MERCHANDISING + LEASING OPPORTUNITIES

MARKET ANALYSIS AND STRATEGY

PREFACE

In order for the stakeholders of the Master Plan to understand the challenges and opportunities inherent in the execution of this Master Plan, it is necessary to provide an understanding of downtowns, retail development today and the differences in retail development in downtown Elon.

"DOWNTOWN"

The word "downtown" has various meanings to people as was reflected in comments in the stakeholders meetings. The word has an amazingly positive image despite the fact that so many traditional downtowns are but a shadow of what they were pre-1950's. Downtowns are now characterized by vacant storefronts, marginal retailers, social service agencies and offices filling traditional storefronts and empty upper floors which no longer attract offices or meet the needs of modern office users.

Downtown continues to have the image in peoples' minds of a bustling place fulfilling the commercial needs of a broad socio-economic market despite the fact that those who came of age after the 1950's have unlikely experienced a dominant and vibrant downtown.

HISTORIC DOWNTOWN

Before the outward movement of residential in the beginning of the 1950's, a downtown, largely served the complete commercial, civic and social needs of the urban population. Most cities were surrounded by farmland with smaller towns and villages along the roads leading out from the city. Those towns and villages had some commercial services, but still for major shopping trips and specialty items the farmers, townspeople and village residents made the trip into the city for the "big" shopping trips.

Downtowns not only had retail stores, but had offices (lawyers, doctors, insurancet agents, etc.), civic organizations (Moose, Elks, V.F.W., etc.), churches, schools, library, post office, fire hall, movie theaters and civic and municipal offices. Everything was there and the downtown became a hub of activity and social gathering.

What is important to note about the "historic downtown" are the elements that do not exist in typical retail environments today, but do exist in Downtown Elon – Town Hall, Post Office, Fire Station & Church. These uses have the ability to create a sense of place which, when brought together with commercial retail and office uses, are not replicated in pseudo-Main Street or any other type of retail environment.

RETAIL TODAY

Due to the needs and expectations of the retailers required to serve the diverse population of Alamance County, it is not possible for Elon to ever become the downtown of a large geographic area. An existing mall, many strip and big box centers and a "town center" already meet the needs of a broad range of retailers, largely national chains, and meet the expectations of a large segment of the population, mostly middle and lower income families.

All of this existing retail has the feel of suburban highway sprawl, with no trees or sidewalks in which customers drive cars between adjoining stores. Alamance Crossing, with a physically attractive "main street" component has a strong presentation of national retailers and restaurants, small stores, department and big-box stores, but only a small portion of the center is pedestrian retail.

National retailers locate along roads with high volumes of traffic and accessibility for the broad range of customers they serve. Elon doesn't have the high volume arteries accessing and passing through the downtown necessary to attract national merchants nor does it have the land downtown to accommodate the large footprints of many major retailers.

The unattractive highway commercial developments are a result of national retailers having their requirements met. An example is visible along the triangle of roads S. Church Street to University Drive to Huffman Mill Road returning to S. Church Street.

The ability to create a unique, pleasant and walkable downtown is actually enhanced by an inability to attract national retailers to downtown Elon.

MARKET STRENGTH

The Burlington market area is a good one, but the numbers that are important to better retailers and restaurateurs – overall population to some extent and to a greater extent, number of household with income over (say) $150,000, number of people with graduate degrees (bachelor degrees carry little weight) and median age of the population (the lower the better) - are not impressive. There are just too few young people with high incomes and graduate degrees to pique the interest of the more upscale retailers and restaurant chains.

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Retailers and restaurant groups are aggressive and willing to expand and to tap a new market, but a look at the existing market area confirms what demographic data would report. For example, Bloomin' Brands Inc. has an Outback Steakhouse in Burlington, but does not have any of its more upscale concepts such as Bonefish Grill or Fleming's Prime, the first in both Durham & Greensboro and the second in Greensboro.
Food Lion, Harris Teeter and Lowe's serve the supermarket needs of Burlington, but if a Burlington resident wants to shop in a Whole Foods, Trader Joe's or Fresh Market, they must travel to Greensboro or Chapel Hill.
Burlington has Talbot's, Chico's & Coldwater Creek, but does not have a White House/Black Market, J. Jill, Ann Taylor or Williams Sonoma, which have stores in Greensboro and Chapel Hill/Durham.
It should be noted that the developer of Alamance Crossing did a remarkable job in attracting some better retailers to Burlington who were not previously in the market area. These better retailers may have signed on based on reasons discussed later, but it is obvious that some of the higher price-point retailers have already closed.
With limited likelihood that better quality national stores and restaurants will continue to enter the Burlington market area, independent merchants, restaurants and service providers have an opportunity to grow, improve and make inroads to reducing the number of trips consumers are taking to Greensboro or Chapel Hill.
These independents need a place to assemble to better serve, and have impact upon, the limited market size.

MARKET AREA COMPETITION

While the affluent population of Burlington/Elon is small, of equal importance, Greensboro and Chapel Hill/Durham are close.
With the ease of accessibility provided by I-40/85, the larger and more diverse market areas of Greensboro and Durham are convenient enough be considered within the same market area as Burlington for certain goods, services and entertainment. Additionally, these areas provide employment for many who use Burlington/Elon as a bedroom community. Stakeholder responses point to entertainment/cultural events and medical professionals/facilities as significant draws to the adjoining market areas in addition to specific destination stores such as Nordstrom, REI, Williams-Sonoma and Ann Taylor and specific restaurants such as P F Chang as reasons for traveling to adjoining metropolitan areas.
It is unlikely that these reasons for trips away from Burlington/Elon will change anytime soon, but there is the opportunity to orchestrate a retail environment that will reduce the number of trips outside the immediate market and increase the money spent locally.

CONCEPT

The intent is not to develop Elon into the traditional urban downtown that serves the needs of a diverse socio-economic population from a large geographic area. That was the historic role of Burlington and that role is presently served by a sprawling amalgam of varying retail venues. The use of the word "downtown" may imply that either Downtown Elon is the commercial hub of the Town of Elon or is in competition with Downtown Burlington's revitalization.
The size of the two components of Elon's population – students and full-time residents – combined or separate is not adequate to support enough critical mass for the word "downtown to be appropriate. The market area must be expanded.
Traditional main streets had a town hall, a firehouse, churches, banks, retail stores and services uses (doctors, dentists, lawyers, insurance offices, fraternal organizations). In this respect Elon has a few key components already in place for a more traditional main street.
In most larger cities there was a "downtown", but there were also neighborhood commercial areas which were much smaller and more focused on serving the needs of the immediate residential population which in pre-World War II America also meant walking distance. These areas were focused on the particular income level or ethnic identity of the residential served.
Whatever this unique commercial area is called, it helps to have a name in mind, if not officially used, which guides the thinking in termvts of image and merchandising. Putting aside names, which have been used during the Master Planning process such as downtown and town center, let's think in this commercial market section of the Master Plan as we define the target market that we are creating an "Uptown" commercial center.

TARGET MARKET

With the word "Uptown" in mind, we can begin to determine if a target market is available which will reconcile with the name.
While demographic data is not as critical to independent merchants as to national chains, this data is still critical to the effort to create the storyline and provide the vision. On a map the "target market" – those who would most often shop Uptown - should be defined. The circle would capture the neighborhoods with the highest household incomes and most graduate and post-graduate degrees.
Without doing the detailed research to draw the exact boundaries of the area, it generally would start in the east with the residential historic district of Burlington, include Northwest Burlington, all of the Town of Elon and the residential on the east side of Gibsonville with S. Church Street, or more exactly the back of commercial properties on the north side of S. Church Street, being the southern boundary of the target market area.
The map would have a circulation spine, which shows that access to Downtown Elon from the east within the target market area is gained via Front Street and from the west on Haggard. The desire is to diminish the importance or need or perception of Church Street as access to Uptown, reorienting the target market away from S. Church Street and commercial arteries south of Church Street for shopping, dining and services.
Companies that provide demographic data would then provide a demographic profile of those living in the target market area. The importance of this map graphic of the target market will have value in recognizing that this area represents more than students.

SERVING THE MARKET

With the target market area as a graphic, there would be more inspiration for imagining the uses that would best serve the market with goods, services, food & entertainment.
How many hair salons now serve the target customers, in what retail environments are these salons presently located and why should they not be located in the more supportive retail environment envisioned for Uptown?
Where do these salon customers have lunch or meet for tea? In what boutique do they shop for clothes, jewelry, gifts and stationary? Those stores and uses should be Uptown.
Doctors, dentists, financial advisors and lawyers serving the target market should have offices in the upper floors of buildings Uptown.

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Restaurants, which serve the target market area, should not be in the honky-tonk environment of Church Street, which diminishes their cache, but move to Uptown. The target market area supplies an overwhelming percentage of the customers of such restaurants as B. Christopher's and DaVinci's Table so why should they not be located Uptown? Uptown should be the location for quality Indian, Vietnamese and Korean restaurants.
Uptown could use antique shops, wine tasting rooms, custom furniture makers, fine chocolates, a kitchen store, spice market and art galleries.
Simply, putting aside from our minds the students as the only market (and only eight months a year) and focusing on the segment of the residential community most proximate to Uptown frees us to think about the infinite possibilities for retail and office uses for Uptown to better serve the larger community.

MERCHANDISING AND LEASING

In the previous section a small sample of retail merchandising categories and uses was touched upon. Independent merchants and small regional chains will be the thrust of the retail merchandising and leasing and local and regional restaurateurs will be targeted for the food leasing.
The process begins with a person who is responsible for bringing better retail, restaurants and services to Uptown developing relationships with the owners of potential businesses. Typically, it could take a year or two of occasional soft sell visits – just touching base and stopping in to say hello every few months – before the trust is developed for serious discussion.
Of course serious discussion requires a space, a building, well on its way to completion and a detailed economic package and lease structure that recognizes the realities of the independent merchant.

OFFICE & RESIDENTIAL

Unless there is a specific University-related office user or a business owned by a University graduate who wants to support the Town of Elon, it will be difficult to compete with nicely landscaped office parks or buildings along a major traffic artery that has visibility and presence. The existing environment doesn't "show well" and a developer could not assure the office tenant that the student group housing across the street from the new development would be replaced with an office building.
There is no doubt that if the entire project area were vacant land available to one or multiple developers, development would move relatively quickly and second level office and non-student residential could occur, not easily, but as momentum builds.
Office and second level non-student residential will take time, the elimination of low-density students housing and the establishment of successful retail and restaurants must occur first.

DEVELOPMENT ANCHORS

The established developer usually knows that an anchor to a project is interested in a location in a certain market area and goes out and finds the parcel. On occasion a developer already owns a parcel and seeks out the anchors.
Very good financial deals are demanded and received by the anchors because the anchors provide the customer traffic and credibility to allow the developer to make deals advantageous to the developer with the other merchants in the remainder of the development.
Malls are no longer being built, but when they were, the anchors were the two or four department stores. Supermarkets generally anchor strip centers, and in the days before supermarkets had pharmacies, a pharmacy was the second anchor. The tenants in between the two anchors provide the profit to the developer.
In recent years Lifestyle Centers were built which were anchored by a grouping of merchants such as Talbot's, Coldwater Creek, J. Jill, White House/Black Market, Chico's & William Sonoma. In these types of centers a few of the early signees got better deals. In addition, in this type of center, there is often a restaurant anchor – say PF Chang's or California Pizza Kitchen – or multiple restaurants.
When a new project is being planned, the public asks why we need another shopping center when there are so many existing centers and there are shopping centers with vacancies.
New centers are usually kick-started by new anchors which want to enter the market. Existing shopping centers are either already built out and cannot build new space; they have vacancies but the vacancies are not the right size, configuration or located to suit the new anchor; the centers are located in areas that are not proximate to the demographic the new anchor is targeting or, finally, existing centers already have anchors and are not willing to make the type of sweetheart deal the new anchors expects, etc.

Comparison – In the case of Uptown, no one developer will likely own a big enough piece of land to develop a large enough shopping environment to allow for the type of sweetheart deal that is required to attract an anchor and large enough, if an anchor deal could be made, to finance the project based on market deals for the remainder of the tenant space. For a developer to have a large enough project to make an anchor deal, a certain level of land assembly is necessary and/or the putting together of a partnership with multiple existing property owners willing to put the value of their land into the partnership.
The most likely anchors for Uptown are destination restaurants and/or a small assembly of quality small stores with a high co-tenancy factor.

DEVELOPMENT FINANCING

At one time retail development projects could be financed with only a signed lease from an anchor. Even though at one time a project could be financed with a small percentage of signed leases the developer wanted the remaining tenants to provide lease guarantees to reduce risk. Today developers may be required to have at least 70% or more of the space leased and guaranteed.
The public asks why shopping centers are filled with national chains instead of having local stores and independent merchants. There are other reasons, which will be discussed later, but the single most important reason is that local merchants are usually not willing or able to guarantee their rent and extra charges for the term of their leases. The independent retailer's corporation does not have the assets to provide a corporate guarantee and the independent merchant do not want to use their house and savings as collateral for a guarantee.

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Comparison – Developers of retail in Downtown Elon will find it difficult to finance their development on the leases of independent merchants who are unlikely to guarantee their leases.

THE DEVELOPER - EXPERIENCE AND TRUST

Developer experience and mutual trust between the developer and the retailer are critical to the development of a shopping environment. A major factor in the developer CBL being able to execute Alamance Crossing Shopping Center was the amount of previous experience in shopping center development and their previous working relationship with many, possibly most, of the retailers, who first moved in.
If a more upscale retailer questions the strength of the Burlington market area, it would not be unusual for CBL, or any developer, to insure the retailer a prime location in a project being developed in a hot market, if they sign a deal for Alamance Crossing. Even then, CBL might have to offer the retailer an escape clause that allows the retailer the ability to leave in only a few years if sales don't exceed a certain level.
Then too, a retailer trust that CBL will replace stores that leave with quality stores because CBL would not want to lose its credibility with retail chains.

Comparison – A developer in Downtown Elon may not have the luxury of being able to lease to national chains, but even with independent merchants that developer has to sell the success of other retail ventures and provide a measure of assurance that the other merchants to which the developer will lease will be of comparable quality.
For that reason, independent retailers prefer to move into a project already built and tenanted, to provide the independent merchant a measure of assurance.

MERCHANDISING AND CO-TENANCY

Often developers of strip centers and small retail buildings simply lease to whomever will pay the rent, but quality development depends on making tenant use or merchandising decisions and creating co-tenancy to maximize the sales.
Co-tenancy is the concept by which stores that have similar customer bases are grouped together. This is quite obvious in large shopping centers operated by quality developers such as The Streets of Southpoint in Durham and Friendly Center in Greensboro.
Upscale fashions stores are grouped together as are stores, which cater to more middle class customers or age groups such as grouping stores geared to pre-teens and teens. This is not isolated to categories such as fashion, but includes grouping non-fashion stores such as kitchen stores Williams-Sonoma and Sur la Table and the card/stationary store Papyrus with upscale fashion stores.

Comparison – The likelihood that development will be a result of multiple developers building small projects makes the orchestration of a merchandising mix with strong co-tenancy a challenge. A downtown organization would be critical in developing relationships with local retailers, service providers and restaurateurs well in advance of buildings being developed. Such an organization is critical to developing cooperation between multiple developers to insure downtown Uptown will be a successful retail environment.

The Master Plan provides excellent opportunity to create merchandising districts within the overall retail plan since the Master Plan district is large enough. Without a downtown organization to work with developers, landlords and tenants the creation of merchandising districts serving different market sectors is unlikely. The key is to avoid allowing businesses that are totally student-centric to dominate the narrative and make the entire Master Plan area undesirable to businesses whose customers are largely non-student.

THE DEVELOPER/TENANT PARTNERSHIP

In most shopping centers, and the better centers certainly, there is the concept of percentage rent, which is the most important concept that cements the partnership of landlord and tenant. The tenant agrees to a certain base rent, but must pay additional rent as a percentage of sales if sales exceed a certain level.
The point at which the merchant has to pay additional "percentage" rent is the breakpoint and, if both sides structured the business deal correctly, that breakpoint is the sales above which the merchant can, in fact, afford to pay additional rent.
In theory, this insures that the Landlord will do everything possible to help the merchant maximize sales from making sure the parking lots have the snow plowed just before Christmas to not duplicating exact uses which would reduce a merchant's sales.
The justification for the landlord to charge percentage rent becomes more difficult when the landlord has less control over the surrounding environment and adjoining tenants. In that case the landlord is not orchestrating the retail environment that is driving the success of the merchant and has less justification for sharing in the upside of the retail tenant.
Besides the income value to a landlord getting percentage rent, receiving tenant sales in this process is critical for evaluating the productivity of each member of the orchestrated environment in the shopping center. It also allows the developer to cull the merchants replacing underperforming merchants with better merchants, which helps "raise all boats".
What downtowns didn't understand when suburban shopping centers first began to erode the downtowns in the 1950's – 1970's and still either do not understand or can't address is that the success of shopping centers is far more than free parking and nice paving and landscape.
More important, a shopping center is a single owner assembling merchants using a standardized lease with percentage rent, minimum hours of operation, use clauses, required advertising and promotion charges, etc.

Comparable – While it is likely that development in Uptown will be a result of multiple developers, there is no reason why there can't be agreement on critical lease clauses or a retail leases form between all of the developers. It is not likely that the percentage rent partnership relationship will be a part of a developing Uptown especially with multiple small developers/developments and with independent merchants. By getting cooperation on lease clauses and issues among various developers, a shared community concern can be instilled into the retail environment.

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TENANT LEASE REQUIREMENTS

The better shopping centers have clauses which give the shopping centers an advantage over less controlled retail environments.

These clauses have greater or lesser importance to the decision of independent retailers on their decision to locate in a traditional shopping center. While some of these clauses would never be considered in Uptown, it is important to understand these key clauses since they have a positive impact on shopping centers and without them Uptown, or any downtown, is at a disadvantage.

Sales reporting and percentage rent is a prime objection for an independent retailer considering a shopping center. Basically, the merchants feels that they don't want a "partner" seeing their sales and enjoying the upside of the merchant's success. Generally, the better and more successful the independent merchant and the higher the percentage of credit card sales the merchant does the more willing they are to locate in a shopping center with a percentage rent clause.

Percentage rent clauses are not critical for Uptown retail leases, but the lack of sales reporting to an entity responsible for organizing a successful downtown is a handicap.

Minimum Hours of Operation is the second biggest obstacle for independent merchants locating in shopping centers. Normally when this requirement does exist the hours require staying open until at least 9 PM Monday – Saturday plus Sunday hours.

A "minimum hours of operation" clause is one that should be incorporated into retail leases by all landlords in Uptown. However, in recognition of the difference of downtown independent merchant retail versus national chain-leased shopping centers, evening hours might be only one night a week – say Friday night until 9 PM. These are minimum hours and stores can stay open in excess of those hours as much as they want. Restaurants would not need to have minimum hours, but it would be good to avoid having restaurants, which don't open for dinner (breakfast and lunch places) or lunch (dinner only).

Other Clauses – One of the first orders of business for a downtown organization would be to create a menu of clauses, which should be incorporated into retail leases by all the landlords. Some restrictions appear so seemingly minor to the general public, but are critical to creating a positive retail environment. An example would be taping signs (usually inside) to storefront glass. Quality shopping centers do not allow merchants to do this whether it is a poster for a local fundraiser or seasonal sales for the store. Quality national chain stores have that policy without landlord requirements, but independent merchants need the clause in their lease if only as an excuse to avoid feeling an obligation to post a tacky poster for a local fundraiser.

Comparable –Normally a retail lease for a store on main street contains little to none of the clauses critical to a quality shopping environment.

It should be relatively easy to select the most critical clauses to put into a retail lease in order to insure that all the merchants are working together to increase business. Likewise, if the clauses are reasonable for independent merchants and don't put an undo burden on landlords for enforcement, cooperation between landlords to incorporate a few standard clauses into their leases should not be a problem.

SUMMARY

It is critical to understand how retail development works and how development in Uptown would differ. This is not unique to the Town of Elon, but is characteristic of any downtown in which every building is under different ownership.

Successful commercial development, assuming a number of small developments by various developers, will require a level of cooperation between property owners and developers and an acceptance and recognition of the potential for serving the affluent non-student residential population of the target market area.

This cooperation, this vision, this patient working the market (potential merchants and service providers), this staying on message and developing relationships with property owners which allows for cooperation will not happen without a community organization charged with the task.

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