

LIVING SPACE

RETAIL DEVELOPERS ARE INCREASINGLY ADDING HOMES TO THE MIX.

By: Steve McLinden

THE PROVERBIAL CORNER OF Main and Main, long a hub for high-visibility retail, is now in unprecedented demand for urban housing. Instead of duking it out for site control, however, developers from these once-warring factions are joining forces to share space, nudged by changing market demands and pressure from lenders, cities and environmentally conscious consumers. Worldwide, nearly all site plans for new retail development and redevelopment have residential space penciled in—atop, beside or nearby—ranging from the few hundred units pegged for the top of Australia’s Melbourne Central mall to the 6,000 homes that will be woven through the mammoth Macerich–Lennar Homes joint venture in San Francisco called Candlestick Point.

“It’s all part of a great and positive from single-purpose to multipurpose,” said Ian Thomas, principal of Thomas Consultants, of Vancouver, British Columbia. “Malls want to add 24-hour activity to transition from daytime activity centers to nighttime hubs.”

Federal Realty Investment Trust knocked down a defunct center in North Bethesda, Md., a few years ago to create the upscale, mixed-use Pike & Rose, where about 500 residences are nearing completion, to support phase one of a 24-acre development that will feature 450,000 square feet of retail. The second phase will bring nearly 1,000 more living units, including 11



STEINER + ASSOCIATES' LIBERTY CENTER WILL FEATURE 250 UPSCALE RESIDENCES IN ITS 1.1 MILLION-SQUARE-FOOT MIXED-USE PROJECT IN CINCINNATI.

floors of luxury condos atop a new Canopy by Hilton hotel. “Having residential builds buzz, fosters a sense of community, offers a built-in fan base and creates a sense of community within the property,” said Chris Weilminster, Federal Realty’s executive vice president of real estate and leasing. “Retailers are drawn to that, but not just the fact that there is residential above. If you’ve gotten the main street ‘right,’ it will help you drive rents above and it gives residents the immersive environment that they are craving in these locations. If you don’t, the results can be unfortunate with devaluing rental prices and unhappy residents or worse—vacant units.”

Federal Realty has about 2,000 residential units across its 20 million-square-foot portfolio. A mix of rentals and condominiums

is adjusted to fit each project, Weilminster says. “There is an increasing demand for rentals—depending on the location and how the project is positioned in the market. This trend is being driven by Millennials and Baby Boomers. Both groups are expressing the desire for richer experience.”

Steiner & Associates, an old hand in the mixed-use construction game, is lead developer in a live-work-play enterprise in Cincinnati called Liberty Center, to be co-developed by Bucksbaum Retail Properties. This will feature about 250 upscale vertical residences in the phased 1.1 million-square-foot urban development rising along Interstate 75 and slated to make its debut this year. “Residences in our developments always get at least 20 percent above market rents,” said Yaromir

Steiner, founder and CEO of the Columbus, Ohio-based firm. “When you integrate an apartment complex into a lifestyle center, that center becomes an important amenity because it creates a lively environment.” That fact is hardly lost on lenders, who were reluctant to fund mixed-use deals a decade ago but now favor them, Steiner says.

Steiner & Associates has been building residences atop retail since 2003, when the developer added a small number of such units to its Zona Rosa Town Center, in Kansas City, Mo., almost as an afterthought. “They were drawn up as offices, but we changed them to residences,” Steiner said. “It was experimental; we were trying to understand the technical issues and see how three floors of residential could work together with retail.” One issue is

San Francisco Giants and the San Francisco 49ers—will be redeveloped by Macerich into a 500,000-square-foot shopping-entertainment center, with about 130 shops, a restaurant village, some movie theaters, a hotel and more. Lennar’s urban division will handle the master-planned residential development in a mixed-use project expected to foster \$1 billion of new investment and infrastructure over the next four years in the city.

On the opposite coast Macerich will soon open a 430-unit residential tower called VITA at its hugely successful Tysons Corner mall complex, in northern Virginia. A VITA kiosk in the mall informs shoppers about the development, which offers studios and one-, two-, and three-bedroom apartments, plus a 30th-floor rooftop clubhouse featuring a large sundeck

by U.K.-based St. Modwen Properties. The residences will help provide relief for a city struggling with housing shortages, the firm said. Westfield’s Stratford City mall is also in the process of surrounding itself with hundreds of new apartments.

In Australia, the Sydney-based GPT Group said it will build apartments atop its 300-store Melbourne Central mall as part of a portfolio-wide adaptive-reuse plan to take advantage of its “air rights.” Residents there will enjoy a direct connection to an underground train station. GPT is also studying redevelopment options at its Sydney Olympic Park mixed-use complex that will include apartment development and additional retail, plus Samsung Electronics Australia’s new corporate headquarters building.

U.S.-based Tishman Speyer and Chinese venture partner Lujiazui Group are laying groundwork for a 3 million-square-foot, mixed-use complex in the Shanghai’s New Bund business center, featuring upscale apartments blended with retail and offices. In Bay City, Pasay, Philippines, SM Development is marketing the posh Shore Residences condos on the periphery of its giant Mall of Asia.

In the Singapore market, several malls have added residential space, including Bedok Mall’s eight-story tower, Bedok Residences. Northpoint Mall’s expansion plans include a 920-unit residential complex set to open later this year. “A lot of value is being placed in collocating residences with retail, particularly in centers that are close to rail and air-conditioned bus interchanges,” said Derek Rossel, a senior manager at Lend Lease Asia.

In Dubai, United Arab Emirates, an eye-catching elliptical apartment-hotel building known as The Address—Dubai Mall has opened on the northwest corner of the Dubai Mall property, inside the city’s 500-acre downtown community. Most apartments overlook the Dubai Dancing Fountain, a man-made lake and the world’s tallest tower,



clear: The complexity means that the lead retail developer must either bring in a residential development specialist or, like Steiner & Associates, have one on staff, Steiner said. Each of the firm’s lifestyle projects has had progressively larger residential components.

In lot-constrained San Francisco, the huge Candlestick Point project, one of the largest planned mixed-use developments in the world, is expected to start taking form by 2017, when the first of about 6,000 new residences will hit the market in a multiphased, multiyear venture. The site around the soon-to-be-demolished Candlestick Park—former home of the

and pool. Macerich has already added a completed 22-story Tysons Tower office building at the complex. A block away, five residential towers are in the works, next to a future rail station, part of the McLean, Va.-based Georgelas Group’s 32-acre Spring Hill Station mixed-use project.

On the eastern fringes of London’s West End, a sizable swath of the centuries-old Covent Garden district is being redeveloped into a mixed-use shopping district with some 500,000 square feet of retail and 235,000 square feet of offices, plus 3,000 new housing units. Construction is scheduled to begin next year,

the 163-story Burj Khalifa. The São Paulo, Brazil, Shopping Cidade Jardim, an open-air trendsetter in the luxury market, was a trendsetter also in mixed-use residential. The first of nine completed residential towers at the site, which collectively house about 500 units, opened in 2006.

At the Oakridge Centre, in Vancouver, B.C., mall owner Ivanhoe Cambridge and Westbank Development have been approved to build 13 residential buildings, totaling nearly 3,000 units in buildings ranging from six to 45 floors high. In the Vancouver suburb of Burnaby, Shape Properties is opening 115 living units at the Brentwood Town Centre, priced from about \$300,000, and an additional 132 at its Lougheed Town Centre. Also in Burnaby, Beedie Development Group and Anthem Properties are teaming up to build about 1,800 homes to help form a new High Street near the giant Metropolis at Metrotown mall, where a new transit stop is in the works. All three centers are, in fact, connected to light-rail stops. “A station stop can become an attraction and drive the opportunity for mixed-use—particularly with residential—in transit-oriented developments,” said Thomas.

A Nielsen report last year on the influential U.S. Millennial population segment—people born between the early 1980s and the early 2000s—said that 62 percent of that demographic prefers living in walkable, urban-style, mixed-use communities near to their workplaces and to restaurants, shopping and transit.

This is hardly news to other top retail developers, who are cashing in on the trend. Simon, America’s largest owner of U.S. malls and outlet centers, is adding high-end residences to its Phipps Plaza property, in Atlanta’s fashionable Buckhead district. Its Domain at Phipps Plaza, developed by partner Columbus Realty, will feature 319 midrise luxury residences when it opens this fall. An AC Marriot hotel is also in the works on that same property. “Residential and hotel developments

represent asset enhancements, and we’ll add them to our properties where appropriate,” said Simon spokesman Les Morris.

The Phipps deal follows another Simon residential add-on, at its nearly 60-year-old Southdale Center property, in Edina, Minn. The five-acre residential project features 232 units spread over three buildings, including a ten-story high-rise, developed by partner StuartCo. “It’s a beautiful project located in what was a mostly unused area of the parking field, and the lease-up has been going extraordinarily well,” Morris said. Proximity to the neighboring Galleria mall will no doubt help drive demand.

General Growth Properties’ picturesque Ala Moana Center, in Honolulu, at 2.4 million square feet the largest shopping center in Hawaii, is also getting a residential component. The posh, six-building Park Lane Ala Moana project, under construction next to the Bloomingdale’s in the under-renovation mall, will place 215 exclusively priced condos ranging from \$1.2 million to \$28 million on the market when it is completed, in 2017.

The Howard Hughes Corp. has also started work on an ambitious redevelopment, of Landmark Mall, in Alexandria, Va. This will add 400 residential units and 285,000 square feet of additional retail, with first-phase completion slated for next year. In Plano, Texas, Dallas-based Cencor Realty is joining Amlri Residential to build a four-story, 264-unit apartment complex at its West Plano Village center.

Another retail lifestyle center with a strong residential component, the 1 million-square-foot Celebration Pointe, is taking shape in Gainesville, Fla. This is a three-party project between Gainesville-based Viking Cos., Miami’s 1220G and Atlanta’s RaCo Real Estate Advisors. The group, which donated 100 acres of the site for use as conservation land, will develop about 1,000 living units there, including a mixture of garden-style apartments, town homes and flats, added to an 80,000-square-foot Bass Pro Shops, a Hotel

Indigo, a cinema and a 60,000-square-foot corporate home for locally based Info Tech. RaCo Principal Ralph Conti calls the transit-oriented development “a suburban site with a variety of urban components that will be dense and highly walkable.”

Such considerations as parking segregation, shared use of common areas and 24-hour security requirements, among other nuances, make such mixed-use projects challenging, says Conti. “It takes an army of people working together to pull off one of these projects.” Some logistical issues for mixed-use with residential have yet to be settled, such as whether apartment plumbing should penetrate the ceiling of the lower-floor retailer, or go into a false-floor crawl space created by developers, according to Steiner.

Mall residential development appears to be here to stay, observers say. Late last year Patrick Peterman, a Simon vice president, said the REIT continues to field numerous calls from residential developers seeking to strike mixed-use deals at its malls. “That’s no secret that they really value the shopping center land,” he said.

Residential construction at existing malls can often be accommodated on excess parking space, says Thomas. “Cities, counties and municipalities now view such parking as inefficient land use, and they want higher density,” he said. “That’s the higher and better use that’s emerging from that sea of surface parking.”

Almost uniformly, cities favor mixed-use developments over dedicated retail, particularly vertical projects. Three- or four-story urban mixed-use buildings with housing and other uses can generate up to five times the tax revenue that traditional horizontal retail does, according to a study by Asheville, N.C.-based developer Public-Interest Projects.

Said Thomas: “These are the malls of tomorrow.” **SCT**