

# Retailers shadow shifts in the Gulf Coast's population.

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**Since the devastating** 2005 hurricanes Katrina and Rita, the retail landscape in Louisiana and Mississippi has transformed. With so much infrastructure destroyed, adaptive reuse has become the buzzword.

For example, in New Orleans' famed Garden District, the former House of Bultman Funeral Home is being resurrected as a Borders bookstore. The 24,000-square-foot location will be the first in the city for the chain. Last fall, Covington, La.-based Stirling Properties said it would spend \$9 million to redevelop the site on historic St. Charles Avenue.

The House of Bultman Funeral Home is designated as a historic landmark, as the site of funerals for the rich and famous, and where Tennessee Williams wrote the play, *Suddenly Last Summer*. When the Borders is completed in Fall 2008, it will boast the funeral home's original facade, which evokes George Washington's famed Mount Vernon plantation outside Washington, D.C.

Before Hurricane Katrina, it was all but impossible to find space to develop in the city of New Orleans. The shortage of available land coupled with the preservation of historic sites shut out the possibility of developing any new retail.

Today, however, its decimated land and scores of condemned properties are now available for redevelopment.

And there is demand for new retail as well, especially in New Orleans' most popular tourist zones — the Garden District and French Quarter — where visitors flock to the hotels that have reopened to celebrate Mardi Gras and attend the annual New Orleans Jazz and Heritage Festival. Its recovery has even stretched to Magazine Street and the bustling Tulane/Loyola University area, says Lewis Stirling, executive vice president and partner at Covington, La.-based Stirling Properties. As a result of the strong demand, he says retail rents are actually increasing in the city.

That's not to say that New Orleans has recovered. Not by a long shot. Nearly three years after Hurricane Katrina, some parts of the city remain in limbo and may not come back for a decade, if at all. The population remains below pre-storm levels. And vast neighborhoods — including the decimated Lower 9th Ward — are nowhere near recovering. Many of the neighborhood centers in the city remain shuttered and owners aren't sure if they are going to rebuild them.

Overall, New Orleans has recovered 68 percent of its pre-storm households, according to the Washington, D.C.-based think-tank Brookings Institution. But even that may be overstating the recovery. New Orleans proper accounts for less than one-third of the region's total population. And many of the city's suburbs still have not recovered from the hurricanes.

So far, less than 2.2 million square feet of retail space had been added back to New Orleans' inventory (about 29 percent of the 7.9 million square feet that was wiped out by Hurricane Katrina) noted the *Metropolitan New Orleans Real Estate Market Analysis* published by the Real Estate Market Data Center & Center for Economic Development at the University of New Orleans.

“The picture is still unclear in areas of New Orleans that flooded,” says Manish Kacker, assistant professor of marketing at Tulane University's Freeman School of Business in New Orleans. “You don't have the same size population as before Katrina and the cost of rebuilding is higher.”

## Catch-22

With the high costs of rebuilding residences, the retailers faring best in the region unsurprisingly are home-improvement stores. It's a lone bright spot for chains like Home Depot and Lowe's that have suffered deep drops in sales nationally as a result of the bursting housing bubble.

In Central City, in New Orleans, a Home Depot is under construction and Lowe's is going up in New Orleans East. “There is so much construction here,” says Stirling. “The stores can't handle the customers.”

Retailers are also moving back to some of the regional malls that surround the city. (There are no regional malls within the city itself, though there are several downtown department stores as well as General Growth Properties' massive Riverwalk Marketplace.)

For example, Macy's plans to reopen two stores. It is rehabbing a 188,000-square-foot store in Kenner, at the Esplanade Mall, and opening a new, 228,000-square-foot store at Lakeside Shopping Center in Metairie. Both are scheduled to open in November.

In addition, last October, General Growth Properties reopened Oakwood Center in Gretna, La., across the Mississippi River from New Orleans.

In one of the most ambitious post-Katrina projects, Jim Wilson & Associates has begun land preparation for a 471-acre mixed-use development called Juban Crossing in Baton Rouge. The project will include 1.3 million square feet of retail. The Montgomery, Ala.-based developer and its partner, Creekstone Companies of Baton Rouge, selected the location in part due to an influx of some 19,000 transplants from New Orleans.

Stirling is considering Kohl's, Best Buy and Target for the 500,000-square-foot power center at Juban Crossing in addition to a theater company. A lifestyle center with two department stores will anchor Juban Crossing when it opens.

Stirling Properties is also developing several new power centers in other parts of Louisiana. Scheduled to open this spring, in the Bossier City/Shreveport area, is the 700,000-square-foot Phase III of Stirling Bossier Shopping Center. Phase I and Phase II of the center opened in 2007. In Lafayette, Stirling Lafayette Center, a 450,000-square-foot power center was on schedule to open last month. And, in Baton Rouge, the Stirling Millerville Center, with about 386,000 square feet, is almost complete.

## Biloxi blues

One thing is for sure, according to Brian Sanderson, president of the Gulf Coast Business Council, based in Gulfport, Miss., the area was under-retailed pre-Katrina and is still under-retailed. Among the reasons for the dearth of retailers in the area today are high insurance and land costs. While the construction and labor costs have decreased, depopulation remains an issue for retailers.

The casinos, which are located primarily on the east side of Biloxi, have some retail. In Biloxi, no new exclusive retail development is taking place. The issue with retail is much of it is located in one-story buildings that are vulnerable, especially those on the beach, says Scott DeLano, president of Gulf States Properties, based in Biloxi. But Biloxi casinos are “built like caissons,” he says. Both the casinos and condominiums are large buildings that have at least one story of parking underneath and the retail above isn't as vulnerable to flood waters.

Stirling Properties is in discussions with an undisclosed hotel/casino owner near downtown Biloxi to add

150,000 to 200,000 square feet of retail.

Although no new retail is under construction in Biloxi, the renovated 900,000-square-foot Edgewater Mall, reopened three months after Hurricane Katrina. However, one of the four anchors at the League, Texas-based American National Insurance Co. property, wasn't scheduled to reopen until last month.

One reason that retail is not being developed on the beach today is that commercially zoned beachfront property is selling for about \$1.5 million per acre, 25 percent to 30 percent higher than before Hurricane Katrina.

“Most new shopping centers today in Biloxi are being built along the I-10 corridor, which is away from the Gulf and closer to a large population,” says DeLano.

The storm accelerated a population shift to the north, which predated Katrina. One of the new centers rising along the I-10 corridor is Nord du Lieu. Phase I of the project will include 40,000 square feet of retail, which was 70 percent leased as of January, according to Blaire Fernandez, broker associate at Covington, La.-based Gulf States Real Estate Services. The project's 85,000-square-foot Phase II, however, is on hold.

“We expect Phase I to be leased out within the next month,” Fernandez says. “In the next six months, we will decide whether to develop Phase II or sell it.”

Although rebuilding in the Gulfport/Biloxi area is challenging, the situation is even more so in cities such as Waveland, Bay St. Louis and Pass Christian, which sustained more damage from Hurricane Katrina than Biloxi. “Wal-Mart has said it will rebuild one of its stores, which was right on the beach in Pass Christian, but it has given no timeline,” Rogers says. The Wal-Marts in Biloxi, Gulfport and along the Mississippi Gulf Coast are all back.

## Using incentives

After the storms, developers, especially condominium developers, and speculative investors, flocked to the area, eager to take advantage of Gulf Opportunity (GO) Zone bonds, tax-exempt bonds allocated by the federal government post-Katrina and post-Rita to be used in parts of Louisiana, Mississippi and Alabama to finance commercial real estate development. It is more advantageous for developers doing a project over \$10 million to use GO Zone bond financing rather than avail themselves of bonus federal income tax depreciation, available in states ravaged by Katrina. This incentive allows for an additional first year depreciation deduction equal to 50 percent.

In Slidell, La., Bayer Properties plans to break ground this spring on its \$1 billion Tremblay Village, a 400-acre, mixed-use development that will include one million square feet of retail. The main financing vehicle for the project — \$250 million in GO Zone tax-exempt bonds — are part of the \$7.9 billion bond allocations available to commercial real estate developers in 13 parishes throughout Louisiana that are part of the federal government's post-Katrina/post-Rita recovery effort.

Jeffrey Bayer, president and CEO of Bayer Properties, based in Birmingham, Ala., says plans for the project grew after the hurricanes, when there was a need for more than a small retail center in Slidell because so much real estate was destroyed. In addition to retail, there is 350,000 square feet of office and technology lab space for the University of New Orleans, 500,000 square feet of medical facilities, 325,000 square feet of commercial office space and approximately 1,500 residential units.

“Without the tax-exempt feature [of the GO Zone bonds], we would not have been able to do the project,” Bayer says.

GO Zone bondholders pay no federal income taxes on the interest earned. In this case, Bayer Properties will save over \$6 million in one year paying two percentage points less than for conventional financing. “If

the bond has a life of 25 years, that is over \$150 million, which helps to overcome the high cost of construction,” says Bayer.

## **State group coverages**

The decision to develop or not is made more complicated by the insurance question. The hurricanes created a lot of litigation as policy-holders and insurance companies wrangled over whether damage was caused by water (which is covered under flood insurance) or wind (which is not).

As a result of all this, private insurers have become somewhat gun shy about providing coverage in the region. The Mississippi Windstorm Underwriting Association offers coverage for property owners who cannot find insurance through a private carrier. Independent Insurance Agents of Mississippi president-elect Angelyn Treutel says, along the Mississippi Gulf Coast, insurance, including wind coverage, is “pricey” and property owners have higher deductibles; but insurance is available.

The Gulf Coast is beginning to recover from high insurance rates and lack of availability because Mississippi has become more pro business over the past few years and is attracting more companies. That helps to spread out the risk among more policy-holders. And, since the hurricanes in 2005, the state has adopted the international building code.

In Louisiana, some insurance companies are offering property insurance with wind coverage for commercial buildings made of masonry and noncombustible materials.

The national president of Professional Insurance Agents, Robert Page, says he can write insurance with 12 companies for property and wind coverage for those types of buildings. However, owners of frame and metal buildings are still directed to the non-profit, state-run, Louisiana Citizens Property Insurance Corporation for property coverage; although they can get a fire and theft policy in the private market.

The Louisiana Citizens Property Insurance Corporation offers maximum coverage per location of \$5 million for the building and \$2 million for business property. The maximum policy limit for all locations is \$10 million.

Page has not seen a drop in rates on property insurance for commercial buildings as of yet although he thinks reductions will come soon. “The whole insurance market is softening in the U.S.,” says Page. In Louisiana, “lots of things may change in the next couple of months.”

## **NEW ORLEANS/METARIE/KENNER**

Population (2006): 1,024,678

Unemployment: 7.4%

Housing units: 435,140

Median household income: \$46,459

Average household: 2.8 people

*Sources: U.S. Census Bureau; American Community Survey*

## **GULFPORT/BILOXI, MISS.**

Population (2006): 228,722

Unemployment: 8.6%

Housing units: 108,063

Median household income: \$42,998

Average household: 2.6 people

*Sources: U.S. Census Bureau; American Community Survey*

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