Q&A: Robert Gibbs on the downcast state of retail

The current downturn, says a top retail expert, is "shaking out plans and centers that were poorly conceived."

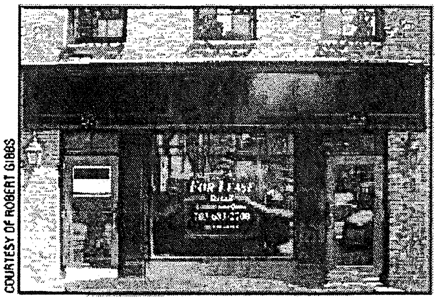
Robert Gibbs, head of Gibbs Planning Group in Birmingham, Michigan, has advised town center developers, municipalities, and new urbanists through good times and bad. He is known especially for his consulting on retail development. In the current economic crisis, *New Urban News* decided to get Gibbs's views on how new urban retailers and their centers are doing and what strategies they should pursue. Gibbs was interviewed by Senior Editor Philip Langdon.

Q. How bad is the situation now?

A. This is the fourth and most serious recession that I have experienced during my professional tenure. The present real estate economic crisis has threatened the viability of many successful town centers and halted virtually all new commercial development.

We're seeing that financing has stopped. Retailers, except for grocery stores, are not willing to locate in "if come" sites — greenfield sites where the demographics to support the retail are not there right now, even though the growth is expected within two to four years. A developer recently told me that he has stopped leasing planned centers, because the tenants instead ask for concessions on his existing centers.

Partially implemented town centers are seeing high vacancies. Many of the smaller shops — card shops, hardware stores, restaurants, coffee shops, gifts, apparel — are experiencing sharp sales declines and heavy losses. Center owners are scrambling to lease out the vacant former commercial spaces to non-retail uses — libraries, city halls, health clubs, offices, even churches. For example, Wildwood, Missouri's City Hall moved into a recently vacated block in an attractive early Duany Plater-Zyberk plan. The developer doesn't want to put in low-quality retail, which would undercut the existing retailers and the overall center.



COURTESY OF ROBERT GIBBS

An empty urban storefront in Alexandria, VA

Twenty to 30 percent of the tenants in new urban centers are going out of business. Many of the earlier town centers' first phases that were built with little retail have stalled. Future expansion phases are not being implemented. Numerous planned town center sites remain empty fields with "Coming Soon" signs.

Q. Are some kinds of centers or locations holding up better?

A. Retailers are wanting to locate in inner-ring suburbs and postwar suburbs built from 1945 to 1960, or on grayfield sites. They're canceling new store deployments in outlying communities, in emerging suburbs.

Centers that have proven anchors like Crate & Barrel, Whole Foods, or a department store are more stable. But even some strong retailers are threatening not to renew their leases because of overall declining sales.

Retailers opening new units are seeking infill locations like Bethesda Row [in Bethesda, Maryland]. Restaurants at Bethesda Row are doing well. Downtowns are seen as a growth opportunity for most restaurants and junior anchors; they like the demographics. Apple Computers, Brooks Brothers and Louis Vuitton recently bypassed three suburban shopping malls to go into downtown Charleston, South Carolina.

What's been a surprise is that lifestyle centers without grocery store or department store anchors are seeing a steep decline in sales and are beginning to close. Poag & McEwen in Tennessee invented the anchorless lifestyle complex about 10 years ago, and it did very well until recently. Anchorless town centers, even when well planned, mixed-use, and filled with leading retailers, have become highly risky. Without anchor tenants, only convenience-type centers of less than 30,000 square feet are supportable. The economic downturn is a stress test, and it's shaking out plans and centers that were poorly conceived.

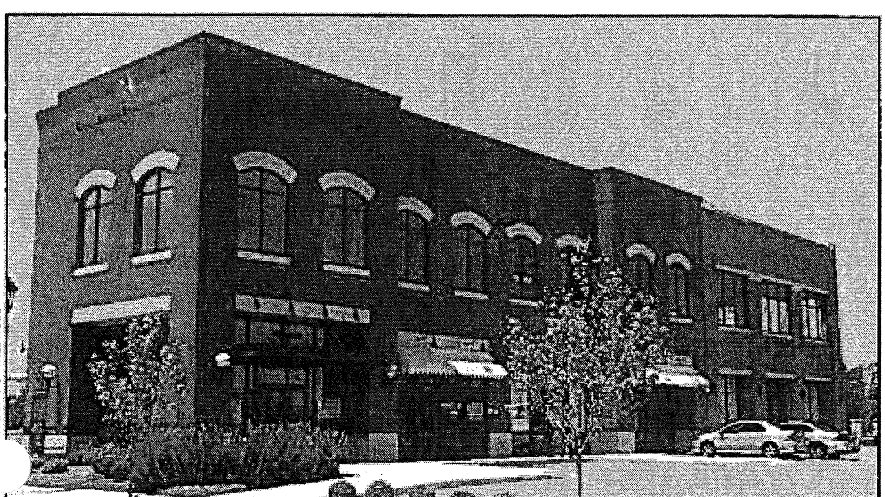
Q. In what ways have new urban centers been poorly conceived?

A. The problem in many new urban centers is that the in-line tenants don't have visibility. Even if the center as a whole is visible, the in-line tenants are often buried inside. They have to subsidize their operations with advertising and discounting to make up for not being visible from nearby arterial roads.

Most of the new urban developers focus on residential. An objective market study and a "void analysis" should be completed prior to determining the size and type of commercial in a town center. Often [the developers] don't do that. The void analysis identifies retail categories that are supportable on the site and that are currently missing from the area.

Developers and planners often believe that if they make the center attrac-

A city hall in Wildwood, Missouri, filled space in a commercial building



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tive enough, it will be successful. However, that's not economically sustainable. The developer still has to get a minimum return on investment of 11 to 12 percent. I don't think that's been factored into a lot of new urban projects.

New Urbanists need to combine commercial development fundamentals, including location, demographics, demand, and return on investment, with new urbanist planning principles. Centers should be located in areas where the existing demographics will support their operations. Usually they should be at the intersection of two busy roads. At least 25 percent of the in-line tenants should be visible from a main highway.

They should be designed with anchors — or designed to accommodate anchors as they later enter the market. After its initial opening, a town center needs a plan for future improvements and growth. The retail industry constantly reinvents itself with new store formats, sizes, and demographic requirements. Allowing for growth of a minimum of 25 percent will let the town center retain the existing tenants as they grow and will let them attract new retailers that will be deploying stores in the area. A parking lot or land-banking can provide the space where anchors can build in the future. The new urbanists are really good at planning for that growth.

Q. But in other respects, the planning is often faulty?

A. Too many new urban centers were planned to be supportable only during peak economic times. Many initial retailers in new urban centers are hobby business owners that run the store for fun rather than as a primary source of income. For example, I recently consulted with the owner of a luxury shoe store, selling $300 pairs of shoes, who after five years of operations had never taken out a salary.

Often independent retail operators are not able to take much money out of their businesses. When you look at how many hours they work, they're paying themselves about minimum wage. In the last six months, the situation has gotten really acute. In general, many small businesses are not supportable. If their business drops 10 to 15 percent or if their line of credit dries up, they close. (Jewelry stores and restaurants are exceptions; they have higher sales and margins, especially restaurants that serve liquor.)

The traditional shopping center business model has been to attract and subsidize a strong anchor, such as a grocery store. The anchor's subsidies would be offset with higher rents from smaller in-line retailers such as gift shops, restaurants, and shoe stores. However, the revenue sources from the smaller tenants are no longer available. More than ever, fundamental business practices are essential for vital town centers.

Q. Are construction costs a major cause of financial distress?

A. The development costs are often higher for [conventional] suburban lifestyle developers. Many suburban shopping center developers (and their architects) have an underappreciation of the value of traditional urbanism, resulting in overdesigned buildings and streetscapes and public realm. Excessive decorative pavers, sculptures, fountains, with a clock tower on every building, are often detailed. Developers of new lifestyle centers are, as a rule of thumb, seeking 25 to 35 percent public funding in tax-increment financing, free land, free parking structures, or direct subsidies. Those subsidies are being poured into unnecessary embellishments (except for parking structures). On the other hand, new urban town centers are based on traditional planning principles and often minimize ornamentation and rely on quality space and proven proportions.

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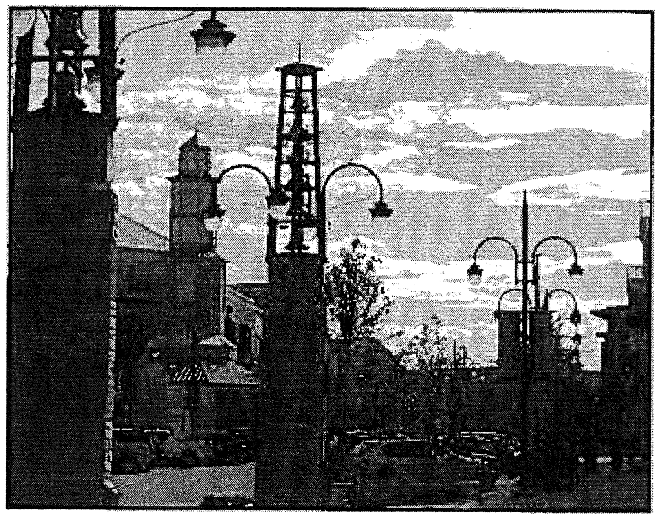
Designers of Birkdale Village, above, relied on urbanism rather than expensive materials. Below, a lifestyle center with design flourishes.



This is ironic, because, New Urbanism has been incorrectly labeled as too expensive by many developers. Many of the new urbanist architects understand how to keep buildings at more market-rate costs through good design, simple materials, and by relying on the urbanism — the space between the buildings.

Q. Any concluding advice?

A. Existing anchorless centers should try to attract some anchors or reposition themselves to have a focused market niche. Anchors reduce risk for the center by attracting shoppers to the smaller retailers on a regular basis.

Centers should be built at market-rate costs — the costs and rents that their competing centers are paying. Do not assume increased revenue from the center's creative design, although higher revenue often happens with quality new urban centers. Go back to the basics for location and other site planning — lighting, signage, streetscapes.

Centers have critical-mass thresholds of 3,000 square feet, 30,000 square feet, 80,000 square feet, and 250,000 to 500,000 square feet and over. The industry and shoppers don't like sizes that are between these sizes.

Always plan for that next recession, and for when tenants come and go. Centers always have to be re-leased or expanded to remain competitive. ◆