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HEADLINE: Retailers return to the city / Merchants' land of opportunity

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BODY:

Carolyn Johns-Gray remembers when Anacostia, the part of southeast Washington, D.C., where she has lived for 39 years, bustled with shops and restaurants.

But years of poverty and crime have left only a smattering of businesses serving the 95,000 people living there. That has forced residents to travel - often to suburbs in Maryland and Virginia - to buy clothes, furniture and other basic items.

The crime and limited parking often associated with Anacostia and other city communities nationwide have long prompted merchants to bypass urban America. But now many suburbs are crowded with everything from department stores to home-improvement warehouses, so there's a growing wave of store chains racing back to big cities that promise growth - and surprisingly strong profits. "We're at a point where the suburban markets are totally built out," says Peter Borges, president of The Retail Initiative, a New York-based group that helps fund economic development in urban neighborhoods. "If (you're) going to grow, the only untapped market that's really left in this country is urban America."

Retailers are discovering that urban stores are among the best performers. The Urban Land Institute estimates stores in neighborhood shopping centers in and around downtowns generate an average \$ 208.44 per square foot in revenue, as much as 3% more than stores in suburban shopping centers.

Urban neighborhood stores often succeed because of population density, says Fred Marx, a Detroit retail consultant.

"If you've got enough people with enough income and you locate (stores) in an area where people can get to (them) . . . it's going to work no matter where it is," says Michael Beyard, senior research director at the institute.

Supermarkets and drugstores led the charge back to cities. Now other merchants are following:

-- Kmart has opened stores in Los Angeles, St. Louis, Chicago and Buffalo, and is considering Detroit, Cleveland and Atlanta.

"We are looking wherever there is a good opportunity," says Mike Skiles, senior vice president of corporate facilities for Kmart. "Provided we can get the proper site to come back in, sometimes it represents a very good sales and profit opportunity for us."

-- The Sports Authority has opened in downtown Chicago, Philadelphia, Atlanta, Honolulu, Miami and New York's Manhattan borough since 1990, and plans to open stores in New York's Queens and Toronto this year. The sporting-goods chain is looking for additional sites in New York, Philadelphia and Detroit.

"There are a lot of people who live in urban areas. I just don't believe that customer has been served," says Jack Smith, Sports Authority CEO. "We do very, very well there."

-- About half the 12 stores Pathmark expects to open the next two years are in neighborhoods in New York's Brooklyn, the Bronx and Queens; Newark, N.J.; and Philadelphia, says Stan Sorkin, spokesman for the New Jersey-based supermarket and drugstore operator.

Pathmark is slated to open in Harlem next year. Like existing stores in Newark and Brooklyn's Bedford-Stuyvesant section, Pathmark is working with a community group - the Abyssinian Baptist Church. The church will own the land and building. Pathmark will operate it.

The Body Shop opened its first store in Harlem in 1992 and is setting aside some profit from the store to open other urban outlets.

-- Vons, a Los Angeles-based supermarket chain, launched an urban development program in 1991. It expanded the effort after the Los Angeles riots in 1992 by committing \$ 100 million to build as many as 12 stores in urban areas.

Even as retailers move back, urban areas remain underserved. Less than 5% of chain stores are in urban neighborhoods, says Jeffrey Green, head of a retail-expansion planning firm in Troy, Mich. "There are so many underserved areas throughout cities in America that the opportunities are endless," he says.

But many retailers, Borges says, fail to recognize the buying power in urban communities. They expect residents to shop outside their

communities when business could be snagged right in those neighborhoods.

Johns-Gray has seen Anacostia lose restaurants, a car dealership, a Safeway supermarket and other stores selling everything from furniture to hardware. A pizza parlor, sportswear shop and a fast-food restaurants are among the few remaining and they're flourishing, she says.

"Everyone wants to say that the people in this community don't have enough money for retail to be here," Johns-Gray says. "But the people here do (have money.) This is a working-class community."

Many cities, eager to lure businesses to underserved areas, offer land and buildings at discounted rents, tax abatements and other economic incentives, says retail analyst Ken Gassman of Davenport & Co.

And success stories from big cities are further encouraging retailers to open urban stores.

Since launching a campaign to enter big cities four years ago, Duncan, S.C.-based One Price Clothing Stores has opened in Cleveland, Kansas City, Detroit, Pittsburgh and, most recently, Los Angeles.

"The demographics tell us that's where our customers are," says Ethan Shapiro, president of the discount clothing chain.

One-Price Clothing targets blue-collar customers with a wide range of clothing it sells for \$ 7. Shapiro says the chain plans to continue expanding in the urban markets it has entered, and is looking to spread throughout California.

Blockbuster Entertainment has opened outlets in the Bronx, Cleveland, Miami, Chicago, Oakland, Calif., San Francisco, Detroit and other urban communities as it rapidly expands across the country.

"We as a company have found it quite rewarding to do business in the inner-city U.S.," says spokesman Wally Knief.

Despite the flow of shoppers to stores that have opened in big cities, some big retailers are slow to take the urban route. Downtown stores often rely on lunch-hour crowds, which discourages some chains.

Sears has avoided or left urban areas recently, closing stores in cities such as Minneapolis and Washington.

New York retail analyst Walter Loeb says big cities in the Northeast are the most fertile ground for retailers to expand. Extensive mass transportation systems in these cities help bring crowds of people to shop at their stores.

Undaunted by high rent, some merchants are moving into former department store buildings to reap high sales and profits.

New York City is undergoing a virtual retail explosion. Toys R Us; Bed, Bath & Beyond, Barnes & Noble Bookstores and others setting up shop largely in Manhattan.

Smith says The Sports Authority plans to open 10 stores in New York, most outside midtown Manhattan, by 1998. Kmart opened its first New York store in 1993 in a former Bloomingdale's in Queens. The discounter is slated to open in midtown Manhattan next year, and is looking at another four sites in that borough.

"We have had a program for several years that looks at opportunities to expand our Kmart program into more urban areas," Skiles says. "Many times the opportunities exist because there aren't a lot of other retailers servicing the inner city."

GRAPHIC: PHOTO, color, Robert Deutsch, USA TODAY; PHOTO, color, Robert Hanashiro, USA TODAY; PHOTO, b/w, Tim Dillon, USA TODAY

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