Downtown Retail Overview

Central Houston, Inc.
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Introduction

Downtown Houston has been transformed over the past twenty years and, as a result, presently touts a large office market, several arts and cultural venues, sporting and entertainment facilities, and growing residential interest. However, even with new visitor draws, light rail and streetscape improvements, retail has continued to struggle. As a very important missing piece of the puzzle, the development of retail is critical considering that all other economic drivers are supported by it.

With the rediscovery of downtown as a place to live, work and play, there are significant retail opportunities to be capitalized upon for residents, workers and visitors alike. Residential growth will eventually bring more retail but, at the same time, residential development is inhibited by the lack of goods and services. Downtown has a built-in consumer base of 140,000 workers that represents a significantly underserved market with regard to goods and services. Additionally, with all of the wonderful amenities that attract visitors to the new downtown Houston, retail is crucial to keep them coming back. Street-level retail that is open days and weekends is the “glue” that helps bind a downtown together and activates its streets in an engaging and positive way.

Existing Retail and Opportunities

Downtown Houston is unlike most other cities in that we have two levels of retail:

- Street-level retail
- Tunnel-level retail (that caters almost exclusively to the downtown worker)

Most of the occupied street-level retail in downtown is concentrated in the north end but it is almost entirely restaurants, bars and clubs. While the north end has been vastly improved through these new restaurants and clubs along with Cotswold, Transit Street and Main Street improvements, a more diverse tenant mix with daytime retail is needed. The limited entertainment aspect of the district is likely not sustainable over time. Challenges for narrow use districts such as this include maintaining the quality of the place and preventing the area from sliding into the public order problems of many other downtown party districts.

Today, only Foley's Department Store and a handful of scattered soft goods retailers remain as street-level retail to serve the downtown area. While downtown is fortunate to still have Foley's, the absence of other retailers prevents this store from performing as well as other locations. However, it is worth noting that downtown Foley's has been trending better than the corporate average since the opening of light rail in January 2004. While light rail helps to set the stage, retail success downtown will depend on the energy created by the clustering of retail activity in key locations. Given that Main Street was the traditional heart of retail in downtown Houston and that Foley's is an existing anchor, the Main Street Square area offers a logical and promising starting point for such a retail concentration.

A positive development on the retail front is the recent redevelopment of the Shops at Houston Center. Originally opened in 1983, the mall was almost a fortress from the external street-level environment. As the focus in the 1990s shifted to street-level, pedestrian-friendly retail, the former Park Shops became an anachronism. The Shops at Houston Center has recently undergone major changes to make it more open and inviting at the street level. In addition, Crescent has had some preliminary success with bringing back much-needed soft goods retailers such as Jos. A. Banks and a new shoe store. However, the long-term success of these retailers will depend on active linkages with surrounding areas to broaden their access, appeal and customer base.

We are slowly beginning to see the interest and leasing of retailers other than restaurants and bars in areas outside the Shops at Houston Center. For example, we are days away from the opening of a new CVS Drug Store on Main Street Square. The importance of fostering non-food and beverage retailers in key locations warrants emphasizing.

The tunnels have a significant impact on retail development downtown. Retail in the tunnels does well by catering to a specific niche market – office workers. This still leaves significantly underserved populations in downtown. However, the fact remains that there would be more people on the street in the absence of a tunnel system. This impacts growth through a diffusion of energy, traffic and offerings. Clearly, with the importance of the tunnels to the office market, the answer is not simple. Furthermore, statement of this fact is not to say that the two elements cannot co-exist. One strategy might be to dedicate tunnel space to the continued concentration of convenience retail and services only while encouraging more traditional retail to relocate to street level.

Demand Potential

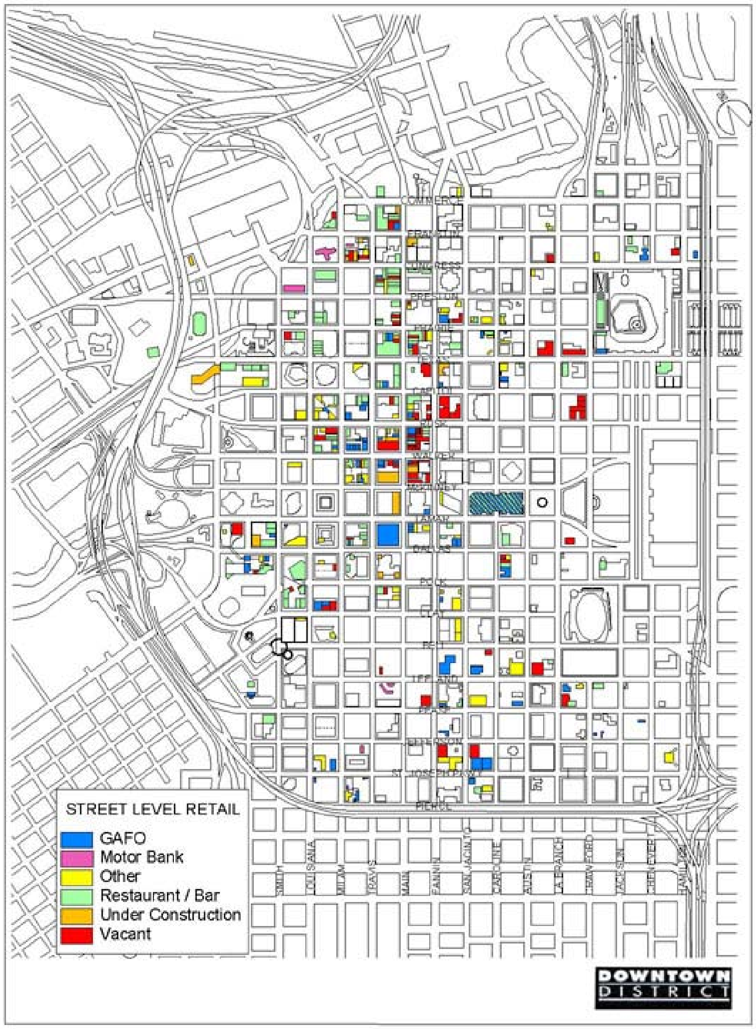
Based on a 2001 assessment of retail demand from residents, workers and visitors for retail merchandise and eating and drinking, downtown Houston had the potential to attract retail sales of $703 million that year. Eating and drinking accounted for $388 million (55%) of those potential sales while $315 million (45%) was for GAFO (general merchandise, apparel, furnishings and other merchandise) sales. Given these sales levels, downtown Houston could have supported 2.1 million square feet of retail and eating and drinking space. Accounting for occupancy levels, this translated into unmet demand for 530,000 square feet of retail space in 2001. Estimates for 2005 are even more impressive, with an increase in potential sales to $856 million, a 22% increase over 2001. Eating and drinking sales accounted for $490 million (57%) of the total sales potential while $366 million (43%) was for GAFO sales. Accounting for occupied retail space and space that was under construction, by 2005 there will be unmet demand for over 776,000 square feet of retail. It is important to note that this study was done prior to the decline of the merchant energy industry resulting in the numbers being based on more favorable conditions. Even though the exact numbers today would be somewhat different, the general conclusions of the study are still valid.

In addition to the residents, workers and visitors to downtown, there is a desire to restore retail to downtown as a service to central city neighborhoods. The current draw for shopping is largely toward the Galleria area and other outlying malls but downtown would be a far more convenient hub for the adjacent central city neighborhoods, especially to people on the east, north and southeast sides.

Looking Forward

Interestingly, retail or the lack of retail was a lively topic of discussion among at least three of the seven task forces for the Downtown Development Framework planning process. These three task forces were comprised of several focus groups that cut across a broad section of Houston's citizenry. The underlying message is that retail is an integral part of a healthy, compelling downtown and an important part of the experience for all kinds of users.

An inventory of ground-level spaces in downtown reveals significant challenges for the development of successful retail nodes. As represented in the map of street level retail from 2001, the existing space is not very functional in terms of clustering and usage. While some areas or corridors are more obvious than others for potential retail concentration, the fact remains that Houston will need new construction even in these areas for success on the retail front. In particular, we need new, efficient space close to Main Street and light rail.



In addition to more traditional retail, downtown might focus on alternative types of retail such as farmers markets and ethnic markets that offer a unique experience for consumers as well as access to the marketplace for small businesses and individuals. These markets are effective small business incubators that extend opportunities to more citizens. They are also a strong draw because they identify downtown as a more interesting, authentic experience in which people want to participate.

An interim approach that would help activate the sidewalks is a vending cart program. Initially, the carts fill a void in the absence of ground-level leases. Hopefully, as traffic to the area increases, store-front retailers are encouraged to enter the marketplace based on the success of the carts and the pedestrian activity. Even after leases are signed in the surrounding area, the carts add to the look and feel of the environment. Much like farmers markets and ethnic markets, they are also effective small business incubators. The Downtown District has purchased five carts for such a program but is unable to employ them until an ordinance change has been adopted by City Council. We hope to have the program in operation in Fall 2004.

Incentives Program

Experience in other cities indicates that incentives need to be offered to stimulate the development of retail. In particular, we are examining programs in Washington, D.C. and Dallas. These programs are designed to reestablish a critical mass of retailers in strategic locations. The programs reduce the risk for retailers to enter the downtown market through funds for tenant build-out assistance. Once there is a critical mass of retailers, others will follow without incentives or subsidies.

An incentives program in Houston would target national chains as well as locally owned businesses. Shopping in a local, one-of-a-kind store gives both visitors and residents a sense of special place. National retailers are also important components of the retail mix in their broad appeal and their ability to attract other retailers.