

## Getting Retail Ready

*By Larisa Ortiz*

### DESIGNING A DOWNTOWN RETAIL LEASING STRATEGY AND WHY IT'S NOT ALL ABOUT THE NUMBERS

Retail leasing can be a challenge for commercial district practitioners, the individuals whose job it is to improve downtown and/or neighborhood commercial districts. A typical district includes many independent property and business owners, and while practitioners may influence their leasing decisions, they have no control over these decisions. The step-by-step process outlined here offers a comprehensive approach to improving tenant mix, one that is tailored to these practitioners. The process begins with a framework for diagnosing district needs and challenges, offers insight into interventions that will improve the overall business environment, and closes with concrete strategies for identifying tenants and celebrating success.

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This article is adapted in part from “Improving Tenant Mix: A Guide for Commercial District Practitioners” written by Larisa Ortiz and originally published by the International Council of Shopping Centers.

## INTRODUCTION

Commercial district practitioners frequently struggle with retail leasing in a fundamentally different way than single-owner shopping center managers. In most cases, they do not own or control property, meaning they can only influence, but cannot control, the decisions of property owners and the brokers that serve them. This shouldn't prevent a practitioner from advancing a retail attraction effort – this is because retail attraction support, especially for downtown organizations, can take a variety of forms. It can mean investing in the downtown retail environment through physical improvements, or it can mean actively seeking prospects and matching potential tenants to spaces. The process outlined here takes a comprehensive approach to retail attraction, and can be used to help communities customize their strategic retail plans, define their unique capital investment needs, and execute on their leasing and prospecting efforts more efficiently and successfully.

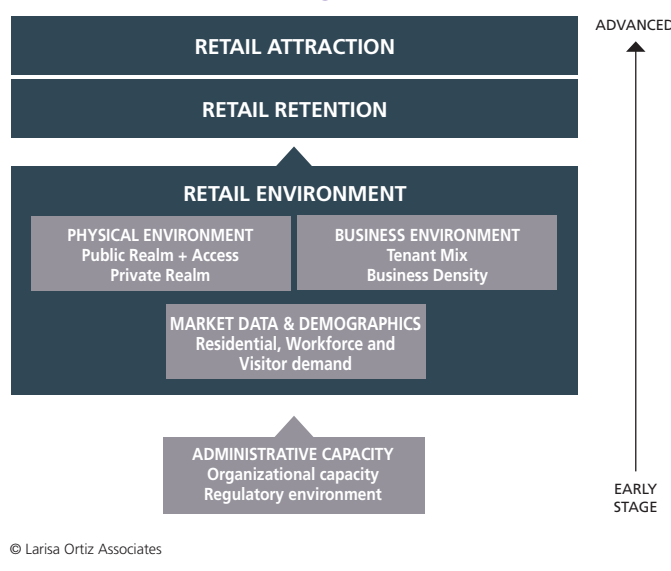
## I. DIAGNOSE

Diagnosing district needs and challenges is a critical first step in developing a comprehensive retail leasing program. The framework outlined here reflects a “retail ready first” approach, meaning that addressing the fundamental physical, business, and

## THE PHASES OF A COMPREHENSIVE RETAIL LEASING EFFORT



## “RETAIL READY” HIERARCHY



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market attributes is a necessary and often initial element of retail attraction success.

The diagnostic component of the retail ready approach considers four base elements, including:

- a **business environment** marked by retail density and co-location between and among complementary businesses;

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- a **physical environment** where the conditions of both the public realm and a private realm create an atmosphere that is appealing, safe, comfortable and accessible;
- **market and demographic characteristics** that reflect adequate demand from any or all of the following residents, visitors, and employees; and the
- **administrative capacity** to support advanced collaborative leasing initiatives combined with a clear and well defined regulatory environment that offers businesses predictability and transparency.

Much like a cell is made up of strands of DNA, these elements reflect a district's unique "Commercial DNA". The author, with the support of the Local Initiative Support Corporation (LISC) NYC, developed the City of New York's Commercial District Neighborhood Assessment tool, which is being used to diagnose and define investment needs along the city's commercial corridors.

### Business Environment: Density and Tenant Mix

Being retail ready begins with an understanding of the importance of density and existing tenant mix. In fact, the earliest models of trade area were based on the assumption that agglomeration, or the clustering of complementary stores, increased the attractiveness of an area as a shopping destination. Beginning with William J. Reilly's Law of Retail Gravitation (1929) and later refined by David Huff (1960), subsequent evolutions of retail analysis theory are based upon the understanding that people select shopping destinations based on both the utility and "attractiveness" of a shopping opportunity.

Attractiveness is a loaded term – but Huff's theory defines this term in relation to the size of store in question, the total number of stores in the district, and the distance of a store from the shoppers' point of origin. Common sense reinforces this finding - people like the convenience of being able to shop easily. This has traditionally meant the ability to shop at a few stores at once. The ability to patronize more than a single store at a time helps makes a district more appealing.

From the perspective of the commercial district practitioner, there are two points here. The first is that quantity matters. The square footage, and number of businesses and offerings found in your district are typically correlated with the distance customers are generally willing to travel. The second is that proximity matters. The collocation of businesses that share customers is critical to encouraging shared shopping trips.

Industry Rule of Thumb: We sometimes say that a customer is willing to travel one minute for every four minutes of activity at their destination, which translates to a 1:4 ratio of travel time to activity. Therefore, a customer expects four hours of activity in exchange for one hour of one-way travel time.

Understanding impediments to access, visibility, and circulation – and developing strategies to address those impediments – can sometimes mean the difference between success and failure of a retail attraction effort.

A time series analysis of 267 commercial corridors in Philadelphia and commissioned by the Local Initiative Support Corporation further supports this claim. The study, entitled "Commercial Corridors: A Strategic Investment Framework for Philadelphia", considered the impact of a variety of factors on district success over a period of 10 years. The findings uncovered significant correlation between commercial district successes (as measured by retail sales, real estate values, shopping trips as a measure of customer satisfaction, and store density as measured in stores per square mile). Of the many dozens of variables considered, the ability of a shopper to "visit multiple stores in the same area" offered the broadest association with strong business performance as measured by both real estate values and retail sales over time.

### Physical Environment: Public Realm, Private Realm, Accessibility

A second major consideration is that of downtown physical conditions, including the conditions of the streets and sidewalks (**public realm**), the buildings (**private realm**), and overall **accessibility** and convenience to a customer base.

The impact of a district's physical conditions on customer behavior is further reinforced by experts in the field of consumer shopping habits. John Skinner of the Verde Group, a national retail consultancy, often discusses how critical it is for mall managers to "stage" the shopper – by ensuring that the physical conditions and amenities of the shopping mall support a comfortable shopping experience *before* the sale is made. In a downtown environment that means ensuring that the offerings were appealing and that the experience of walking down the street was comfortable and pleasant. In many communities this can simply mean ensuring that the downtown is clean and inviting, from the conditions of the street and sidewalks to the storefronts and buildings.

Finally, we look at issues of **accessibility** and **visibility**, which affect the utility of a corridor as a shopping destination. Understanding impediments to access, visibility, and circulation – and developing strategies to address those impediments – can sometimes mean the difference between success and failure of a retail attraction effort. In many communities, the access means parking accessibility. Businesses want to ensure ease of arrival and let's face it, for many downtowns the majority of customers arrive by car. Our experience is that many downtown environments have more than sufficient parking – but it is often hard to find, poorly located, and privatized. The issue, therefore, is often one of management, not

quantity. Sometimes simple solutions like shared parking lots and better wayfinding signage can help mitigate that challenge. In other cases more advanced solutions, identified with the help of transportation planners, are necessary.

Improvements to access should not be limited to the automobile. Many commercial districts have instituted complete street policies that ensure that the area is welcoming to a variety of alternative transportation modes, including bike, foot or public transit. Furthermore, a community's residential and office worker density are additional factors to take into account when determining access to a customer base. A large residential or daytime worker population presumably reflects a captive customer base that does not require a car to patronize local businesses.

### Market Demand and Demographics

Market demand is often the first, and sometimes only, metric that communities take into account when developing a retail attraction strategy. While we fully recognize that sufficient buying power is critical to a healthy downtown district, determining market demand with precision can be a tricky proposition, particularly in communities with a large non-residential customer base. (See sidebar on market data)

Districts that support a significant number of daytime office workers, have a large student population living in student dormitories, or support popular local tourist attractions, for example, are not particularly well served by traditional census based data sets when it comes to understanding retail attraction opportunities. Moreover, districts undergoing significant neighborhood change – communities where new residential developments have

occurred since the last census – are also not particularly well served by these data sets. When information on a major source of discretionary spending is limited, additional resources might be necessary to better understand the spending habits and retail needs of the non-residential or new resident populations. In these instances, surveys can be valuable tools to help fill in the blanks.

That said, one must understand the customer, their shopping preferences, and needs in order to inform a successful retail leasing effort. This means defining where the customer is coming from (i.e. trade area).

### Administrative Capacity

Finally, a retail leasing effort cannot advance without an organization with the capacity to support and maintain vigorous leasing efforts. As any broker can attest, leasing is often a slow process of building relationships with property owners, brokers, and potential tenants and tracking them over time. Without the organization's staff and support, there is limited to no ability to intervene, and retail attraction efforts may be more passive than active.

## II. INTERPRET

Once you have completed the Commercial DNA diagnostic, use the information gathered to develop a **strategic positioning statement** that is rooted in your diagnostic findings and informs your retail leasing efforts. This statement will be the filter against which you measure a prospect's "fit" for your district. This means defining the needs and wants of your customer base as they pertain to the following:

- **Retail categories** (i.e. apparel, food, grocery, services, etc.)
- **Price point** (i.e. discount, affordable, mid-market, upmarket)
- **Lifestyle appeal** (the desire for traditional, contemporary or trendy offerings)

Your strategic positioning statement should become your retail attraction mantra – a shared vision that you communicate broadly through your communications material, with your partners and property owners, and with the retail real estate community at large.

*Example of a strategic positioning statement: Our district offers a **family-friendly** environment with **unique offerings** with a **mix of price ranges**, from **affordable** to **mid-market**. We maintain an emphasis on **mom and pop businesses**, **food, art and culture** that caters to both **local families and visitors**.*

## III. MOBILIZE

The next step involves getting the message and findings out there through a variety of mediums, including:

### Marketing Material

Develop print and/or online district marketing material that clearly summarizes your market data and clearly communicates your strategic positioning statement, your retail leasing objectives, and targeted retail categories.

#### What do these populations share in common?

- Students living in college residence halls (and others living in census defined "group quarters")
- Visitors to local cultural institutions
- Downtown employees
- Second homeowners in the area

#### Here is the reason why market data may be failing you...

If downtown businesses depend on any of these customer segments to make up a significant share of their sales, traditional census based data may be failing you. This is because census based estimates of discretionary available income do not include these groups – yet these estimates are often used to make assumptions about market opportunity and by extension retail attraction efforts. To make matters worse, the demographic characteristics of these groups may differ considerably from that of the local household population, rendering traditional market data and demographic analysis significantly less useful in defining what kinds of businesses you should work on bringing to your downtown. Primary data sources, such as email/intercept surveys and focus groups, can become useful tools to help provide additional insight into the spending patterns of these non-residential populations.



## DEVELOPING A MARKETING PACKAGE

Whether by print, or increasingly through digital means, a marketing package should include the following information:

- **Street map** of the district that identifies major destination drivers. This includes but is not limited to entertainment venues, cultural institutions, tourist attractions, hotels, houses of worship, libraries, subway stops, landmarks, and buildings with high concentrations of employment. Your map should also include the corporate logos of nearby tenants. This will give retailers the ability to quickly assess the market and tenant mix at a glance.
- **Demographic and/or market highlights** for BOTH the resident and visitor population
- Information about any **incentives or resources** available to businesses
- **Development projections** that offer businesses a glimpse of what the district will be like in one, five, and ten years. Be honest in your assessment and differentiate between what is really going to happen and what you hope will happen. Retailers will appreciate the candor.
- **Testimonials** from merchants
- **Quotes from media coverage** of your district



Retail attraction marketing materials for Steinway Street, Queens, NY. Image: LOA

Your marketing material serves to communicate a basic message – that your district has a sufficient number of the customers businesses are looking for. If you want casual dining establishments, share information about residential density and local employment. If you want yoga studios or fitness facilities, stress the fact that your community has a large number of young professional residents. (See sidebar on developing a marketing package)

### Enroll Property Owners

One of the underlying challenges in managing tenant mix is that different owners have different goals that are sometimes in conflict with each other. A long-time owner of a property who is happy with the current revenue stream may be less interested in major investments or renovations given that they need and already have a steady income stream. On the other hand, an owner interested in selling in a short time horizon may seek to purchase, renovate, and sell in short order to maximize the return on their investment. Understanding the unique needs and goals of each owner is critical to advancing successful leasing of the space in line with the district leasing plan. (See sidebar on understanding property owner motivations)

### Prospect Identification and Outreach

There are both formal and informal ways to build a prospect list, including keeping up with industry trade publications, scouting districts with similar demographic

and market profiles, networking at trade show events, and reaching out to tenant brokers with regularity. The next step is to work the list. Ensure you have staff with the right disposition to engage and build relationships with potential prospects. Invite these prospects to your district and curate the visit to ensure you are showing them spaces that reflect their needs. This does not mean you need to be the broker – feel free to connect them with brokers if you are fortunate enough to have a viable and reputable brokerage firm in your community.

Focus on growing your prospect list incrementally and selectively with businesses that reflect your desired strategic positioning. This is not a race – it is a marathon.

## IV. CELEBRATE AND EVALUATE

A lease signing is an accomplishment – don't let the opportunity to demonstrate your success go to waste. A grand opening is an exciting recognition of a job well

## UNDERSTANDING PROPERTY OWNER MOTIVATIONS AND AVOIDING DEAD ENDS

Queensboro Plaza, located in Long Island City, Queens, NY, doesn't have a national drug-store despite serving as a major transit hub, home to Jetblue Headquarters as well as thousands of workers, residents, and over a dozen hotels within walking distance. The pace of development in the neighborhood is nothing



Well positioned sites that are ripe for development typically may require tenants to sign leases with demolition clauses. Image: Google Streetview

short of astounding. Yet employee surveys conducted by the Long Island City Partnership, the local economic development entity, continue to find that major business tenants and their employees want a name brand drug store.

In 2011, the author accompanied the Partnership staff to the International Council of Shopping Center's (ICSC) Dealmaking in New York where they actively pursued a few potential drugstore tenants. What we found was that the locations of interest to drugstores – namely the locations immediately adjacent to busy subway entrances – were in older buildings that were under built by zoning. The degree of development interest in the area meant that these locations were ripe for redevelopment. As a result, most owners were logically unwilling to encumber their property with a lease that would prevent wholesale development when the time was right.

As a result, owners of many of these buildings made tenants sign demolition clauses as part of their lease terms. These clauses allow a landlord to take possession of the retail premises for the purposes of demolition or renovation, with limited notice and usually without compensation to the tenant. While these clauses give owners the flexibility they need to make a lucrative development deal, they effectively prevent a space from being leased to a quality tenant interested in long term tenancy. Most national tenants require tenant improvements that would be difficult if not impossible to amortize over an adequate period of time. Understanding the conditions unique to a given property will prevent you from spending too much time chasing tenants who will not be interested, no matter how good the location and opportunity.

done. It is also an excellent way to build credibility and engage more property owners in your effort. Issue a press release, invite local leaders to mug for the cameras, cut that bright red ribbon, and watch your ability to manage tenant mix grow. The buzz you generate not only helps your efforts, it markets the new business and helps put it on solid footing. If possible, interview the new tenant and capture their performance over time as additional empirical data.

## CONCLUSION

The basic elements of the retail attraction effort may change over time. In some places, the market will begin to fill vacancies without much support from the commercial district manager, and in other places continued and sustained retail attraction efforts may remain. 🌐

### WINNIPEG, MB, CANADA, WEST END BUSINESS IMPROVEMENT ZONE (WEST END BIZ)

With a \$15,000 budget allocated for print and video expenses and much of the balance of the work completed in-house, Gloria Cardwell-Hoepfner, executive director of the West End BIZ, developed the award-winning Open for Business retail attraction effort inspired by the tenets outlined here.

#### Getting Retail Ready

The retail attraction effort took into account the need to address major “retail ready” challenges such as storefront conditions and overall safety concerns that have plagued the neighborhood for years. The BIZ has been pivotal in increasing business development, storefront improvement, and safety grants from \$37,000 in 2013 to \$98,000 in 2016.

#### Market Research & Communication

The effort included an information package that provided an attractive, easy to understand packet of information for realtors, the media, and business owners looking to locate in the neighborhood. The marketing piece can be viewed here: <http://www.westendbiz.ca/your-business-here>. The BIZ also incorporated a submission form on their website for interested businesses. This helps them develop a database and follow up on leads more effectively.

#### Communication and Outreach

The West End BIZ outreach efforts included direct distribution to brokers, television commercials, website videos, and broker breakfasts. The BIZ did not try to compete with brokers, but rather made sure the information could be used by the broker community to advance a positive narrative of the area.

#### Evaluation

Since the program inception, the BIZ has further refined its benchmarking efforts and has developed the West End Trends Report which summarizes basic data on an annual basis, including additional analysis on local demographic and business trends.

#### Results

In the first two years since the project was started, 81 new businesses have opened and the BIZ continues to build its profile as a “go-to” source of market data for the location retail real estate community. They also noted website traffic increased from 6,220 visits in 2013 to 20,607 visits in 2016. In 2017, the West End BIZ received the International Downtown Association’s Pinnacle Award, the organization’s most prestigious award.



Brochure for retail attraction effort.



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