

# Retail Interests Divide California

*Demand for opportunities in the Golden State are strong at ICSC, but growth coupled with a lack of land forces investment into new markets*

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*Second of a two-part series*

California has always been a state divided by geography. But when it comes to retail real estate investment that divide does not break down along the state's traditional north and south mentalities. Rather, California is divided between the coastal regions and inland markets, based on the latest trends coming out of this year's **International Council of Shopping Centers'** Spring Convention in Las Vegas.

In more mature markets along the California coast the focus is on developing mixed-use and urban-infill retail projects. Meanwhile, higher-end lifestyle projects and large-scale, horizontal mixed-use developments are in demand throughout the Inland Empire, High Desert and Central Valley regions of the state.

Each format brings its own challenges, whether it is convincing retailers to test out new markets inland or to develop and finance complex projects in urban cores.

Despite the challenges inherent in catering to the state's geographic and demographic dichotomies, there was one constant regarding California at May's ICSC convention: Everyone wanted to do business here.

"California does twice the retail volume of any other state in the U.S.," Tom Buxton, president and chief executive officer of **Buxton**. "And California needs retail dollars. That's the only way a city can get tax dollars."

Buxton, who consults both retailers and cities, said retailers have more demand for California than any other state.

"Is it more difficult to do business in California? You bet. Is it more expensive to do business in California? You bet. Are you going to do more volume in California? You bet," he said.

Retailers large and small are making big bets



*In Ontario, Panattoni Development Co. has broken ground on Piemonte, a 90-acre mixed-use development that will combine Class A office space and a hotel with high-end retail and condominiums.*

on California.

For example, California already is the largest market for **Maui Wowi Hawaiian**, with 63 franchises statewide. But the coffee and smoothie retailer plans to open another 15 locations in California in 2006.

"Californians are looking for something new and exciting," said Janet Beaudry, vice president of real estate for Maui Wowi. "They're always looking for the leading edge."

Beaudry said her company seeks to tap the entrepreneurial nature of Californians making it ideal for franchises, its car culture where people are inclined to drink coffee during their commute and its connection to Hawaii.

"California is such an ideal," she said. "There is a true love affair with Hawaii."

This type of demand sustains investment in spite of the barriers to entry in most California markets.

Kenneth Shishido, director of retail services and a principal for **Lee & Associates Commercial Real Estate Services** in Sherman Oaks, said Southern California stands out nationally because the lack of available land forces

retailers to change their formats if they want to build a presence there.

"The buzz this year has been that land prices are so high on properties in Southern California," he said. "I am seeing some stupid numbers in Southern California."

Lack of land is not the only complication facing retail development in California.

"Californians are very savvy," said Beverly Metz, director of retail development for **Opus West Corp.** "They know the CEQA process."

This can make bringing urban-infill projects into entrenched neighborhoods transitioning into more-dense development formats especially challenging.

Jeannette M. Moon, managing director for **Studley's** National Retail Division, said retailers are often the last to follow redevelopment into urban cores, such as downtown Los Angeles.

"They should look at the restaurants. Often those restaurants trend higher than anyone expected," she said, citing the example of downtown's new Daily Grill where bar sales alone are exceeding sales expectations for the entire restaurant. "I think the sales speak for themselves."

## Driven Inland

Traditionally, California cities are well represented among the municipalities with booths at ICSC's Public Sector Showcase. This year was no exception as the majority of the 58 municipalities with booths at the convention were from California.

What was most notable about the California cities at ICSC was how many inland cities were represented there. Los Angeles and San Francisco were absent from the showcase, but cities like Riverside, Ontario and Murrieta were showing their hunger for retail.

While criticizing organizations like the California League of Cities for being anti-progressive when it comes to retail, Buxton said some

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cities have elevated their presence at ICSC because they have seen others' success.

Murrieta had a big stake at this year's ICSC, considering the city has seen its population grow 110 percent since 2000 and retail sales increase nearly 300 percent over the same period. The rapidly developing city remains underserved by retail.

"There are a lot of opportunities right now. There is a lot of dirt left," said Simone McFarland, marketing manager for the city. "If people don't get in soon it is going to be too late. All the easy projects will be gone."

McFarland was tasked to attract higher-end retail to service a highly educated, high-income population that will wait two hours for a seat at Applebee's because few options are available.

Cities like Murrieta also are challenged to get the word out, because commercial real estate brokerages have yet to establish strong footholds in the market.

"Brokers don't understand the market because they are not from there," McFarland said.

But that seems poised to change as brokerages seek to increase their presences in inland markets to dominate underserved markets.

A few years ago, brokerages targeted cities like Riverside and Ontario as these types of markets. But now the growing locales don't have to fight for attention.

"Everything is happening at once," said Mary Jane Olhasso, economic development manager for the city of Ontario. "Money is flowing in like never before. Projects are breaking ground."

Prominent Ontario projects include **Oliver-McMillian** and **Principal Financial's** Guasti. The 50-acre mixed-use project will integrate 175,000 square feet of existing historic stone winery buildings into a high-end Tuscan-style village with 200,000 square feet of retail and entertainment space and 600,000 square feet of office, 400 residential units and two to three hotels. But that's hardly the largest project under development in Ontario as **Panattoni Development Co.** just broke ground on Piemonte, a 90-acre mixed-use development that will combine Class A office space and a hotel with high-end retail and condominiums. The project

will be adjacent to an 11,000-seat sports and entertainment center.

Adon Panattoni, director of Panattoni's retail division in Southern California, said its project finally got attention at this year's convention.

"Two years ago everyone said it would be like pulling a rabbit out of a hat," he said. "It was difficult to get anyone to believe in the scale of the project. It was just timing."

Jeff Pinter, Panattoni's national retail partner, credited the city with having a vision.

"They have done a really good job rebranding themselves," he said.

As a result of these catalytic projects and others, Olhasso said the city has moved from trying to attract retailers at ICSC to helping facilitate projects that have broken ground.

The city of Riverside had a similar experience at this year's convention as it seeks to facilitate projects like Fox Plaza, the first mixed-use project in downtown Riverside by **MetroRiverside LLC**, a partnership between **MetroPacific Properties** and **The Nicholson Co.**

When Tricia Hinckley and Gregory Lee, business development coordinators for the city, weren't building relationships with developers poolside at the Hard Rock Casino they were

helping other developers sort through permitting issues from their booth.

Ultimately, ICSC is about showcasing the city and its development partners, according to Hinckley.

"The city of Riverside has changed so much," Lee said, "we still run into people who don't understand how big the market is."

When it comes to size no municipality can compare to San Bernardino County, the nation's largest county in terms of geography and the lone California county with a booth at ICSC. San Bernardino recently formed an economic development corporation to support the economic, redevelopment, housing and other needs of its 24 cities.

"We want to position ourselves as the first stop. We want to be an ombudsman or liaison between public and private interests," said Brian P. McGowan, economic development agency administrator for the county.

McGowan also wanted to promote the county's 2,000 to 3,000 idle parcels of land available for development.

#### **Keeping Pace with Opportunity**

Arthur Nevid, managing director of **Moun-**

**tain Funding**, which is looking for projects in Hemet, Chico, Indian Well and Redlands along with more mature markets like San Diego, said California markets can evolve quickly.

"California is so huge and there are so many areas that can experience sudden growth," he said.

That point was hammered home thanks, ironically, to the Kangaroo rat. The tiny, protected creature was discovered on an Inland Empire site **Mountain Funding** was planning to entitle and sell. At first what looked like a disaster turned out to be a blessing in fuzzy disguise. That's because the two years in delays caused by the rat resulted in a substantial increase in the property's value as demand increased around the area.

Steven Jaffe, executive vice president and general counsel for **BH Properties LLC**, was among the many ICSC attendees who recognize the opportunities that change brings to California's markets.

"We certainly are not unique in recognizing the value of California and trying to understand how much we can grow," he said.

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