Redeveloping Strip Centers Vital for Cities' Economies

by Maura K. Ammenheuser

This article is the first in an occasional series about strip center redevelopment in first tier suburbs supported by NLC's First Tier Suburbs Council.

Blame absentee landlords, shifting demographics, bankruptcies or the passage of time.

Regardless of cause, obsolete community shopping centers can be found all over America. Their facades are boring, their parking lots cracked and they're often riddled with vacancies. Remaining stores may be reeling from a lost anchor or competition from newer centers.

Many first tier suburbs, those defined as beyond central cities but "inside the ring of developing suburbs and rural areas," are plagued with underperforming neighborhood centers, according to research by the National League of Cities.

As growth pushed outward from cities, these were the first bedroom communities to evolve, often in the mid-20^{th} century. Since then, new development spread beyond these first-tier suburbs, so today much of the commercial real estate close to urban cores is decades old.

In many cases, it shows.

"These centers weren't built to last. They were put up cheaply," said John Shirey, executive director of the California Redevelopment Association. "They look old, they look tired."

"Until the last 10 years, the industry was kind of in denial about this," said James Maurin, former chairman of the International Council of Shopping Centers (ICSC) and chairman of Stirling Properties in Covington, La.

This is despite the fact that, according to ICSC, by 2006, 45 percent of U.S. open-air centers (small neighborhood centers and community centers with two or more anchors) were at least 20 years old.

Historically, when a center reached the end of its apparent life, the owner sold it. Today, owners are more willing to fix things, Maurin said. "Every center needs a refurbishment every 10 years," he said, a schedule other developers endorse.

For example, older centers don't offer drive-throughs except possibly for banks. Today tenants ranging from dry cleaners to Starbucks demand them, so a retrofit may require making room.

If healthy centers require routine maintenance, obsolete ones need far more. Allowing further decay carries steep civic consequences.

Obsolete centers are "a drain on the property owner and a drain on the local government, because sales tax revenues are not being generated (and) jobs are not being created," said Warren Cooley, director of retail and economic development with Valley Economic Development Center, Van Nuys, Calif., a nonprofit assisting business development.

"Blight is contagious," said Keith McDonald, chair of NLC's First Tier Suburbs Council and mayor of Bartlett, Tenn., a 48,500-population suburb of Memphis. "So you don't want that to happen …you work really hard to keep it from getting to that point."

Tax ramifications are especially important in states without income tax. For example, 40 percent of Bartlett's budget comes from residential property tax, and sales taxes have to make up the balance, because Tennessee doesn't have income tax, McDonald said.

Yet an old center also "is a huge opportunity," said Brad Hutensky, president, The Hutensky Group, a Hartford, Conn., firm that's created a $500 million fund to acquire underperformers for turnarounds. A revitalized site provides jobs, charitable contributions, convenience for local residents and, of course, tax revenue, he said.

Before an old center can be overhauled, stakeholders must determine why it deteriorated, experts said. Reasons vary for real estate that's past its prime:

A changing market.
Local demographics lurch if a local factory closes and puts 1,000 people out of work or when an area shifts from affluence to lower-income residents, or from one ethnic majority to another.

Lost anchors.
Tony Brown, president, The Pelican Group Inc., a Mobile, Ala. developer, cited the loss of big-box anchors such as Wal-Mart as a trigger for decline.

"The Kmart bankruptcy (in 2002) was another classic example," he said. (Kmart emerged from Chapter 11 in May 2003.) If the anchor closes, other tenants bolt, too.

Complacent or overwhelmed landlords.
Stirling Properties has bought centers from the grown children of the original builders when the second-generation owner doesn't understand the business or has little time for it, Maurin said.

Other sources described longtime property owners content to collecting modest rents after the mortgage is paid with no motivation to invest in major upkeep.

"Then there's just age," Brown said, in which case the landlord should have steadily raised rents over time to afford renovations. Some haven't.

Developers must consider all this when deciding whether to revamp a shopping center, sell or even convert it to a different use. Sometimes they need public help.

In Maurin's experience, civic leaders recognize "this property will not be redeveloped" without public financing when developers find a project too risky.

Shirey says public officials usually become concerned when a site becomes blighted and causes a ripple effect of blight in the neighborhood.

"When they start causing visual pollution and when certain thoroughfares seem to have a preponderance of these types of centers," Shirey said, " … that's a red flag for local governments."

Details: For more information, please contact Christy McFarland at (202) 626-3036 or mcfarland@nlc.org. All are invited to attend the upcoming meeting of the First Tier Suburbs Council at NLC's Congress of Cities on November 15 from 2:00 - 5:00 p.m., where the focus will be strip center redevelopment.

Maura K. Ammenheuser is a regular contributor to Shopping Centers Today, a publication of the International Council of Shopping Centers (ICSC). ICSC, an NLC Corporate Partner, is working closely with the First Tier Suburbs Council in a study of strip center redevelopment.