

RETAIL REDEVELOPMENT

On October 17, 2006, a Retail Redevelopment Subcommittee was created. The subcommittee is an initiative of the City Council's 2006 strategic planning retreat.

Committee members are Councilmembers Tim Hayden, John Mahalik and Matthew Marchant, chairman. Its mission is to evaluate underperforming retail areas in the city, and make recommendations regarding how the city can support revitalization or redevelopment of these areas. The subcommittee's methodology included information gathering, site evaluations and on-site visits, feedback from the retail community, and assessing program options.

Retail Redevelopment Subcommittee February 2007 Report

EXISTING CONDITIONS

The retail industry is driven by the demand and shopping preferences of consumers. Business location decisions are often dictated by the characteristics of the trade area they serve. Much of Carrollton's retail base was developed in the late 1970s and early 1980s when the city experienced intense growth. The older retail centers in the city are mostly neighborhood and small community shopping centers, often originally anchored by a grocery store.

The demographics of Carrollton, especially the central and southern parts of the city, have changed dramatically over the last 15 years. In 1990, Anglos comprised about 80 percent of the trade area population in central and southern Carrollton. Today, Anglos comprise about 55 to 60 percent of the trade area population (*Source: NCTCOG; Claritas, Inc.*) As a result, the consumer profiles and shopping preferences are different today than when the centers were built. While the current tenant mix of many of the shopping centers reflects the changes in consumer ethnicity and preferences, some shopping centers have been slower to adapt, resulting in higher vacancy rates.

Slow growth in the consumer base in the southern and central parts of the city also affects the attractiveness of these areas to retailers as they consider their prospects for future business growth. By comparison, the consumer population in far north Carrollton continues to grow, resulting in a trade area that more closely resembles the growth in Carrollton 20 years ago. The community shopping centers at Old Denton Road and Hebron Parkway, for example, are almost fully occupied, several restaurants have located along the Hebron Parkway corridor, and more retail and restaurant development is planned.

Carrollton's current citywide retail occupancy rate is slightly below 80 percent, compared to a regional rate of about 85 percent for neighborhood and small community centers (*Source: Cencor Realty Services*). While local government has little control over consumer demographics, their shopping preferences, or the business strategies of retail property owners and tenants, the city of Carrollton continues to work to attract and retain viable tenants to retail centers in the city.

Current efforts by the city include:

- Sponsored the Jon Schallert Workshop for business owners in Old Downtown Carrollton. At no charge, business owners received suggestions and ideas of how to make their shops destination businesses, increase their consumer base, improve their marketing techniques, and help their businesses grow.
- Hosted a Retail Roundtable program with retail brokers, shopping center owners and leasing managers to discuss ways the city can assist them in marketing their properties and generating outreach to attract new tenants.
- City staff conducts sales calls to prospective retailers, provides trade area analyses and demographic profiles for every retail center or node in the city, maintains a dining guide at no cost to Carrollton restaurants to assist in their marketing efforts, and has initiated a "Shop Carrollton" campaign with local merchants to improve local consumer awareness of the value of shopping Carrollton stores.
- The city uses a 'One Stop Shop' permitting process that has become a model for other cities. It streamlines the permitting process, allowing businesses to spend more time doing business and less time involved in permit review.
- Special incentive zones have been created to spur retail and restaurant development in targeted areas.

SITE EVALUATIONS

The Subcommittee evaluated retail sites in the city that may offer opportunities for city involvement to help refresh or update their appearance, or appear to have prospects for alternative land uses. Generally these sites are in excess of twenty years of age.

The sites evaluated and visited were:

Frankford Road at Josey Lane
 Trinity Mills Road at Marsh Lane
 Frankford Road at Old Denton Road
 Josey Lane at Rosemeade Parkway
 Marsh Lane at Rosemeade Parkway

The Furneaux Creek Center, currently being marketed as the Asian North Town Center (PGBT @ Old Denton Road), was not included in the Subcommittee's evaluation process because of its transition to new ownership and their announced plans for renovation.

Three critical findings emerged from the site evaluation process:

- The ***occupancy rates*** of the sites varied significantly, from over 96 percent occupancy to about 50 percent occupancy. The lowest occupancy rates were experienced in those centers that have not been successful in filling space vacated by former grocery anchor tenants.

- The **current property values** of these sites appear to be too high to motivate property owners to consider re-development options on their own. Site redevelopment proposals will likely require significant financial incentives from the city to make a project viable.
- **Competition in the trade area** can create an imbalance between the supply and demand for retail space, especially in central and southern Carrollton, where population growth is fairly low. Many of the centers built in Carrollton were originally supported by a trade area radius in excess of three miles. The centers were typically anchored by a major grocer. As competition moved into the trade area, especially from discount grocers, the anchors in these centers either closed or opened a larger store elsewhere, often in the same trade area.

The result is that centers originally built as community centers are now serving as neighborhood centers, which are supported by a typical trade area radius of one mile or less, with considerably less need for retail space. The inventory of vacant grocery stores creates more space than the reduced trade area can support. This scenario repeats itself throughout the region, resulting in multiple retail centers with vacant grocery stores, which adds even more retail space to the market.

DEMOGRAPHIC ANALYSIS

Trade area demographics have changed over the last fifteen years in central and south Carrollton, such that the consumer profiles supporting the retail areas have changed since the shopping centers were built. As a result, the tenant mixes existing when the centers were new were based upon a market that generally no longer exists.

In 1990 over 80 percent of the trade area population of the retail sites evaluated by the subcommittee was Anglo. By 2011, Anglo households are projected to make up less than 45 percent of the trade area population (*Source: NCTCOG; Civitas, Inc.*). These trade area demographics indicate that an increasingly diverse and ethnic tenant mix will be necessary to maintain higher occupancy rates in the future, as no single ethnic category will dominate the population.

RETAIL COMMUNITY INPUT

Input from the retail community was used by the Subcommittee to better understand the retail development business and the challenges posed to site development and redevelopment.

While the Retail Roundtable initiative of the Economic Development Department was not a component of the Subcommittee's program, the roundtable events with retail brokers and decision-makers provided valuable insight that was passed along to the Subcommittee. One of the challenges expressed by the roundtable participants was that demographically Carrollton is considered somewhat of a 'middle zone' for retail attraction. Household incomes in the community are too high to support an influx of discount retailers, yet too low to support high-end retailers.

The Subcommittee met with a retail/residential developer who has an active project in Carrollton. At the Subcommittee's request he ran hypothetical redevelopment scenarios on two existing retail properties in the city. The scenarios were to redevelop the shopping centers into moderate density residential uses. In both scenarios the combined appraised value of the property and the site demolition costs exceeded the developer's break-even purchase price by over \$9 per square foot. The result is that considerable financial support or incentives from the city or another source would be needed to make such projects financially feasible for a developer.

The Subcommittee also met with a commercial broker who provided input regarding what retailers look for when selecting business sites. She indicated that site location decisions by retailers are based upon trade area demographics and location relative to the marketplace. While the role of local government to influence this process is limited, she indicated that programs aimed at improving the exterior appearance of older centers might improve the retention rate of existing tenants.

SUBCOMMITTEE RECOMMENDATIONS

In preparing its recommendations the sub-committee recognized that the affect of local government involvement in the retail development and re-development process is limited.

- Retail is a consumer-driven industry, so the role of government in influencing the site location decisions of retail developers or tenants is limited.
- Infrastructure support is one area where local government can assist in attracting new development. However, retail uses typically emerge after residential development occurs with sufficient critical mass to support shops and businesses. As a result, most of the infrastructure necessary to support retail development is usually already in place, especially in the case of redeveloping existing sites.
- Tax incentives may offer short-term benefit to the retail developer, but ultimately the viability of a center will rely upon whether it can retain a tenant mix that is adequately supported by its trade area. Local government can apply little influence on consumer preferences, competency of the business practices of retail tenants, or stem competition from other retail areas.

In light of obstacles to the conventional tools of local government involvement in the economic development process, the Subcommittee recommends a series of efforts that the city should take in order to improve the viability of the city's aging retail centers.

Rehabilitation Grants

The city should develop a program using the authority of Chapter 380 of the Texas Local Government Code to provide financial incentives to retail centers meeting certain qualifications to renovate and update their exterior facades or landscaping.

Vacant Retail-Zoned Tracts

The city should evaluate vacant, undeveloped tracts of land that are zoned for retail uses, and consider if alternative zoning or development criteria should be established.

The city should consider ways to promote compatibility with surrounding areas as these sites develop, and emphasize a value-added character of the development, especially on in-fill tracts. Options could include rezoning the properties to non-retail uses, adding a site plan and/or building elevation review element to the existing zoning, apply cumulative zoning features to allow uses such as townhomes in addition to the base retail or office uses, or initiate collective marketing efforts between the city and property owners to attract a specific clientele on selected sites.

Sign Code Changes

The City Council should support recommendations forthcoming from staff to revise the city's Sign Code. Recommendations will include provisions for electronic reader boards on commercial properties, allow increased sign height and area if additional architectural features are added to the sign, allow multiple lot developments to be consolidated as a single project for signage purposes, and provide special signage provisions for anchor tenants.

Targeted Streetscape Improvements

Many of the shopping centers in Carrollton were built before the city required on-site landscaping, leaving large amounts of pavement with little or no visual relief or green space. The city should consider ways to improve the aesthetic value of the street frontages and medians adjacent to targeted retail areas.

Redevelopment Partnerships

The city should evaluate the feasibility of acquiring sites occupied by underperforming retail centers and marketing the property for joint or private re-development for alternative uses. This would be an effort to remove underperforming retail space from the market, and where residential uses offer a viable alternative, add more consumers to the marketplace to support the remaining retail businesses.

The city could also consider acquiring rights-of-first-refusal on selected properties that appear to have re-development potential while the city evaluates the merits of the project.

Future Role of the Subcommittee

The Subcommittee has a role in overseeing the development and implementation of these recommendations, and should remain a standing committee. As the projects endorsed by the City Council are being developed, the Subcommittee can help ensure consistency with the Council's policy expectations.

Conclusion

The Subcommittee's proposals are somewhat unconventional in scope and carry an element of risk. Success in improving the attraction or retention of tenants in aging retail areas as a result of implementing any or all of these recommendations is by no means guaranteed. Funding availability and political fortitude will be critical to the success of any program pursued by the City Council. If a site acquisition or re-development venture is pursued, significant amounts of public funding -- perhaps several million dollars -- will be

needed. This will require the City Council to either seek or create new funding sources, or alter existing funding priorities.