

Stores and the City

Many cities launched revival efforts with downtown festival marketplaces such as Boston's Faneuil Hall. Can retailers work the same magic in less affluent neighborhoods?

BY DAVID ZIPPER

PENNSYLVANIA AVENUE IS ONE OF AMERICA'S most iconic streets. But if you follow it a few miles east of the White House and across the Anacostia River, you will find yourself in a very different world. The avenue is lined with gas stations, check-cashing shops, and takeout restaurants that serve the area's predominantly African-American population. Many of the storefronts are faded and worn, and it's often difficult to tell whether a functioning business operates inside. Few people stroll the sidewalks.

You wouldn't know it from looking at this stretch of Pennsylvania Avenue, but the District of Columbia was recently ranked among the top cities in the United States for retail development by Marcus and Millichap, a national real estate advisory firm. The District's downtown has boomed recently, with 54 restaurants and many stores opening since 2007, along with new office and apartment buildings. But the 130,000 Washingtonians who live east of the Anacostia are served by only four sit-down restaurants. The unemployment rates in the area's two wards are roughly 19 and 30 percent, compared with a District average of

10 percent. A third of the residents live below the poverty level.

So it was a big event last August when a new supermarket opened at 2323 Pennsylvania Avenue S.E., in the relatively prosperous Fairlawn neighborhood. Then-mayor Adrian Fenty and Councilmember Marion Barry, a former mayor, came to give speeches and mingle with the crowd. More than 300 people turned out to taste the free samples of sushi rolls and organic hot dogs and explore something Washington had never seen before: an organic grocery store east of the Anacostia.

Because I work for the city government trying to bring new businesses to the District's underserved communities, I was on hand to savor the moment. One of the people I met was an unemployed chef named Dominic who kept himself working with occasional catering jobs. A tall, muscular man with long dreadlocks, Dominic told me how happy he was that he wouldn't have to travel over the Anacostia anymore to get the quality ingredients he needed. Indeed, the owner of the new store had decided to open this location partly because he noticed that many of the customers at his store in the Capitol Hill neighborhood were coming from east of the Anacostia to shop. The nearest conventional grocery store is more than a mile from Fairlawn. The grand opening was just the latest piece of good news for neighborhoods east of

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First mover: A city subsidy helped persuade Gary Cha to open a new branch of his local grocery store chain in a developing neighborhood.

the Anacostia, where some of the benefits of Washington's economic stability are finally beginning to arrive. Close to downtown and blessed with falling crime rates, the area has seen its population grow in recent years.

The new supermarket is the latest addition to Yes! Organic Market, a small Washington-based chain whose owner, Gary Cha, a cheerful middle-aged Korean immigrant, has found success with stores that are essentially smaller, more affordably priced versions of a Whole Foods supermarket. The new store on Pennsylvania Avenue sells both organic and conventionally grown fruits and vegetables, and shoppers can find a ready

supply of products ranging from freshly packed meats to bulk rice and boxes of macaroni and cheese (10 different kinds, no less). When it opened, Yes! Organic became only the fourth supermarket east of the Anacostia, where there is now one grocery store for every 33,000 residents. Elsewhere in the District, the average is close to one store per 10,000 residents.

It's a big victory when a grocery store opens in a neighborhood like Fairlawn. Health and anti-obesity advocates such as Michelle Obama point out that many poor people have little access to fresh fruits and vegetables. They say it's imperative to have more grocery stores

in inner cities. Urban development boosters such as the nonprofit Initiative for a Competitive Inner City (my former employer) suggest that enlightened businesses can solve urban problems, and are quick to applaud the savvy retail executive who follows the invisible hand to a neighborhood with unmet demand. Yet events like the Yes! Organic opening are all too rare. By ICIC's own estimates, inner-city residents' unmet demand for retail products remained constant at about \$40 billion from 1998 to 2007. There is no reason to believe the gap has since closed.

When I'm trying to interest businesspeople in new areas, I've found that the "consciousness raising" of the sort these advocates promote is a useful but limited

RETAILERS ARE RELUCTANT to move into a new area until they see a competitor succeed there.

tool. In my many meetings with retailers, I've never known statistics about childhood obesity to motivate a grocery store executive—whether out of altruism or guilt—to open a new outlet in a poor neighborhood. Nor do I know of any executive who ever drafted an expansion plan solely on the basis of a neighborhood's unmet demand, even when cities offered a subsidy.

The executives who make the decisions about where to open new stores are a conservative bunch, often preferring to see a competitor move into a new area first. Chains and supermarkets generally trust local retail brokers to help them make location decisions, but the brokers have their own biases. In particular, they have an incentive to recommend familiar neighborhoods, even if an emerging area offers more profit potential, in order to avoid the risk of alienating their client. They are also eager to close the deal (and receive their commission) quickly, and better-known neighborhoods are an easier sell. These pressures can make it particularly difficult for underserved urban areas to attract the all-important "first movers" whose success can draw other retailers.

That's why cities hire people like me: to help fix such glitches in the market. By educating retailers, helping them find suitable sites in emerging areas, and—when necessary—arranging to subsidize their costs, I try to help residents in these communities gain the shopping options they want, along with new job opportunities.

But the stakes don't stop there. The scarcity of retail establishments east of the river is one of the reasons why Washingtonians spend so much money shopping in nearby Virginia and Maryland. The District's Office of Planning recently calculated that local residents buy more than \$1 billion of goods in the suburbs—roughly equivalent to 15 percent of all retail

sales within the city. To put that number in perspective, eliminating this billion-dollar retail "leakage" would bring roughly \$60 million in new tax revenue to the District's coffers. It would also create jobs. The National Retail Federation esti-

mates that one retail job is created for every \$250,000 in consumer spending. This means that eliminating \$1 billion in retail leakage could create enough jobs for 4,000 people, a significant number in a city where more than 33,000 people are seeking work.

Many city governments have recognized retail's potential to employ lower-skilled residents, capture sales lost to the suburbs, and catalyze neighborhood development, and they have moved beyond high-profile downtown retail projects such as Ghirardelli Square in San Francisco and Faneuil Hall in Boston, hoping to grow more retail businesses in lower-income neighborhoods. Most of these efforts have focused on retail chains because, while people like me are thrilled every time a new homegrown neighborhood florist or clothing boutique opens, we realize that the chains' size means they can hire the most residents and generate the most tax revenue. Pennsylvania's much-touted Fresh Food Financing Initiative provides a suite of financial incentives designed to induce supermarkets to move into underserved areas.

Many cities also encourage retail development in targeted areas through “tax increment financing,” a form of subsidy based on future tax revenues expected from the project.

The enthusiasm for retail development isn’t universal. Critics say that new stores merely attract dollars that customers would have spent at other stores in the city rather than bring in new money the way, say, a corporate headquarters or new technology company would. One of my counterparts in Dallas told me flatly that he does not consider retail strategies such as the District’s to be economic development at all.

That surprised me, because retail has been a major development priority in Washington for more than a decade. The city has established a nonprofit organization called the Washington, DC Economic Partnership to meet with retailers and brokers, offer tours, provide demographic information, and suggest sites for development. The Economic Partnership plays a central role in organizing the District’s booth at the annual convention of the International Council of Shopping Centers in Las Vegas, where tens of thousands of retailers, developers, and real estate brokers converge to pitch opportunities and ink deals. With private meeting rooms and scale models of neighborhoods, the District’s exhibit is easily among the most sophisticated efforts by cities at the convention.

The District has also created financial assistance programs to bring “destination” retailers downtown and expand residents’ shopping options in targeted development corridors, or “Great Streets.” Pennsylvania Avenue east of the river is one of nine such corridors. Momentum seems to be growing, as retailers such as Bed, Bath & Beyond, Home Depot, and Target have established their first stores in the city. Walmart recently expressed interest in opening four District stores as well, including one east of the Anacostia. But Walmart is something of an anomaly among major retailers; having exhausted most suburban and rural markets, the company is effectively forced into urban areas in the search for growth.

The District’s efforts to attract grocery stores east of the Anacostia still face big challenges. When pressed, representatives of the major chains offer an array of explanations for their hesitation. Some complain about a shortage of job-ready workers, though Yes! Organic’s experience suggests that those fears are unfounded.

When the company began hiring for the Fairlawn store, 150 people lined up to apply for fewer than 30 jobs, and Cha says employee performance has been on par with that in his other District locations.

The chains’ concerns about profit margins seem more justified. Supermarkets already have among the lowest margins in retail, and a study of the Philadelphia area by the Reinvestment Fund, a community development organization, found that even before they open their doors, new inner-city stores spend seven times more on worker training and five times more on security than their suburban counterparts. Once the stores are operating, they continue to absorb higher costs for maintenance and ongoing employee training. In Washington, the city government has tried to offset these disadvantages by creating a tax exemption program that eliminates virtually all property taxes and license fees for 10 years for grocery stores that open in underserved areas.

Profits in inner-city supermarkets are further squeezed by the fact that the stores can’t sell large quantities of high-margin items such as cheese and wine. At the same time, the lack of competition can lead to higher prices for consumers: One recent study found that identical products cost 10 to 15 percent more in inner-city grocery stores than in suburban ones. However, this is not an ironclad rule; Cha adjusted to local conditions by shaving a little bit more off the prices at Yes! Organic’s Fairlawn store.

But market dynamics are only part of the reason why less affluent neighborhoods are underserved. The inherent risk aversion of many retail executives is a less quantifiable but equally imposing obstacle. As a retail broker in Chicago observed recently in a trade magazine, the people he represents “never get fired for the deal they don’t do.” Brokers themselves reinforce retailers’ conservatism through their desire to sign a deal as quickly as possible. Few are willing to invest the time required to persuade clients that an unfamiliar community offers an opportunity worth pursuing. Brokers are well aware that pushing their clients too hard toward those new markets could backfire and cost them a commission. For those of us trying to attract new stores, the result is a chicken-and-egg problem when we try to bring the first large stores into

an underserved community.

This obstacle can be overcome if local government responds quickly when a particular opportunity—at a certain site, at a certain time, with a certain retailer—presents itself. Even if the deal requires a subsidy, it may be worth pursuing if other retailers will follow. This is the kind of potential my colleagues saw—I was not directly involved in the effort—when the prospect arose of a new Yes! Organic store in Fairlawn.

Yes! Organic's path to Pennsylvania Avenue began several years ago, when Tim Chapman, a local developer, received a subsidy from the city government to build 118 affordable apartments at the Pennsylvania Avenue site. The ground floor of the building was set aside for retail, and it was Chapman's responsibility to fill it. Unlike most locations east of the river, the site offered the allure of being in an attractive new apartment building with a built-in customer base. Just as important, it was on what developers call the "PM side" of Pennsylvania Avenue, meaning that evening commuters on their way home to suburban Prince George's County, Maryland, could make an easy right turn to park and shop and another right turn to be on their way again. Roughly 50,000 cars pass the site daily.

Chapman hoped to bring in a retailer that would appeal to the building's residents, but he was rebuffed when he reached out to coffee shops and upscale restaurant chains. One of the few retailers that expressed serious interest was a convenience store operator whose benefit to the tenants and the surrounding community would have been minimal.

At that point, Chapman shifted his focus to Gary Cha and Yes! Organic. Since Cha took over an existing organic grocery store in the upscale Cleveland Park neighborhood in 1982, his expansion has tended to follow a formula: A local leader from an evolving neighborhood tells him she is a fan of one of his stores and asks him to open a new one in her area. If conditions look favorable, Cha dives in. That's how he moved into the Capitol Hill, Brookland, and Petworth neighborhoods. He likes to buy land or secure long-term leases in such areas before competitors arrive and property values rise. "Neighborhoods like Cleveland Park are quickly saturated," Cha observes. "I try to find others that don't have as many grocery options, and then get the benefit as the neighborhood grows."

The vista looking down Pennsylvania Avenue past Gary Cha's new grocery store is full of promise—and question marks. City officials hope the supermarket will spark a retail revival in the neighborhood.

Even by Cha's standards, a move over the Anacostia would be a venture into uncharted territory, though he was somewhat reassured knowing that his Capitol Hill store already attracted customers from Fairlawn and other neighborhoods east of the river. Trying to offset the project's risk, Cha and Chapman presented a proposal to the city government. If the city would help pay for light fixtures, flooring, and other costs of buildout, Cha and Chapman would sign a lease for a 7,500-square-foot space. The city ultimately contributed \$900,000 through the Great Streets program, enough to cover more than half of the capital cost. A deal was signed in February 2010, six months before the store's August grand opening.

It is too early to know yet whether the Fairlawn store will be successful. Cha claims that it is following the traditional "j-curve" of a new supermarket, with sales falling as the novelty of a new location wears off, but then rising as the store builds its customer base. Initial sales have led him to adjust his product mix to emphasize items that are selling well (organic green vegetables, for example) and remove those that aren't (microbrew beers). He also plans to add a hot table so he can sell ready-to-eat dinners to evening commuters.





The Yes! Organic store's arrival in Fairlawn came about through a confluence of factors that would be hard to replicate. But it could prove to be a pivotal moment for retail development in the District. City officials and retailers will be watching what happens on Pennsylvania Avenue closely. If the store does prove profitable, my job will become much easier. Instead of relying on market data and incentives in my appeals to retailers, I'll simply point to Yes! Organic and ask, "Why aren't you there too?" Retailers and brokers are a competitive bunch, and I suspect they'll move quickly once they see someone else making money. That's my goal: to capitalize on human nature to catalyze inner-city retail development rather than constrain it.

The spillover benefits from first movers such as

Yes! Organic help explain why many cities are willing to provide financial incentives to help businesses get started. Some level of longer-term subsidy may be necessary if the market by itself does not produce enough results. The clear social benefits of inner-city supermarkets—jobs, convenient access to healthy food, and the potential to attract other development—suggest that they may merit that kind of support.

City officials like me take no particular pleasure in subsidizing retailers. Indeed, I look forward to the day when Yes! Organic joins a long list of inner-city successes that are so widely known that I no longer have to worry about recruiting first movers. But that day isn't here yet. The inner city's potential is still waiting to be tapped. ■