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Financing Urban Retail

The market for urban retail concepts is expanding – not shrinking

- **Retail is being integrated back into the community**
- **Focusing on existing communities, retail districts, and shopping centers**
- **Tapping into urban lifestyles**
- **Partnering with the public sector**

Why has financing been so difficult?

The Ur-factors:

- The American dream
- Middle-class flight
- Federal subsidies for the suburbs
- Metropolitan Balkanization
- Tax competition and retail over-zoning
- Retail follows residential trends
- The law of the low-hanging fruit
- Lingering racism

Government has compounded the financing problem:

- Years of urban mismanagement
- Unsophisticated CDCs
- Poor information
- No public vision or plan
- Inadequate attention to social problems: crime, mentally ill, homeless
- Poor physical environment for retailing

A radical market shift is occurring:

- **Overbuilt suburban retail markets**
- **Obsolete retail formats**
- **Fewer sites available for traditional suburban shopping centers**
- **Smart growth initiatives**
- **Traffic congestion is our friend**
- **Remember the low-hanging fruit?**
- **Retailers are interested in cities again**

Many “urban” operational challenges are becoming similar elsewhere:

- High land costs
- Land availability/assemblage
- Lengthy approval processes
- Consensus building
- Difficulty in securing credit-worthy national tenants

Urban areas are poised to profit from this retail shift:

- 1,000s of new in-town housing units
- Crime is down
- Entrepreneurial mayors
- Determined to use public financing tools
- Active BIDs and more sophisticated CDCs
- Major institutions are taking the initiative
- 40 years of public investments are paying off
- New urban demographics

Changing demographics are driving urban retail development

- Fewer traditional families
- Aging population
- Two-income couples
- More non-traditional households
- Increased immigration
- Higher incomes
- More sophisticated consumers

What it takes to finance urban retailing:

- A district-wide approach
- A neighborhood champion
- Joint public/private development schemes
- Public gap financing
- TIF/Tax incentives (New Markets Tax Credit)
- New zoning approaches
- Parking and infrastructure improvements
- Strong relationships with local banks
- Transit/land use connections (if possible)

Who will finance and develop urban retail?

- Not REITS, Opportunity Funds or other large publicly-owned investors
- A broad mix of private and public sources
- Boutique entrepreneurial developers
- Local commercial banks
- Public entities

Challenges ahead

- Develop more comparables
- Create the retail district plan/change the zoning/spread the information
- Think residential
- Develop close relationship with local commercial banks
- Concentrate financial leverage in key locations
- Convince voters that the public pays for the first few years; the public receives in the out years

Bottom Line:

- The problem is not financing retail “projects” per se
- The problem is creating the environment and conditions where retail development can be successful
- Where this happens, a viable market will be created and passionate entrepreneurs will find financing