leinberger asserts in his 2008 book *The Option of Urbanism: Investing in a New American Dream*, "Housing prices in walkable urban places have about a 40 to 200 percent (threefold) premium over drivable single-family housing, controlling for price range and luxury orientation of the housing." Town and mixed-use centers that replicate the walkability of urban environments can capitalize on that appeal.

Retailers began looking at alternatives to mall locations a number of years ago, resulting in the rise of lifestyle centers and the increasing popularity of some urban districts, such as San Francisco's Union Square area, where Target plans to open a store. The best malls will continue to attract national retailers, but retailers also will follow trends such as the desire for walkable urban places. "The key to future retail development is creating urban places in suburban markets where creative and talented people want to congregate," says Lindley Miller III, director of San Francisco–based real estate development and investment firm Wilson Meany Sullivan. "The retailer who can thrive in this environment will follow."

The urbanization of the suburbs and edge cities means that retail centers likely will have to address a greater diversity of incomes and ethnicity. Some ethnic markets are currently underserved, and ethnic retail is on the rise, which may favor the redevelopment of centers into places such as Plaza Mexico in Lynwood, California. In the early 2000s, local developer M&D Properties revamped two adjacent shopping centers into a mixed-use center with retail, restaurant, entertainment, and office uses, organized around a main plaza patterned after historic squares of Mexico City. Tenants include national chains, local businesses chosen to appeal to the sizable Mexican American population of Greater Los Angeles, and an outdoor food court offering varieties of Mexican food. As the nation's demographics continue to shift, these kinds of strategies can tap underserved populations and stand out from their generic counterparts.

Retail space can be bought for a fraction of what it costs to build, which means that new construction likely will be rare for a number of years. With debt becoming a much smaller part of the overall financing of shopping centers, projects will have to rely more on other sources, such as private equity and public financing. Public/private partnerships are likely to be more prevalent, which means that civic and government entities will have greater influence over the shape of retail development, leading to requirements that project plans incorporate social responsibility and pay more attention to effects on the surrounding context.

"While the current economic climate can make public investment problematic, many cities are realizing the 'investment' aspect of public/private partnerships," says David Cropper, managing director of TMG Partners in San Francisco. "By investing in private development projects, cities may have an additional say in the specific retailers included and whether or not they want national or local tenants in the mix. Public/private partnerships can also level the playing field as cities and developers get on the same page, making the project both profitable to the investors and a vibrant, successful asset in the community."

Tax increment financing is one funding strategy. In Redwood City, California, the redevelopment agency used tax increment financing to help redevelop the urban core. The agency sold a block of downtown land to Sausalito, California–based developer Innisfree Ventures, which partnered with Blake Hunt Ventures of Walnut Creek, California, to build On Broadway, which includes 85,000 square feet (7,900 sq m) of shops and restaurants on the first floor and a 20-screen cinema on the second level; Century Theatres moved from its parcel near the freeway to relocate downtown, a reversal of the decades-old trend. The project is one of several helping revitalize downtown; others include the city's creation of a new town square and the renovation and expansion of a historic building to house a history museum. The city asked that On Broadway match the two-story context of downtown, so the design breaks the building into a number of smaller-scaled elements, each with its own architectural character and form. The city also paid for the construction of an underground parking structure beneath the cinema building and constructed new streetscape and public plazas to complete the revitalization.

Public funds can come into play in other ways. In 2008, the city council of Fremont, California, entered into a memorandum of understanding with developer TMG Partners of San Francisco to plan and develop a new downtown central business district. Located about 30 miles (47 km) southeast of San Francisco, Fremont, which began as a collection of five communities that incorporated as a city in 1956, never formed a strong city center. The city and TMG have teamed up to purchase property in the area and have expanded the initial scope to include 110 acres (45 ha) bounded by an area that includes a Bay Area Rapid Transit (BART) station. The goal is to create a pedestrian-friendly, mixed-use urban center that includes housing, offices, retail and entertainment space, civic and cultural arts buildings, and open space. The city currently is focusing on the planning needed to speed development once the economy improves, starting with design guidelines and a program-level environmental impact report.

"By committing funds and staff time to plan an entire district, the city of Fremont is driving major land use changes that will improve property values and give the residents a new model for development," said Cropper. "There are multiple landowners in the Midtown District, and many are not motivated to redevelop their properties. Without the city's commitment of funds and staff time to the Midtown project, this project simply wouldn't happen."

Greater attention to sustainable and socially responsible development is required of most urban developments, a trend that is likely to continue. In North Charleston, South Carolina, when the local U.S. Navy base closed in the 1990s, the city partnered with local development company Noisette Company LLC to create the Navy Yard at Noisette. The city sold the Noisette Company 400 acres (160 ha) of the former base at market value to develop, and in return, the Noisette Company created a master plan for redeveloping about 2,600 acres (1,050 ha) of residential, commercial, and municipal properties at the base site. Navy Yard at Noisette has been approved for up to 7,000 housing units and a maximum of 8 million square feet (743,000 sq m) of office, retail, incubator, and light-industrial space. Completed components to date include the Building Arts and Design Center, which houses offices and studios of creative arts and building industry firms, and North Charleston Riverfront Park, which has a performance pavilion and grand lawn and reconnects the city to the riverfront.

The Noisette Company has established several nonprofit organizations dedicated to revitalizing the at-risk inner-city communities in the 3,500-acre (1,400-ha) area around the Navy Yard. Operating under the umbrella of the Noisette Foundation, these nonprofits undertake efforts such as enhancing local schools, promoting volunteerism, increasing the number of minority businesses in the region qualified to work with contractors, and training local prison inmates in the green building trade to help their transition back into the community. In addition, the Navy Yard has earned certification under the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) for Neighborhood Development pilot program, the first project in South Carolina to do so. The project includes environmental restoration, expansion of parks and recreation space, and renovation of infrastructure to provide sustainable stormwater management systems.

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On Broadway in Redwood City, California, includes 85,000 square feet (7,900 sq m) of shops and restaurants on the first floor and a 20-screen cinema on the second level.

Incorporating uses not typically found in mixed-use centers is another way to draw foot traffic and take advantage of tax incentives. The Merrill Companies is developing in Overland Park, Kansas, a mixed-use center called Prairiefire at LionsGate, which will include retail, entertainment, dining, office, residential, and hotel uses, and be anchored by a 30,000-square-foot (2,800-sq-m) branch of the New York City–based American Museum of Natural History to be used for display of rotating exhibits. "From the outset of our planning process, we felt that a cultural and educational element should be a central part of our project, and this has been borne out by the enthusiasm of our community," says Fred L. Merrill, Jr., president of the Merrill Companies, based in Overland Park.

The project was originally slated to open this year, but when the recession loomed in 2008, the developer put the brakes on infrastructure work. Incorporating the museum allowed the developer to seek the issuance of sales tax and revenue bonds, commonly called STAR bonds, from the state; the state legislature created STAR bonds in the 1990s specifically to help encourage creation of major tourist attractions. Last year, the state granted the developer bonds totaling up to $66 million, and Prairiefire is now expected to open in 2013. According to Merrill, this additional public funding is crucial to the project's financial success, especially during this time of economic recovery.

Positive signs in the U.S. retail sector are already visible: same-store sales rose about 9 percent in March from the previous year, according to the International Council of Shopping Centers. While part of that increase is due to an early Easter season, industry analysts say the news is still good. When new development begins, it likely will occur where conditions are favorable—walkable places, underserved communities, areas with new transit hubs, or communities with new public transportation facilities. Ultimately, the key to succeeding over the long term may be to shift the focus from short-term profits to the needs of the particular community and the growing desire for sustainable, walkable places. UL

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