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# Retail Development and Financing in the Outer Boroughs of New York City

Highlights of Challenges, Ideas and Opportunities from a  
Roundtable Discussion Among New York City Leaders in  
Retail Development

**David Dubrow**  
*Partner*  
Arent Fox LLP

**Darrell Gay**  
*Partner*  
Arent Fox LLP

1050 Connecticut Avenue, NW  
Washington, DC 20036

1675 Broadway  
New York, NY 10019

555 West Fifth Street, 48<sup>th</sup> Floor  
Los Angeles, CA 90013

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[www.arentfox.com](http://www.arentfox.com)

## Introduction

After experiencing what many have called the worst economic downturn since the Great Depression, retailers and developers alike are looking for fertile new ground in which to plant their retail and development assets.

Demographic and economic shifts in the urban core lead many industry observers to believe that the outer boroughs of New York City have been overlooked as a productive and dynamic opportunity for retail development.

The so-called “inner city” is currently experiencing an unprecedented population shift as more and more residents leave the suburbs and move into urban communities across the United States. Like most cities, this phenomenon is true of New York City. According to the Census Bureau, four out of the five boroughs have experienced a population boost of four percent to six percent: while the population in Staten Island has grown by more than 10 percent.

While historically individuals would move into Manhattan as singles, and then, upon marriage and starting a family, relocate to the suburbs, the time demands of current employment and the economic and physical cost of commuting are resulting in more families remaining in the inner city. This phenomenon is expanding beyond the traditional youthful residential communities of Manhattan into other parts of Manhattan and the other four boroughs of New York City, creating a cultural and economic population shift in the inner city communities.

Numerous communities historically considered the home of minorities and less affluent are now attracting many more New Yorkers, of diverse ethnic and economic backgrounds and status. The communities of East Tremont, Melrose, Central Harlem, East New York, Bedford Stuyvesant, Jamaica and St. George continue to grow in density, diversity, and spending power. This expansion into the inner city communities has increased the demand for better housing options and for the services and retail outlets needed to support these new residents.

Some of the most successful national retailers in the country have opened top performing stores within New York City's urban core. In June 2008, IKEA opened a 346,000 square foot store in the heart of Red Hook, Brooklyn, while Target opened a super store in Fort Greene, Brooklyn in 2004, and one of the most successful IHOP stores in the country opened operations in downtown Brooklyn.

Despite these successful retail developments, the urban core throughout the five boroughs remains largely underserved and under-retailed. These vibrant communities continue to suffer from limited retail, few restaurant options, and lack other essential services needed within an expanding urban community.

With that background, Arent Fox, LLP along with *Crain's New York Business*, and leaders from the retail real estate community, the finance industry, government, and community development corporations (CDCs) met to discuss the state of urban retail real estate: its unique challenges, opportunities, and how best to expand the retail real estate platform within New York's urban core.

Three key elements were addressed as significant points of interest during the round table discussion among the various stakeholders as a means of driving retail development in historically underserved urban areas:

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- 1 The establishment of a central repository of information accessible on the Internet so that businesses can readily make use of available information on public incentives, zoning, parking requirements, population, demographics, etc.;
  - 2 The need for a more coordinated development strategy between the public sector, CDCs, and the private sector; and
  - 3 The desirability of leveraging the unified purchasing power of local, regional, and national operators to reduce overall operational costs.

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## Historical Challenges to Retail Development in the Outer Boroughs

A review of prior analysis of the causes for the relatively limited retail presence in the inner city reveals several key concerns for retailers:

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- ▶ Crime/perceived crime
  - ▶ Insufficient customer base for the retailer
  - ▶ Insufficient purchasing power for the retailer's product
  - ▶ Space availability (including parking and other amenities)

Due to change in the inner city communities of New York, retailers and other service providers are now viewing these communities as opportunities.

In addition, several of these communities have commissioned studies that clearly demonstrate the biases regarding (i) the need for the retail services and products, and (ii) the appetite of these communities' residents for the services and products were grossly inaccurate. The results of the community-commissioned studies should serve to allay many of the concerns retailers have had with respect to expanding into the areas analyzed.

At the outset of the roundtable discussion, the participants agreed that given the current fiscal difficulties facing New York State and City governments, additional economic incentive programs from any governmental body was not an option. However, the City and State clearly expressed their willingness to commit non-economic support for increasing and addressing retail expansion into the inner communities and their perspective that this was an issue they deemed of significance. Leading up to the roundtable, Arent Fox conducted separate meetings with lenders, retailers, developers, community development corporation representatives and City and State officials to identify their top concerns. After analyzing the findings from these meetings and the roundtable discussion, we identified three key areas of need that stakeholders must address to stimulate inner city retail growth:

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- 1 Need for coordinated strategy among public sector, CDCs, and private sector.
  - 2 Need for centralization and access to information.
  - 3 Need for cooperative efforts.

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## Need for Coordinated Strategy among Public Sector, CDCs, and Private Sector

One of the keys to successful retail growth is the need for more effective communication and coordination between the various parties that affect it.

Currently, communication between the public and private sector, as well as CDCs, is lacking or far from effective. Governmental entities (state, city, and federal), community development corporations, and the private sector need to consider how they can work together to address retail issues at the planning and implementation stages.

If properly utilized, CDCs can be a wealthy resource in the effective, efficient development of retail space in the inner city because of their daily contact with organizations, businesses, and residents in their respective communities. The close contact between neighborhood residents and community development corporations enable CDCs to understand the needs of the community, which can then be communicated to retailers and developers. For example, CDCs can advise retailers about the marketability of its products and services with the community and provide assistance in identifying potential retail sites and staffing options. Unfortunately, the value of CDCs in the planning and implementation phases of retail project development is too often discounted by retailers, developers, and governmental bodies.

### **Recommendation** City and State / CDC Coordination

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The city and state should work with the CDCs to understand how they can assist in attracting and promoting retail growth in inner city communities. Once a better understanding of community needs is achieved, then the CDC in conjunction with the government can solicit and encourage select retailers to consider placement in the community in need. The benefit to the community is the provision of a service or product needed to improve the living conditions or environment of that community. The benefit to the retailer is the establishment of an operation that because it fills a community need will be successful and lucrative. The benefit to the city and state is manifold; specifically the enhancement of the community and improving the lives of residents through a likely reduction in crime, which reduces policing costs and enhances property value. Additionally, the increased attractiveness of the community can lure new residents, which, in turn, increases property values, and the provision of finances to the City and State in the form of additional property tax, sales tax, and income tax.

### **Recommendation** Developing Anchor Streets

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A possible mean by which the CDCs and government could promote retail development in the urban core is to identify a so-called “anchor street” within the inner city in which they could plant the seed elements needed to attract and encourage retailers and developers.

Retailers have clearly demonstrated that they are risk averse, and will not incur the costs of opening a business in a community unless they are confident it will succeed. Rather, they engage in extensive economic and demographic research to identify sites that can sustain customer traffic and produce a large volume of purchasers who are willing and able to spend money on the products to be sold.

A coordinated plan by the city, the state, and the federal government to identify “anchor streets” would go a long way towards facilitating the communication among CDCs, government officials, retailers, and developers needed to promote effective retail growth in the inner city.

Unused or underutilized buildings and properties owned and leased by the government (city and state) could serve as the basis for “anchor streets.”

For example, as reported in Crain's New York Business in August 2011, the city announced it had selected United American Land to redevelop a portion of the Brooklyn Municipal Building in an ongoing effort to revive downtown Brooklyn and “again make it into a thriving retail district.” Crain's reported, “[m]uch of the bottom three floors of the 13-story property, located at 210 Joralemon St., at the corner of Court Street, will be transformed into a retail complex, with a number of stores and at least one full-service restaurant.”

## Recommendation Clustering and Other Factors

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Another factor for retailers when deciding to open a new store is the established presence of customer traffic, often due to the presence of another retailer traditionally known for attracting pedestrian traffic such as a drug store, supermarket, or “big box” retail chain. Examples of this type of “clustering” can often be found with eating establishments, whether sit-down or fast food restaurants. Once a cluster area is identified, other factors such as cost of development, rental cost for space, staffing factors, and permit issues are considered.

To spur retail growth, the city, state and CDCs could solicit and encourage the opening of the types of businesses that historically attract the pedestrian traffic sought by other retailers. Placement of these businesses in the most strategic point in a community – the “anchor street” – could then be the foundation for expansion of retail development within – and beyond – that “anchor street”, thereby broadening the base of retail presence in that inner city community.

## The Need for a More Centralized System by which to Access Information

Retailers, developers, and CDCs all agreed that in order to expand the retail footprint within the five boroughs and yield the greatest return to the community, there needs to be a more centralized system by which parties can:

- 1 Access available space for development;
- 2 Secure market and demographic analysis; and
- 3 Secure information on applicable incentive and cost saving programs within a district.

In seeking to promote economic development in New York, both the City and State, have established programs and support services that can enable greater success levels for both new and established businesses of any size, but many businesses are unaware of these programs and how they operate.

### For Example

New York City currently has a pilot program that went live in early 2010, which provides assistance to food operators, restaurants and bars. The [Mayor's New Business Acceleration Team](#) (NBAT) is a new initiative within the City of New York that provides the target group with a “one stop shop” opportunity to get “kitchen ready”. The program helps to reduce the cost of the business and provides local entrepreneurs within the targeted sectors an opportunity to provide an additional layer of predictability as they prepare to open a new operation. The streamlined process includes a simultaneous review by:

- For Example**
- ① The Fire Department;
  - ② The Department of Environmental Protection;
  - ③ The Department of Buildings; and
  - ④ Department of Health and Mental Hygiene.

The restaurant owner can then gauge the timing on applicable license review and hiring timetables within their respective communities.

The program has been welcomed by restaurant and food operators, but broad-based knowledge of the program and access to applicable eligibility criteria is limited.

Additionally, the Avenue NYC Program uses federal Community Development Block Grant funds to support community development corporations expand and revitalize developments with their respective footprints. At the present time, Avenue NYC is managed by the New York City Small Business Services (SBS) and is accessible via web service.

### **Recommendation**

#### **Establishment of a Block and Lot Number Search Engine**

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A recommendation is the establishment of a block and lot number search engine that would identify the programs and incentives available for that specific location. Further, if the search engine could refine the availability of programs based on additional factors such as whether the business is a Women Business Enterprise (WBE) or is Minority Business Enterprise (MBE) owned, or whether the business is providing a specific product or service, this could further assist in enabling its success.

### **Recommendation**

#### **Establishment of a Citywide Database to Identify Available Locations for Retail Development**

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Another challenge is identifying available locations for the opening of new facilities. A citywide database that lists available space throughout the city would be a tremendously useful resource in notifying those interested in opening a new business or expanding an existing business, about the possible locations that are available. Currently, it is necessary to contact various brokers in piecemeal fashion to identify locations outside Manhattan and determine what space is available. This current approach limits the consideration of sites in communities outside Manhattan, because unless a business is specifically looking for a location in the outer boroughs, consideration of locations outside of Manhattan are not readily identified without great effort. Creation of a citywide list serve would resolve that issue. To accomplish this, an entity would need to accept responsibility for the establishment, data input and maintenance of a database, and to further commit to keeping the information on the list serve current. The process of identifying such an entity has already been initiated.

**Recommendation**  
CDC and Developer Coordination

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CDCs can also facilitate pairing developers with retailers who meet the needs of the community and who are interested in opening a business in that community. The CDCs should continue to serve as the resource for understanding community needs for both developers and retailers during development projects and after project completion, once a developer is replaced by the property management company. This would be most effectively accomplished by the City and State working closely with the CDCs and assisting them with understanding which existing programs and/or incentive plans are available for utilization in assisting with the retail growth of specific communities.

**Need for  
Cooperative  
Efforts**

A leading issue for all retailers is lowering the cost of doing business. For small enterprises or new entrepreneurs, limited buying power makes this an even greater challenge.

**Recommendation**  
Establishment of Buying Cooperatives

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The establishment of buying cooperatives that would assist these entities in achieving discounts based on the benefits of volume purchases. Larger chains already benefit from such volume value purchases based on their size. Franchise chains have similar cooperatives that permit franchisees to benefit from the purchasing power of the collective. The establishment of a cooperative based on a shared factor would enable smaller businesses to similarly reduce their overhead costs. The shared factor could be membership in a trade association that is part of a CDC or Business Improvement District (BID).

Cooperative purchases can be for products or services. For example, businesses could lower the cost for the purchase of necessary, non-discretionary needs such as insurance. All businesses currently need to have property and casualty insurance. Additionally, national health care reform legislation will soon require most businesses to provide health insurance to employees. The pending requirement to provide health insurance constitutes a threat to many businesses that will not be able to operate profitably unless they can affordably provide such health insurance. A cooperative that permits them to lower the cost for insurance surely would provide significant benefit to many businesses, the communities these businesses serve, the city, the state, and the individuals who are employed by these businesses.

## **Recommendation** Establishment of Incubators

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The establishment of incubators that provide either a first situs for starting businesses, or services to new or small businesses would also be of significant value. Currently the city has several incubator locations geared to assisting new businesses. The addition of more incubators would encourage greater entrepreneurship during a time period when large companies are reducing staff and people are looking for new opportunities to be employed (even if this means self-employment). Many businesses have legal, accounting, and other professional service needs that are currently unmet, due to the inability of these businesses to afford the benefit of these services. The establishment of service incubators or cooperative service providers could address this need.

## **Summary**

Arent Fox and *Crain's New York Business* thank all the leaders who participated in the roundtable discussion.

The session provided a tremendous opportunity to understand the current landscape and see how the various constituents can work together to promote a successful and sustainable future in New York City.

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Smart in your world®  
**Arent Fox**

1050 Connecticut Avenue, NW  
Washington, DC 20036-5339  
**T** 202.857.6000 **F** 202.857.6395

1675 Broadway  
New York, NY 10019-5820  
**T** 212.484.3900 **F** 212.484.3990

555 West Fifth Street, 48th Floor  
Los Angeles, CA 90013-1065  
**T** 213.629.7400 **F** 213.629.7401

[www.arentfox.com](http://www.arentfox.com)