

Experts say there's room for more retail

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REAL ESTATE ROUNDTABLE



“Capital and demand are the two things that are driving retail construction. Give a developer capital and they’re going to build. Give a developer demand and they’re going to build a lot.”

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With a growing population, increased tourism and a reputation for being a haven for flight capital, South Florida is paradise for retail. From big-box tenants to smaller mom-and-pops, everybody who is selling something wants a storefront in South Florida.

In some areas, like Miami-Dade County, space is quickly becoming a scarcity. In others, like Palm Beach County, there’s dirt available for purchase and older malls failing due to shifting demographics.

But regardless of where, people still need to shop, eat and drink. And area real estate developers and professionals are happy to help retail tenants find space.

At the South Florida *Business Journal*’s recent Real Estate Roundtable, sponsored by Miami Lakes-based BankUnited and Coral Gables-based Goldstein Schechter Koch, nine real estate experts discussed the trends affecting retail in South Florida today - from parking and traffic to the competition of new and older retail centers.

Around the table, the consensus was that today there is more than enough demand to drive retail in South Florida. This means that, in the tri-county area, residents, tourists and what one expert called

the “shadow population” can expect more stores, more restaurants and more bars in the future.

Panelists discussed their experience in retail in the region at the event, which was moderated by *Business Journal* senior reporter Brian Bandell.

Parking and traffic drives demand for more retail – and vice versa

The relationship between cars and retail in South Florida is built to last, and we can thank the region’s growing population and its appeal to tourists for that. The relationship is translating into more retail locations close together and creative parking solutions from local developers.

“Retailers have figured out that, at least in the Miami market, because of our traffic, the more stores they have every 3 miles away, the more sales they make,” said Andy Hellinger, CEO of Hellinger Penabad Companies. “We have dense population growth, we have a bad traffic problem, and we have big tourism and, therefore, not enough retail.”

The solution retailers have found when dealing with traffic is simple: Build more stores so shoppers don’t have to drive long distances. Better still, in high-density areas, construct mixed-use projects where shoppers can walk from store to store.

Millennials are also changing the game when it comes to retail. And in a place like South Florida that is undersaturated when it comes to shopping destinations, retail projects in each neighborhood meet increased demand from urban dwellers.

“We’re really finding that millennials want to be in the urban core,” Hellinger said. “They are working closer to where they live, but the retail hasn’t caught up in that regard. So in every major city - New York, Chicago, Atlanta, Los Angeles - South Florida in particular has the lowest retail per capita.”

Traffic in Miami is the seventh-worst of any major metro area in the country, according to an analysis from the makers of TomTom GPS. Bad traffic is yet another reason driving millennials and other residents to seek live/work/play centers – which means more retail opportunities.

“Andy said people are working closer to where they live,” said [Greg Masin](#), senior director of retail services in South Florida for Cushman & Wakefield. “I disagree. You’re going to be forced to live closer to where you work.”

“Traffic is imploding in this town. These hubs are going to spring up, whether it’s in Merrick Park in Coral Gables or it’s in the hospital district,” he said. “You won’t be able to get to the other side of town anymore, so everything will have to be vertical and self-contained.”

There are two obvious problems with cars, traffic being the first. The second problem for retailers and developers is what happens when shoppers drive to their stores: They need parking spots.

In a high-density urban environment where people may be taking a subway, walking or biking to the store, parking is less of an issue.

“Keep it 3 miles apart and you’re going to do more sales because you’re not going to drive 10 miles,” Masin said.

And while South Florida as a whole is quickly adding residents – Miami-Dade County added 21,000 new residents between 2013 and 2014, Broward County added 24,000 and Palm Beach County added 22,000 – in Miami in particular, people do not want to give up their cars, even in the face of greater density and more traffic.

“We are a car community ... [and retailers] still all want the projects built to park as if they are out west,” Hellinger said.

At Miami Worldcenter, a 30-acre mixed-use project in the middle of Miami’s urban core, there is a mix of big, national-brand anchor tenants that demand parking, and smaller, street-level businesses that understand if a shopper goes to Bloomingdale’s, they don’t need another parking space for lunch; they’ll simply walk in.

“But it’s always about parking,” said [Nitin Motwani](#) managing principal of Miami Worldcenter Associates and managing director of Encore Housing Opportunity Fund.

The general rule of thumb is four or five parking spots per 1,000 square feet, Hellinger said. “Whereas the city of Miami would like to see parking count go down, the retailers are still requiring that they have the same parking from suburbia.”

The retailers’ parking requirement is to their detriment. At the moment, retailers aren’t realizing the ways New Urbanism and cross-shopping changes the parking game.

“We are going to be well overparked,” Hellinger said. “Right now, retailers are requiring that we build way more parking for them than we think we need, because of this nature of cross-shopping.”

One thing that will certainly drive retailers into vertical models is land price, Hellinger said. As land values continue to climb in desirable areas like the Design District, downtown Miami, Brickell and Miami Beach, retailers will begin to see the value of fitting into vertical spaces.

“You’re definitely seeing the difference between national retailers and local folks,” Motwani said. “There are still not a lot of urban markets as suburban markets in their portfolio,” he said, explaining why, perhaps, retailers are still so parking-focused.

There’s enough room – and business – in South Florida for retail projects new and old.

There’s an idea that malls are fleeting, that the newest and shiniest is the most desirable – until the next big thing comes along. But for developers and retail experts in South Florida, there is enough land and – more importantly – enough shoppers to support viable retail projects.

“Age is just a number. Every property has to stay relevant to their consumers,” said Luanne Lenberg, VP and general manager of Sawgrass Mills in Sunrise. “The one thing that is constant about retail is that it is always changing, so you have to keep changing and always anticipate what your customers want.”

Sawgrass is celebrating its 25th anniversary,

and Lenberg says that with the right updates

and attention, there's no reason why it won't be around in another 25 years.

"The age thing about malls has been covered by every major publication in the United States," she said. "But we're still here and we're still viable. Sure, there are stronger and weaker performers, but I still think [malls] are a viable format."

While there is still land available in South Florida, certain markets are more saturated than others. In Miami-Dade and Broward counties, finding enough contiguous acreage for a new mall can be difficult, or cost an arm and a leg. Consider the time, long-term thinking and cash spent on assemblages for Miami Worldcenter or the hoops American Dream Miami's developers are required to jump through.

Palm Beach County is unique in South Florida because it's the one county where there is still land for development.

"It's one of the only counties in South Florida that actually has dirt," said Meriel "Honey" Bryan, senior VP of Colliers International South Florida.

"It's being developed, and we have a lot of big projects that are in the early planning stages. I think the macroeconomic picture is overall much more optimistic," she said. "People are finding that Palm Beach County has dirt that is reasonably priced."

Retail projects simply haven't been built in recent years in Palm Beach, and today that's a good thing. It's drawing developers that don't want to pay a lot for dirt in Miami-Dade and Broward, Bryan said.

Palm Beach is also to an extent unique in South Florida because of its low-density areas. But, unlike available land, that's not a good thing. Miami-Dade County is undersaturated, in terms of retail, and its high-density areas are thirsty for more retail centers like Aventura Mall or The Falls. For the older centers in less-populated neighborhoods in Palm Beach, a lack of residents is resulting in struggling malls.

"The older malls east of I-95, south of West Palm down to Lantana, those areas are very much struggling," Bryan said. "But the demographic mix is different there.... I do anticipate some of those very old strip shopping centers to go by the wayside and get redeveloped. The whole complexion of that area is changing."

Outside of those Palm Beach pockets, South Florida is begging for more retail.

"The depth of the market is staggering. The retailers have figured out that the more stores they have in South Florida, the more sales they're going to get," said Andy Hellinger, CEO of Coral Gables-based Hellinger Penabad Companies.

That demand leaves enough room for new and old centers, as long as the old centers follow Lenberg's advice and update to stay relevant.

"There is a lot of pent-up demand in the retail sector. With the new centers coming online, some of the older centers are going to retool," Helinger said.

CocoWalk in Miami's Coconut Grove was sold in May to a national REIT and partners for \$88 million, and shoppers can expect the center to be updated.

“It’s going to be something special,” said Jim Fried, managing director of Aztec Group. “It’s to be a destination, it’ll create a place, it’ll have it all.”

The benefits of density for retailers is showcased in downtown Miami and Brickell, where Miami Worldcenter and Brickell City Centre – two major projects that intend to capitalize on the urban dweller and visitor – are going up.

Brickell, built up as an office and condo jungle, is underserved in retail, which means a lot of room for new development. Thanks to Brickell City Centre, that thirst may soon be quenched. The project will introduce a 500,000-square-foot open-air shopping center to the neighborhood.

“It’s a unique area to Miami that has extremely dense residential, extremely dense office, a daytime population, as well as the all-important visitor,” said Debora Overholt, senior retail leasing director at Swire Properties. That visitor contributes to about 50 to 70 percent of sales, Overholt said.

At Swire’s billion-dollar Brickell City Centre development, that visitor was a big factor.

The story is a little different in Delray Beach, where Atlantic Avenue, the retail and restaurant drag, has become the place to be for new and old tenants alike.

“We’re just starting to get the national tenants,” said Jim Knight, founder of Delray Beach-based the Knight Group. “I think we’ll start to see more of that happen. A recent property sold on Atlantic Avenue for \$800 a square foot.”

Atlantic Avenue comprises mom-and-pop shops and newer national tenants. The mom-and-pops aren’t going out of business, but some are being priced off of the avenue and are reopening up a couple blocks away, where rents are still affordable.

“People want to be in Delray, a lot of empty-nesters are moving and they want to be able to walk to the downtown, walk to the restaurants,” Knight said.

Updating to stay relevant is key to a successful retail project, but quality also matters. Inevitably, the malls and strip centers that fall by the wayside are the lower-tier properties.

“The A’s will get stronger, the B’s will survive, and the C’s and the D’s have to change,” said Erick Collazo, development director for Metropica Holdings LLC.

The death of retailers isn’t a bad thing, especially for those in the real estate business. The corpse of a mall or strip center is the perfect site for redevelopment, especially because it comes with that one thing South Floridians want: parking.

“They’ll turn into development sites, maybe for multifamily, maybe for medical office. What you’ve got is great location in changing environments,” Fried said.

“There is a huge trend across the United States to redevelop these underperforming malls,” he said. “Their parking lots are amazing assets – sorry! It’s all mixed-used sites.”

How successful do you think the American Dream Miami mega mall will be?

Motwani: It's a very interesting concept. I certainly think that we're a community that loves entertainment and love retail. I love to ski and don't get to go often enough.

Fried: The capital is there, the demand is there, it seems like a good concept for our marketplace.

Overholdt: If it would work anywhere, it would work here.

Knight: Don't know enough about it, but I look forward to visiting it when it's built.

Hellinger: It's a unique concept, really, of entertainment, adding some retail to it. If it's just a retail model, I would say it's in between Dolphin Mall and Sawgrass Mills.

Lenberg: I don't have a crystal ball. But we experimented at Sawgrass with a mix of entertainment, and not all of it worked. I think it's a big 'what if?' and it'll be interesting to see.

Collazo: I think they are a theme park first, retail second. They are very successful. They've done it at Edmonton, they've done it at the Mall of America and they're doing it in New York. If they do it right, I think the competition won't be Sawgrass or Dolphin, it will be Orlando. Can you keep that customer here? It's going to be a different trip, versus your local regional shopping mall trip. I think they will be successful if they focus on the entertainment.

Bryan: I just think about the entitlement process for a project like that. I see traffic as being a huge challenge. And time is money. I hope they have strong projections and cheap money.

Masin: I would strongly bet with, not against, the Ghermezian family. They haven't missed yet. They don't need to do this project; they want to do this project.

It's not residents or tourists who are driving retail, it's a 'shadow population'

High-density urban areas and a staggering number of tourists certainly support some portion of the retail in South Florida, but those aren't the only groups snapping up designer watches and racking up thousand-dollar lunch tabs. There's a "shadow population" in South Florida, and that's the third group developers and real estate insiders emphasize to draw retail tenants.

"It's really easy to quantify the demographics that live here," said [Greg Masin](#), senior director of retail services in South Florida for Cushman & Wakefield. "When you compare us to other metro markets, we're too poor and too stupid – i.e., income levels are low and college education levels fall short of other major metro markets."

Lower income levels and a lack of education do not a high-powered buyer make. Tourists make up a big portion of the buying population in South Florida but, for the most part, tourists can be quantified, categorized and their buying power can be folded into sales projects. Residents and tourists combined aren't enough to account for how well the various malls and shopping strips do in sales per square foot.

It's the members of this shadow population who are the big spenders.

“There’s an entire population that owns a condominium, or owns a house, has two cars down in the garage – two very nice cars – eats out six nights or seven nights a week when they’re here, buys whatever they want to buy – buys three of them,” Masin said.

All those empty condos on Miami Beach and along Brickell? Three weeks to three months of the year, the shadow population lives there. And when they do, they buy, buy, buy.

“That guy pays real estate taxes, but that guy doesn’t show up anywhere on paper,” Masin said. “When he’s not here, his family members are using the condo. Maybe the kid goes to UM or Nova and is living there full time, but he’s the real [retail] driver.”

When courting retail tenants that are unfamiliar to the market, it can be hard to explain why, with the type of residents and tourists that come to South Florida, retailers do so well.

“There is no logical explanation for why Bal Harbour Shops and Aventura Mall do the numbers they do being several miles apart from each other,” Masin said. “You can’t just write it off to local demographics and tourism alone. The shadow market is something we have to explain. Especially to better-quality retailers.”

How do you explain a population that comes and goes as it pleases? Simply look around Miami.

“You see that guy over there, at a table for eight at 3 o’clock at Sea Salt, dressed to the nines with nowhere to be other than to sit and enjoy himself? That’s who I’m talking about,” Masin said. “The shadow population is what drives things.”

The shadow population is also, to some extent, why new mall and mixed-use developments with substantial retail components can coexist within a few miles of other malls and retail epicenters. Because in South Florida and Miami in particular, high-density areas create small envelopes where shoppers want to be.

“There’s room enough for everybody, whether it’s The Falls or Merrick [Park],” Masin said. “Everything is going to be accretive. It’s not going to take away; it’s going to add.”

Retail demand is high, and retailers are in a buying mood – for more space

In an area as desirable as South Florida, shoppers aren’t the only ones looking for a deal. Retailers looking to enter the market have to compete, and developers are happily building to meet demand.

There are four U.S. cities that retailers are paying attention too, said [Erick Collazo](#), development director for Metropica Holdings LLC. On the West Coast, it’s Los Angeles and San Francisco. On the East Coast, it’s New York and Miami.

“Those are the four major hubs in which retailers are really aggressive, that we see retailers coming in from South America, Europe or Asia,” he said. “That’s an unusual demand that we haven’t had in South Florida before.”

That attraction and the desire of retailers to enter South Florida is part of the reason why projects like Brickell City Centre, Miami Worldcenter and American Dream Miami can go up in the same cycle.

However, with increased demand comes higher price tags. And as South Florida gets hotter, so do rents.

“When these new tenants are coming to the marketplace, they are finding that rents are much higher than anticipated,” Collazo said.

That demand creates an opportunity for new projects to come online.

“The other demand that we’re seeing is that they want to be on the street,” he said. “They want to be on an organic street.”

At old-guard retail centers like Sawgrass Mills, that demand is met by continual development.

“We have been crunched with demand at Sawgrass for years. And you can see how we’ve expanded every several years, we’re bringing new buildings out of the ground,” said Luanne Lenberg, the mall’s VP and general manager. “And that’s not because we’re projecting that the demand is coming; it’s actually already here. That’s putting more retailers out of the general market looking for space.”

Retailers approach Sawgrass requesting more space, another store, doubling their current footprint and, in many cases, Sawgrass can’t assemble the real estate.

“Because we have maintained 99 to 100 percent occupancy for so many years. The square footage we’re bringing out of the ground today is simply to match the unmet demand, not really projecting forward in any way,” Lenberg said.

Because South Florida is so desirable, retailers are satisfied with a flagship store in the area. After experiencing the buying power in this market, most retailers look for more space.

“As more retailers come to South Florida and see this market and how dynamic it is, they are looking for that second store, that third store. They are looking, sometimes, to enter the market with multichannels,” Lenberg said.

Andy Hellinger, CEO of Coral Gables-based Hellinger Penabad Companies, said his River Landing development along the Miami River offers one potential model for a future of retail where more sprawl isn’t an option: building up, instead of out.

“River Landing is a vertical shopping center,” Hellinger said. “It’s five floors of major anchors.”

At River Landing, there is a shopping center on the ground floor and a shopping center with parking on each floor above that.

“Capital and demand are the two things that are driving retail construction,” said Jim Fried, managing director of Miami-based Aztec Group. “Give a developer capital and they’re going to build. Give a developer demand and they’re going to build a lot.”

Will American Dream Miami draw customers away from other malls?

Motwani: I'd like to defer my time to Luanne. Most of what we're doing is in downtown Miami, and I think we look very happily to the Design District and Brickell City Centre because we have a density situation. For us, it won't have an impact because of where they are.

Fried: It's a completely different experience. Everybody talked about experience, place making, etc. That's what these guys are doing. All the arrows are pointing in the right direction.

Overholdt: I think it will complement.

Knight: It's the special trip that you're going there for; it's not going to take away from your everyday trip where you're going shopping and picking up soft goods.

Hellinger: I don't think it will replace the everyday shopping, six days a week. It's going to be an entertainment center because you want the entertainment. You're going to go there because of your wife, your girlfriend, because you want that special experience. How much are you going to fight traffic over to that mall? This new mall isn't going to hurt demand.

Lenberg: We are going to continue to focus on playing to our strengths and not reacting to someone else's. One of our strengths has always been product and we have also been investing a lot in amenities and experience. Our focus is going to be on ourselves and what we're doing, as opposed to looking in the rearview mirror.

Collazo: There are a couple B's and C's that could be affected if you look at the marketplace. Pembroke Lakes Mall could be affected because of their proximity to their site. From a regional destination, I think we're just going to have more people going down that I-75 corridor. I hope to capture some of them.

Bryan: It's like Orlando, going to a theme park. That's what people are going to be going there for initially. All the other retail there is just a perk. The retail is just an add-on to what the real attraction is going to be.

Masin: Media tends to lead with the negative question. You want to talk about the negative impact that something new is going to have on that something that is existing. The majority of what you've heard in this room is that the majority of what has occurred in this marketplace has been accretive, not negative.