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Kahr Notes

■ Kahr Notes Vol. 1, No. 2 * December 16, 2002

"Kahr Notes" is an electronic newsletter from Kahr Real Estate Services LLC that carries interviews, news and original research. This month's issue is going to 424 readers.

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In "Kahr Notes" this month:

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1. Opening Shot

Welcome to the second issue. In some ways, the second issue is a lot harder than the first. Writing a newsletter is easy the first time; the second time requires planning.

In this issue, I'm starting the first of what will be a monthly interview feature. I interviewed Michael Berne, President of MJB Consulting. Mike is an urban planner who specializes in bringing retailers to low income areas. It's not an easy job and he has some interesting things to say about the process and the state of low-income retail today.

Good luck in all your endeavors and you'll hear from me again in another month. In the meantime, keep warm.

Regards,

Joshua Kahr
Editor/Publisher, Kahr Notes

P.S. If you know of someone who would like to be interviewed for the newsletter, e-mail me your suggestion. If they work in real estate and have a story to tell, I'd love to speak with them.

2. Interview with Michael Berne

KN: This is Joshua Kahr, publisher of Kahr Notes, and I'm sitting here with Michael Berne.

Mike runs an urban planning firm that is focused on low-income retail.

Good afternoon, Mike. I'm glad you could join me today. Let's start with something straightforward. How did you decide to become an urban planner?

MB: I went to college at Columbia and during that time I developed a hobby walking around neighborhoods and appreciating urban history and architecture. They were self-guided walking tours, but it was just a hobby. I never thought that urban studies could be a career.

My undergraduate degree was in political science. I specialized in political theory and philosophy at that time and I had to see if academia was for me. My first thought after college was to get a master's degree. I went to grad school at Cambridge in the UK and I received a degree in Political Thought and Intellectual History. Ironically, during the time when I was in such a historic place, I dropped my hobby.

After that experience, I wanted to do something a little more "on-the-ground". I had a lot of political idealism back then, so I went to work as a policy analyst for a high-ranking City elected official.

I was a policy analyst on economic development and public education. That got me involved in urban issues, and it introduced me to urban planning. That's when I picked back up the hobby I had before and that's when I realized that people actually got paid for this.

Even though I didn't have a degree, I was cocky enough at the time to apply directly to planning firms and I wrote to every New York City planning firm. I was hired by APPS [Abeles Phelps Preiss and Shapiro]. They do planning and real estate consulting for public and private clients. I worked on lots of market analyses, reuse plans, commercial revitalization strategies, tenant recruitment efforts, et cetera, and I also worked on various planning studies and zoning analyses. Eventually, I started to specialize in retail development. After a while, I was bringing in retail clients, and doing all the work on the retail projects, and I started to consider going out on my own.

John Shapiro at APPS was such a wonderful mentor for me. He taught me so much, and he had so much faith in me. It was also during my time at APPS that I started writing for Urban Land. Kristina Kessler at Urban Land and Geoffrey Booth at ULI were really great to me; they saw something in me, and they were willing to give me a shot.

KN: So, you started to build a book of business, and you realized it was time to go out on your own?

MB: Almost. I had decided to go out on my own but I had previously sent my qualifications to Thor Equities, a development firm focused on acquiring and repositioning urban retail real estate. I got a call back from them and they made me an offer that I couldn't refuse. It was a lot more money than I was used to. I got a lot of great experience in leasing, marketing, and property prospecting while I was there but at the same time I was getting more publicity for the articles that I had been writing and I was finding more clients so it was time to move on into consulting full-time.

KN: It seems to have worked out for the best. In your experience, why should owners and developers use urban planners?

MB: It's clearly time for new retail development models. The mall has lost its sway. People desire more of an open-air retail experience that adheres to more traditional planning principles, and developers are responding. The problem is, developers who are historically focused on suburban-style projects don't always know how to do it, and so planners become very useful. A lot of these New Urbanist projects going up right now are going to fail because the developer hasn't made sure to get the right expertise.

KN: What do you mean by traditional planning principles?

MB: Traditional planning principles represent the way that cities used to be built. The focus is on creating that all-important "sense of place" that we take for granted in older cities with a vibrant street life. Basically, it's about bringing New York to the suburbs. Obviously, the suburbs will not have New York-style densities. A "New Urbanist Town Center" might have two to five stories, but nothing more. Five stories, however, is some serious density for the suburbs! That is very "urban" for them.

KN: I guess that "urban" is a point of view. Let's talk about this article on working class malls that you wrote [Working Class Malls, "Urban Land", 2/02]? It seems to me that malls in inner city areas are essentially the same. Is that accurate?

MB: I don't think so. I think there are two types of working class malls, and when I say "working class", I mean that there is a low to moderate income bent to the customer base. Every city has them.

The first kind is the downtown-enclosed project. This format was common in the 1970's. It was one of the first attempts by cities to compete with the suburbs and for the most part it was a failure.

A whole host of cities tried the downtown enclosed mall. Usually, it wasn't entirely built from scratch. The anchors had always been there and they had always been in downtown. The inline stores were then built between them, creating a typical enclosed mall. This was done in a slew of cities across the country. This was based on the idea that it would lure suburbanites back into the city. It never did. Over time, these malls were increasingly tenanted by retailers who catered to the lower-income urban demographic.

Cities have learned in the 1990's that in order to attract suburbanites, they should stick to what they've always been good at, rather than competing with what is offered in the suburbs. This means focusing on dining, entertainment, culture, excitement, edge. The city of New Haven is a perfect example. In the '70's, it tied its fate to a poorly executed suburban-style enclosed mall in the downtown. Not surprisingly, suburbanites stuck to their out-of-town shopping centers, and Chapel Square Mall was an abysmal failure, occupied to its last days by retailers focused on the lower-income customer.

Then, in the late '90's, the downtown moved to exploit its potential for nightlife, in the form of restaurants, clubs, and the like. Now, it is drawing people from the suburbs again. Now, the city is booming. And, the old Chapel Square Mall is being turned "inside out". Its shops are going to open onto the street, rather than the mall promenade.

Ironically, now the trend is moving city to suburb again, with the cities being exported to the suburbs in the form of "New Urbanist Town Centers".

The second type of working class mall is the inner ring mall. These were malls that were built in middle class suburbs that were developed in the first two decades after WWII. Over time and with the creation of the outer ring suburbs, the inner-ring towns in which these malls were located changed demographically -- they became low and moderate income areas and the malls started to cater to the new community.

Some of these inner ring malls are extremely successful. Take Queens Center mall, which basically follows the pattern of the inner city malls. It is the highest grossing mall in the country at over \$900 per square foot even though the consumers are primarily low to moderate income and/or immigrants. New York, of course, is in some ways a special case. Take Brooklyn for example. It has 2.5 million people and it has one mall. By comparison, the statistics show that you have a mall in this country for every 300,000 people.

KN: It sounds like there is a lot of complexity in understanding that different kinds of malls that are out there. How do planners help owners navigate this?

MB: Right now, I'm working with Kenny Schryver, a developer based in Naples, Florida. He's spent his professional career building condominiums and marina slips. He is now developing a

mixed-use town center. He started the process by looking for assistance in understanding the retail and mixed-use aspect. So he went out and hired me because he knew he needed someone with a background in both retail and planning. He also got himself a fantastic urban designer, Mike Hofmeister from MarketBuilders in St. Louis. Our team is now in the process of putting together what I think will be a fabulous project. I am helping with the merchandise mix and tenant selection, and I am also advising on the site planning of the retail component, that is, with making sure that the stores and restaurants are in the right place so that they survive and prosper, and Mr. Schryver can get his rent.

Most developers in the country are still relatively suburban oriented and they do not know how to create urban fabric, something that adheres to the traditional planning principles that I mentioned earlier. And of course, the goal is to do this and still have the developer be able to hit his numbers. That requires both knowledge of planning and retail. And that is where I come in.

KN: Do you find it easy to speak with developers? Are they receptive to planning principles?

MB: They're increasingly receptive. I think five years ago, it was different. Now there are so many retail developments being built that are New Urbanist.

Their excitement about the concept is very strong because it's the newest and latest fad. It's like the excitement about urban entertainment centers five years ago. The problem is, as I said before, that not all of the developers looking to build New Urbanist centers fully understand the concept.

KN: And they don't necessarily care.

MB: No, some don't care at all. It's just what is going to make them money. As long as you keep that in mind, you can interact with them. I think there is a problem that developers have with certain urban designers and planners. A lot of urban designers and planners fall in love with the picture they create, but what they forget is that the developer only cares about the picture as a means to an end. As long as you keep that in mind, you can communicate with them just fine.

There is, for some developers, the feel good aspect of it, which should not be underestimated. Some developers do feel like they're doing right by doing something that is less car oriented.

KN: I'd like to come back to the focus of your practice, which is low income retail. Is it difficult to get retailers to locate in low-income communities? When I think of middle and upper income retailer, I envision chains. What does low-income retail look like?

MB: I made the distinction in one of my articles [Urban-Edge Retail, "Urban Land", 3/01] as between Anywhere USA chains and distressed retail chains. Anywhere USA chains are the ones that everyone knows about. They are in suburban malls but they are also willing to locate in lower income communities. A perfect example is Foot Locker. Foot Locker is in suburban malls and also some of the poorest communities in the country.

The distressed urban area retailers, on the other hand, tend only to locate in low/moderate-income areas - most upper middle-class suburbanites have never heard of them. An example is Ashley Stewart Woman, which caters primarily to plus-size African American females.

KN: Are the Anywhere USA chains simply seeking "low hanging fruit"? Do the chains go to the wealthier areas first and then move on to poorer areas?

MB: There are two groups. There are some that were always in these areas, but most have only developed an interest in the five years due to all the publicity that the issue has been getting. This latter group includes chains whose demographic has not changed that much, but they are now willing to locate on the street and they were not willing to do that before. A good example is Footaction U.S.A.

KN: Interesting. Does that tie into New Urbanism at all?

MB: No. I think it's partly that a lot of retailers have simply run out of opportunities in the suburbs and the malls. And, they see the Census figures. The fastest-growing groups in our country are still concentrated in the cities. Also, there are not a lot of new malls going up. At most, maybe ten a year. Where are these retailers going to expand? Lifestyle centers are still primarily in upper income areas, and cater mainly to upper income shoppers. A retailer like Footaction U.S.A. isn't going to welcome in that type of center. So if Anywhere USA retailers want to access the moderate-income customer, one way you do that is through urban street retail.

A lot of people make a big deal between the improvement of low-income retail districts and the increase in city living.

KN: Is that a result of a better economy?

MB: I don't think the connection is clear. The people who are moving back to the city are either upwardly mobile young people or empty nesters. These are not people who shop in low/moderate-income urban business districts. Actually, they are the ones who, dare I say, "gentrify" those districts.

For example, the return of young professionals and empty nesters is having an impact in areas like "Brownstone Brooklyn", where they are "gentrifying" entire neighborhoods and transforming local shopping streets, some of them previously low/moderate-income in orientation, into destinations for stylish and up market stores as well as trendy restaurants. Smith Street in Cobble Hill, 5th Avenue in Park Slope, and Fulton Street in Fort Greene are good examples of this, and due to the initiative of Ken Adams and the Brooklyn Chamber, Fulton Street in Bedford-Stuyvesant might be soon to follow. Fulton Street is particularly interesting, because African Americans are the ones doing the gentrifying, and much of the new retail is "Afro-themed".

Another interesting case is Atlantic Avenue on the fringe of downtown Brooklyn. For decades, it was known for two things and two things only: antiques and Middle Eastern food. It is not a perfect example of what I was just talking about, because it was never really low/moderate-income in orientation. The antiques, after all, were catering to neighborhoods like the upper Slope that were part of the first wave of Brooklyn gentrification in the late '60's and '70's. Even so, one would never have called Atlantic a particularly forward-looking shopping street either. Now, however, as a result of a second wave of gentrification in adjoining neighborhoods such as Boerum Hill, and due to the increasing sophistication of Brooklyn retailing as a whole, Atlantic is experiencing an influx of chic and upscale boutiques and home furnishings stores.

Now, the improvement of urban business districts that still cater to low/moderate-income customers - that is, the ones that for whatever reason have not yet been transformed by surrounding Gentrification -- has more to do, I think, with immigration growth. Immigrants do shop in low/moderate-income business districts, and add to the demand for more stores there. And because they are usually not particularly wealthy, their shopping preferences will not have a gentrifying effect. They, I think, are the most important demographic cause for the new Anywhere U.S.A. retail in still-existing low/moderate-income urban business districts like Fordham Road in the Bronx, Steinway Street in Queens, Flatbush Avenue in Brooklyn, downtown Hempstead in Long Island, or the many Latino commercial corridors in South Central and East L.A.

KN: That's interesting. Basically, what you're saying is that the way to keep low income retail districts healthy without gentrification is immigration. Notwithstanding this strength, is it still a challenge to get retailers to move to these low income areas?

MB: I was just at the ICSC Dealmaking Convention in New York. It's a huge event. Even though the event is in New York, there is still a very clear suburban orientation. There are a lot of chains whose demographics would suggest an interest in low/moderate-income urban locations, but won't even consider it. There is still a lot of educating to be done.

One of the things that created a huge buzz about urban retail is the work done by the ICIC [Initiative for Competitive Inner City]. They've played a major role in getting the message out that there is money to be made in these communities. Plus, Magic Johnson's efforts have been very influential.

What's scares me is that the retail development community does not necessarily realize that a given retail format that works in one type of urban setting doesn't always work in others. Look at the Harlem USA project. It has been reported as a clear indication that inner city retail has turned a corner. Overall, it is, I think, great for Harlem, and it is appropriate for the market and the street. But it doesn't necessarily work in markets that are far less dense and have very little in the way of a black middle class, nor is it appropriate for a more neighborhood-oriented shopping street. There are certain kinds of retail that are right for certain markets and streets. You can't just state that urban retail will make a lot of money. It needs to be calibrated to the particular location.

In my Urban Land articles, I have been working on a system that classifies the different types of urban business districts so that the retail development community can better understand what sorts of retail work in different contexts.

KN: Low income retail is actually a lot more complex than it appears at first. Is anyone else working on this?

MB: I don't think anyone else is working on this sort of on-the-ground classifying of different sorts of inner city business districts.

KN: Thanks for your time and your insight.