Quick Tips for Planning Retail Components of Multifamily Housing Projects

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In many urban communities throughout America, economic forces are directing a trend towards hybrid development projects: multi-use (i.e., developments incorporating two or more land uses such as retail and residential where the spatial allocation of one component may be minor relative to the other) and mixed-use (i.e., developments incorporating two or more land uses where each use constitutes a materially-significant proportion of total building square footage). Those multi-use or mixed-use developments may either incorporate the components in horizontal alignments or in vertical layouts with one use stacked upon another use. The forces compelling this dynamic include the scarcity of urban infill sites of appropriate configuration for retail development, the magnitude of urban land costs, and the underserved nature of many urban markets with regards to supermarkets and other quality retail amenities. The following are important considerations which should be embedded in the planning process of housing and redevelopment agencies when contemplating incorporating retail uses in their projects:

1. IDENTIFY EARLY POTENTIAL LOCATIONS FOR RETAIL DEVELOPMENT

When evaluating opportunities to de-construct, redevelop or develop new multifamily housing, identify first and early in the site planning process those parcels which may have retail potential, determine how much of the overall site area could be allocated to retail development without impacting the primary purpose of the housing program, and then evaluate how that housing program can be developed around and above a dedicated retail component. Assign the most retail-ready locations to the retail component; avoid assigning them to uses which could be placed in interior locations of the development; e.g., open spaces. Frontage along a major street may be more valuable for retail than site depth, but adequate site depth is necessary in order to provide for larger store formats. Dedicated retail parcels should have regular configurations and be located on and visible from a street with adequate levels of vehicular and/or pedestrian traffic. Note that 25,000 square feet of site area in the right location for retail is better than a multiple of that area in the wrong location of a site. The former may be leasable; the latter probably isn't.

2. LOOK AT DEMOGRAPHICS THROUGH THE EYES OF RETAIL DEVELOPERS

Look at the area demographics the way that retailers and retail real estate developers assess a location's demographics. Such professionals are accustomed to defining the market area (a.k.a., trade area) of a site in terms of radii from an intersection, e.g., 1-, 2-, and 3-mile rings. Although this is an imperfect approach for defining a trade area, it is as much a part of the convention of retail site selection as the use of IRRs in finance. Therefore, redevelopment officials should utilize reports provided by Sites USA, ESRI and other demographic information vendors in marketing their sites to the retail real estate community as opposed to relying exclusively on demographic data generated for community districts, wards, or council districts. However, industry-standard demographic reports can and should be supplemented with data on recently-completed housing developments in the trade area radius and residential projects in the development pipeline.

3. CAPITALIZE ON THE DOWNSIZING OF RETAILER FORMATS

In recent years, several major retail chains have explored reducing the footprint of certain store formats or they have invented new formats with smaller footprints designed for urban markets. This includes operators in the grocery sector such as Walmart, Whole Foods, Wakefern, and Kroger. And this trend reflects the difficulty of finding sites sufficient to accommodate traditional big-box layouts as well as the opportunity to increase sales productivity per square foot of store space by doing more with less. In addition, national supermarket chains such as Save-A-Lot and Aldi's operate limited assortment formats of about 16,000 square feet designed for smaller urban infill sites.

4. EXPLORE SOURCES OF GAP FINANCING

Commercial components of affordable housing projects may not initially generate rents sufficient to finance their allocated development costs (i.e., their proportionate share of land, hard and soft costs) exclusively with private-sector debt and equity. Accordingly, public sector investment may be necessary to bridge the gap. Programs such as the federal Office of Community Services, New Markets Tax Credits, and even the immigrant investor program of the U.S. Department of State (i.e., EB-5 financing) may be sources for bridging that gap. Modest funding gaps don't necessarily mean that a commercial component isn't feasible; they may simply require public sector investment until market rents rise to make storefronts self-supporting.

5. SHORTEN THE POLITICAL & BUREAUCRATIC STEPS OF THE PRE-DEVELOPMENT TIMELINE

Mitigate bottlenecks in the project approval process and make sure the requisite political leadership is deployed to mobilize community support, address community concerns, and minimize the uncertainty that developers face in implementing their project concept. Consider that—on a risk-adjusted basis—the most expensive capital that a developer will invest in any project is the equity invested prior to the commencement of project construction. Although the old saying is trite, it is definitely true: time equals money!

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