THE DOWNTOWN CURMUDGEON vs THE RETAIL CONTRARIAN

Michael J. Berne blogs as the Retail Contrarian and **N. David Milder** blogs as the Downtown Curmudgeon. Both are unafraid of questioning conventional wisdom about downtown revitalization, taking fresh looks at downtown challenges and opportunities, and engaging in friendly debates about these subjects. This column reflects the email give and take they have been engaging in for several years now.

Will Retail Drive The Recoveries In Our Small and Suburban Municipalities?

MJB So David, last time we went back and forth on the prospects for retail recovery in the more intensely-developed Downtowns of our larger metros. How about, this time, we focus more on suburbs and small municipalities? First, I'd like to give a shout-out to the recently retired Bill Ryan at the University of Wisconsin Extension Center for Community and Economic Development -- he and his shop have done such great work over the years on these sorts of Downtowns. Indeed, I'm eager to see what Bill has to say in response to our conversation. O.K., so let's get to it. Earlier in the pandemic, there was this presumption that many of them would benefit from the rise of hybrid work and the flight from the cities to both suburban as well as second-home communities. Certainly, there have been some high-profile brands -- like Starbucks, Chipotle, Sweetgreen, Parachute Home and Faherty -- stating explicitly that they would be skewing more towards such opportunities than they had in the past, but speaking more broadly, have you been seeing much evidence of this benefit on the ground?

NDM: Mike, I strongly join your shout out to Bill Ryan at UWEX!! The State should declare him a WI Treasure!

And, of course, I also strongly agree on the small rural and suburban municipalities as our focus in this conversation. As for what I am seeing on the ground, it's not been much since we have not traveled much outside of NYC since the beginning of the pandemic because of health reasons. That said, I have been looking via the internet into some of these towns I know around the nation and some of their managers and stakeholders, and at the store location functions of the websites of the internet born retailers like Warby Parker and Bonobos, etc. What I am seeing from those sources are that Central Social Functions venues such as food, beverage, entertainment and pamper niche operations – e.g., hair and nail salons, dance and yoga classes --are opening at a faster and larger clip than retail, and that the admittedly small sample of eight or so internet born chains I looked at still are looking at very primo suburban locations, and still not in smaller independent rural cities, in the 25,000 to 75,000 range.

Let me then jump to noting that when we start off by talking about retail chains, we immediately narrow our focus to a much smaller group of downtowns and Main Streets that have any real chance of attracting them. That in turn raises the point that knowing and accepting if your downtown can or cannot attract comparison shopping type retail chains is one of the most important things the leaders in these downtown can do. I know that for me, and I suspect for you, working with these downtown organizations when they have not accepted this reality can be very frustrating. And then even if they can attract chains it will be likely for some kinds and not others.

What I am looking for these days, more than info on the chains, are: 1) if small merchants are really learning how to utilize omnichannel marketing strategies and tools that can enable them to better connect with customers in their traditional trade areas, and to attract e-shoppers from much larger market areas, and 2) the demographic shifts in population, and creatives, to smaller towns and cities, and even some rural areas. While the media and academic focus has been on how the pandemic generates remote workers who may or may not have fled to sparser regions, I think that for retail the far more important trend is that the pandemic really accelerated the adoption and use of omnichannel strategies and tools, and filtered out a great number of operators who were deficient in these skills.

MJB: When I'm presenting on the subject, I always make sure to point out that these expansion-minded DTC's, along with the still-healthy legacy brands, are only willing to consider a tiny subset of Class A locations. This includes a few suburban Downtowns, though they're almost always ones that have long been shopping destinations, and in many cases, anchored by an institutionally-owned lifestyle center, like Bethesda, MD (with Bethesda Row) or Walnut Creek, CA (with Broadway Plaza). It is a trend with little to no relevance to 99% of the suburbs and small towns out there.

It is, as you say, all about analyzing and understanding what is and is not realistic for your retail mix. I do think that the Downtowns in these suburban and small municipal settings -- which I'll abbreviate as SSM's for the purposes of brevity -- will be very hard-pressed to support commodity-based businesses which consumers generally patronize on the basis of convenience. Larger cities, with their much higher population densities within walking distance and their much higher tolerance for hassle, have a greater chance of sustaining storefront grocery and drug stores, but in SSM's, most such tenants -- with the exception of Dollar General or a legacy ACE Hardware -- will need their on-site parking along high-traffic arterials. In some cases, they might be able to find such opportunities on the Downtown periphery, but more likely, they'll look to the strip corridor further out, nearer to the freeway interchanges.

A specialty positioning is even more essential in these SSM's, then. I'm less bearish on the potential for boutiques than most -- such shops can and do exist even in the absence of fashion co-tenancy, but only when the merchant is well above-average in sophistication, savvy and resourcefulness. This is also where your comment about omnichannel comes in -- it is certainly not a silver bullet but at this point, it is table stakes.

What has struck me -- though not entirely surprised me, given how these things generally work -- is how so many main streets of smaller towns these days have been adopting the retail forms that originated in and are still primarily associated with the urban core. Driving through Kansas and Wyoming last summer, I saw a lot of them with say, a third-place coffeehouse, a craft brewpub, a denim boutique, a co-working space, maybe a parklet or two. If the community is large enough, there might even be a small-scale food hall. I'd be curious to know how such concepts are received in these places, as I'm not one to believe that what starts in cities necessarily reflects the preferences and sensibilities of every consumer. Then again, there is a Central Social District (CSD) component here that seems universal...

NDM: Following up on your mention of Chipotle and Starbucks I did a quick look at their locations in NJ, Westchester and Long Island. Starbucks is often in SSM downtown locations, but Chipotle is not, save in a few instances when there is a downtown shopping center such as Palisade Court in Englewood, NJ. I have not heard about many recent openings or closings of Starbucks through my grapevine in these downtowns. But there is a real question about them being a real third place anymore in many locations, as their seating has been significantly reduced.

There are a number suburban towns across the nation that had done quite well recruiting coveted retail chains in the past, but a whole lot of them were deeply hurt even prior to Covid by the process of creative destruction the whole retail industry was going through. How do you think they will come out of the Covid crisis? On a strong recovery trajectory? or still struggling? I know you have been working in some of these downtowns. My observations suggest a variety of ways. Some, whose trade area populations were not that homogeneously affluent have faced real headwinds, and are trying to tack by attracting newer and smaller chains and/or shifting away from retail to other uses such as more food and beverage, and pamper niche operations. Among those with more solidly affluent TAs, some reputable chains are returning, but their numbers still lag those of "the good old days." Some problems they seem to face is that landlords still want relatively high rents and trophy-like retail tenants. They and their downtowns would be doing a lot better if rents closer to what the market is now supporting were asked, and quality tenants capable of attracting lots of customers were signed up. One more observation: housing in the downtowns that only added less than about 300 new units did not seem to have as much bang as it did in districts with more than 300 units. I don't know if that 300 number is solid, but I think that a downtown needs a fair number of new residential units for them to have a meaningful impact. Even a 100 or so won't do it.

Let me turn to the real meat and potatoes of this discussion: the downtowns and Main Streets that don't attract clusters of very desirable retail chains that feature comparison shopping type merchandise. They still can attract F&B chains like Dairy Queen and McD, though they often locate in the town closer to a main highway, than in the downtown. And they also can attract some franchised chain stores. But the heart and soul of the commercial operations in these districts are the independent small businesses. And as Bill Ryan's research on towns and cities in WI with populations between 1,000 and 50,000 showed, most of them were not in pure retail, but central social function operations like eateries, bars, personal services, and entertainments (e.g., miniature golf, bowling alleys).

Those data and more importantly my personal experiences since around 1958 in small towns in OH, MI, NC, VA, NY, NJ, VT, NH, OR, NE, CO, NM, WY have shown me the huge social importance of downtown coffee shops, diners, bars and even fast food franchises in these smaller communities. Yes, the specific expresso coffee shop concept may be new to these towns, but the social functions they host have long been around, and I think they are performed more robustly in these smaller and more rural places than in our big cities. Good F&B venues, I think, are the basic building blocks for a strong downtown in these SSMs. You don't even need a lot of them, even just one can be a district cornerstone, but they have to serve quality products. They can play both an important local 3rd place role, and be a tourist attraction. The Golden Lamb in Lebanon, OH is one example of this and Rancho de Chimayó, about a 40 minute drive from Santa Fe NM is another.

So, while most of the storefronts in these towns may not be retail, what kind of retail can they be? Those selling necessities are probably the most needed and wanted. However, as you argue quite correctly, market forces make it difficult for many of the really rural ones -- aside from the $ stores -- to attract groceries, drugstores, etc., and if they do, they will probably lean toward select sites closer to a main highway. However, smaller towns with relatively small populations can attract a supermarket if they are located in the rural part of a fairly large regional metro area. For example, a 20,000 SF supermarket is in Sherwood, WI, pop around 3,000, a suburb of Appleton. Gering, NE, pop around 8,500, also has one. Once a SSM gets above around 15,000 or so in population, the town is much more likely to have a supermarket if it also is the commercial core of its region. For example, Rutland, VT, pop 16k, has several, and a Price Chopper is in its downtown. Many suburban downtowns have supermarkets such as Englewood, Westfield, Maplewood and Morristown in NJ, Garden City in NY.

The grocery problem appears mostly in the very small towns in economically depressed and low populated regions. Capturing community value strategies are sometimes viable in them when consumer demand is close enough to supporting a grocery at near a break-even point that a nonprofit can live with, but a for profit would obviously reject. Profound structural changes are needed to alter the hand dealt to these disadvantaged SSTs.

There are a number of trends that might be altering the hands dealt to all SSMs. Recently, an article in a trade publication argued that 2023 would be a gusher year for retail openings. The Chase Institute says that retail is following the population flight to smaller cities and towns. Decent research has shown that today's SMBs are far more adept at using the marketing tools associated with the use of omnichannel marketing strategies. There appears to have been a real move to smaller store formats by many retail chains. What say we about them?

As you know, I think omnichannel is the key to stronger indie downtown biz operators. For most, it will enable them to relationship build when the customer is not in their shops, and can facilitate BOPUS transactions. It also can facilitate both electronic and traditional backdoor marketing to businesses in the area. For others, with a really savvy operator, it also provides an opportunity to electronically tap larger consumer markets. Dodd's Shoes in Laramie comes to mind as an example of this, but another was a women in Teaneck, NJ back in the mid 1990s who really boosted her sales by putting her antiques on the eBay website. I have come across a number of candy-makers, 2nd hand shops, women's apparel, and arts and crafts galleries that have similarly benefited from omnichannel.

I found your mention of savvy boutique operators provoking me to ask if finding and cultivating such biz operators isn't the real name of the game for the vast majority of our SSMs? I then thought along these lines: while we tend to venerate small independent businesses in this country, the law of averages, and assuming a generous bell curve distribution, says half of them must be below average in talent. Maybe the top 20% are the savvy ones we need. How do we find them? How do we nurture them**?**

MJB: Yes, let me correct. The likes of Starbucks, Chipotle and Shake Shack have been doubling down in the suburbs, but not necessarily in suburban Downtowns. They might locate in a "Class A" suburban Downtown, but more likely they're on the commercial strip, complete with drive-through -- which is relatively new for fast-casual. And yeah, Starbucks is definitely deemphasizing its "third-place" function, as I wrote about in Public Square a couple of months ago (https://www.cnu.org/publicsquare/2023/01/03/third-place-coffeehouse-faces-serious-challenge).

I have been working in several Downtowns that have historically attracted large credit tenants in comparison goods categories. The "Class A" suburban Downtowns, like Walnut Creek in the Bay Area and Winter Park outside Orlando, have been readily backfilling since the dark days of the early pandemic, but with the A-/B+ ones, like Westfield in New Jersey, the jury is still out, at least on whether it can continue to attract those national chains. To some extent, it is a matter of which brands. I've been arguing that rather than a retail apocalypse, what we've been seeing, even before the pandemic, is a changing of the guard, with "legacy" brands -- fixed points in the retail universe for so long, like the Gap, Ann Taylor, Talbots, etc. -- giving way to a newer crop, many of them digitally-native. My hunch has been that the Downtowns which understand and embrace the latter will be more likely to maintain or regain their roles as major shopping destinations, and my work in many of these places has included an educational piece that says, "this is what's happening, here's what a healthy mix looks like in the early 2020's." In some of them, it does require some taming of rent expectations and/or more generosity with T.I. allowances.

Great points, David, on the central social function on small-town main streets. Yeah, it's not as much about GAFO in these places -- the demand that exists in those categories is mostly absorbed on the freeway-adjacent arterial, at Walmart, Tractor Supply Co. (or some other "rural lifestyle store"), Boot Barn, Sportsman's Warehouse, Shoe Carnival, Rue 21, Maurice's, etc. The main street -- or, more accurately, the main street-adjacent -- would be more likely to land a convenience-oriented anchor like a grocery store or an auto parts retailer, on a peripheral site which can accommodate in-front parking. (I would have added large-format drug store, but the major ones are contracting these days).

It is true, though, that even more might be possible for a market town serving as the hub for a larger rural catchment. You mention Rutland, VT, and its Downtown Price Chopper -- it was lucky enough to have a large parcel on one end of its main street that could fit not just the Price Chopper but also a Walmart and a T.J. Maxx.

Community ownership is an intriguing idea, though the model is very difficult to pull off even in affluent, highly-educated markets, let alone middle-income ones. Which gets to the matter of the dollar stores. There's been a lot of criticism of the damage that they allegedly do to small-town retail ecosystems, which is, I think, a little unfair. Yes, I can see how the arrival of a Dollar General could absorb the demand for the merchandise sub-categories that underwrite locally-owned grocers, and I would also agree that if offered a choice, I would much prefer the latter. But in many of these places, there is no choice. There is just a dollar store chain, bringing desired mass-market merchandise to communities that would otherwise have to drive 45 minutes to the nearest Walmart. A lot of urban-based critics don't seem to get that.

I feel, as likely do you, that I have been reading articles for a quarter of a century about how national brands are now creating smaller formats for smaller markets. My experience, though, is that they don't mean "smaller markets" as in rural catchments. More often, they mean "fill-in" markets within metropolitan areas. Yes, IKEA is now rolling out floorplates one-fifth the size of their traditional big boxes, but they're opening them in city centers. Target has been blanketed big cities with its flexible-format stores, but you'd never seen one in a metro of less than 50K (unless it is a college town).

Funny that you mention Dodd's -- I visited it on my recent swing through Laramie. Yes, the name of the game is in identifying and training aspiring boutique owners. Municipalities and non-profits can help by cultivating and strengthening partnerships with local service providers and educational institutions that do this sort of thing for a living while also creating and maintaining one-stop shop(s) that aggregate all of these resources in one place. If they have the financial wherewithal, they could also provide funding support in the form of say, forgivable loans for build-out -- but they should spread that support across a wide range of recipients, given that a sizeable percentage will fail. This means more modest amounts, but makes more sense from a risk-diversification standpoint. Finally, they could develop and manage their own entrepreneurial platforms, like, say, a fashion-truck pod on a underutilized, publicly-owned lot, or connect micro-businesses interested in co-locating in the same space (and landlords willing to consider such arrangements).

NDM: Lots and lots to chew on in those great observations, Mike, but let me counter on a few. Community ownership, usually in the form of some kind of nonprofit Corp, is only one tool in what I call the capturing community value toolbox. Crowdfunding and various forms of “memberships” are others. Andrew Dane captured community value by forming a neighborhood social club as a way to get an anchor tenant for a small but very interesting redevelopment project in Appleton WI. Yes, the community owned businesses are hard to do, but then I don’t think that many things in economic development are easily achieved. In stronger economic areas the cost benefit is probably weaker than in more disadvantaged areas because there are probably more options, and as I noted the problem is probably not as severe.

Re smaller stores, I think some chains are going in strong suburban locations with smaller stores. J. McLaughlin is one that comes to mind quickly. Its store in West Hartford, CT, from my observation, probably does not have more than 2,500 SF, far smaller than its store in Wellesley, MA that must be at least twice that size. But the chain has long gone into strong SSMs. I've seen a few others, but I really like this retailer so it stuck in my memory. I think the 2,500 SF is important, because that is the typical size for so many downtown storefront locations, and in the past it has kept chains from coming into a good many downtowns. I know of several suburbs around here where housing was developed so larger ground floor retail spaces could be provided.

Some grocery chains have long had smaller formats that allow them to locate in the actual downtowns of SSMs. While these shops are relatively small for a food market, they still are likely among the largest stores in these downtowns. Also, they tend to go into SSMs with affluent shoppers. Kings has stores with about 14,000 SF in Maplewood, NJ and Garden City, NY. The supermarket in Sherwood, WI, has about 18,000 SF. Sprout has some suburban stores in the 20,000 SF to 23,000 SF range. Aldi, Lidl and Trader Joe’s all prefer car oriented stand alone or shopping center locations in SSMs, but sometimes locate right at the edge of a downtown commercial corridor – e.g., Aldi in Shorewood, WI – or of the downtown itself—e.g., Trader Joe’s in Westfield, NJ. But, then the fringes of a SSM’s downtown can also attract some much larger supermarkets. Wegman’s, for example, placed one of its smaller (for it) 72,000 SF “urban” format stores at the edge of Auburn, NY’s downtown, and has a full size store at the edge of downtown Ithaca, NY.

I think that many downtowns have the elements of a business incubator dispersed within them that go unrecognized: reasonably priced office or industrial spaces; libraries, diners/coffeeshops where local businesspeople congregate; makers spaces, and a downtown EDO. Occasionally, they also have a nearby college or university. That lack of recognition goes hand in hand with the downtown EDO failing to see business development as part of its mission or within the skill sets of its staff. Their role needs to be one of information broker, networker builder and maintainer, and steward of the local entrepreneurial environment. Its staff skills need to match that role.

Mike, I wonder if we can dig a little deeper into the trends that might help improve the conditions in which many SSMs operate. I think we've done the smaller store size trend, but what about the reported flight of population and retailers from our densest cities to more sparsely populated locations? I have long taken Bill Frey's population analysis as the gold standard, and his recent report does support such movement. However, it does not seem to me that those numbers are anything like a mass exist from our cities. That said, what may be small numbers for a big city may be significant numbers for our SSMs on the receiving end of such population movement. Here I think that Frey's report suggests that the very sparsely populated SSMs in isolated rural areas, or in very sparsely populated regions are not getting many new residents. Most moves were within Metro areas, not between them. The inter Metro moves were mainly from large ones to smaller ones, but not the smallest/ But smaller SSMs in stronger metro areas, those on the fringe, probably are stronger. How much of a difference that will make remains to be seen. The Chase Institute's recent report that retail is following population flight then must be considered within that context. Indeed, the report sees suburban locations as the primary beneficiaries of the impacts of working from home. However, if I read the report correctly, the primary dependent variable is the number of retail establishments, not retail sales. That poses another real problem. A retailer in Manhattan paying $100 PSF probably needs revenues of around $1,000 PSF for the rent to be affordable. The rents in Morristown, NJ might be $50 PSF and in Washington Boro around say $25 PSF, with retailers needing $500 PSF and $250 PSF respectively for their rents to be affordable. That means that X amount of consumer spending might support a lot more stores in lower rent downtowns than in the higher rent districts, and that the number of retail establishments is not a good measure of economic power. I do think that what you call Class A suburbs and what I call urbanized suburbs have been strengthened by 1) a significant amount of urban flight and new residents ; 2) renewed interest by retail chains because they did better during the crisis and are quicker to recover than our large downtowns, and 3) their formal entertainment venues have recovered faster since they are not dependent on foreign tourists.

The other trend that I think may impact retail is the growing ability of businesses in our rural areas to use broadband assets. In the past the lack of broadband access and adequate small business operator internet abilities have been problems. My observations indicate that the poor internet abilities of many small rural businesspeople have aged out a good deal, and a recent report by Roberto Gallardo at Purdue shows that there's been real progress, and really few Americans today lack adequate broadband access. Moreover, the feds are now providing tens of billions of dollars to erase the rural digital divide. Roberto agrees that now the challenge is shifting from providing adequate broadband capacity to improving the ability of rural businesses to use it effectively. Since most SSM downtown merchants do not offer comparison shopping goods or services, most will not use this new capacity to penetrate new distant markets, but a few of those with such offerings may do so and become significantly stronger and more magnetic. A personal story here. I recently searched for a cashmere shawl for my daughter, and where did I find it? On a website of an e-retailer based in a SSM in NH. I think we will be finding such SSM retailers more frequently in the future.

MJB: I never believed that pandemic-era urban flight would be permanent and to the extent that hybrid work allows for relocation, the primary beneficiaries have been the suburbs within the same metro areas as well as second-home destinations within a reasonable driving distance -- I never expected much of an impact on your run-of-the-mill small town, and it sounds as if Frey's data bears this out.

With the J.P. Morgan Chase study, it is important to point out that the data-set only considers metropolitan areas and runs until the end of 2021. That said, perhaps the most interesting finding is that the net increase in new stores increased in proportion to the distance from the city center – what we already knew – but then, *decreased* from the inner suburbs to the outer. I think this speaks to the minimum thresholds required in some categories, which exurban areas often struggle to reach – and it seems that any pandemic-era population growth they welcomed was not enough to change that.

I also think, though, that there's even limits to how much these trends affected the top-tier inner suburbs. Many of these communities are already built-out and/or not exactly pre-disposed to growth, while their Downtowns often have few storefront vacancies to play with. If anything, home prices increased, and perhaps retail rents as well, though I've seen less data on the latter. Greater benefits might have accrued, then, to second-tier suburbs to which residential tenant demand could "spill over."

Finally, the seasonal destinations. I have been working on the main street of Hyannis, MA, in the heart of Cape Cod, which enjoyed strong foot traffic and net store growth during the pandemic due largely to its location within driving distance of two large metros. A major constraint, though, was the labor market, which has always been a challenge there but became even more of one during the pandemic partly due to ever higher housing costs resulting from the rise of work-from-(second)-home.