The Baltimore Development Corporation (BDC), Downtown Partnership of Baltimore, Inc. (Downtown Partnership), Baltimore City Department of Planning (DOP), and the Charles Street Development Corporation have formed a Strategy Team to develop a comprehensive retail strategy and marketing program for the City of Baltimore, focusing primarily on downtown and select neighborhood retail districts. To develop the report, the Strategy Team requires a comprehensive understanding of the national retail marketplace and Baltimore’s position to take advantage of it. This retail market assessment is designed to serve as the foundation for the retail strategy, enabling intelligent and creative decisions based on data, information and market realities.

Key Takeaways

The U.S. Urban Retail Market

- **Demographics Drive Retail Location Decisions**: While retailers consider a wide variety of factors in making location decisions, decisions are driven primarily by demographics—population, employment and income. If the demographic data and trends in a location do not meet predetermined requirements, retailers are not as likely to give the location or its other traits further consideration.

- **Different Location Factors for Different Retail Types**: Within cities, high-end retailers are typically attracted to areas in and near downtown since this is where the greatest number of high-income residents, employees and visitors are on a day-to-day basis. However, when mid-level and big box retailers, such as Target, Marshalls, and Home Depot, locate in cities, they tend to locate outside the center city in less expensive areas that offer easy access to a broad range of residents. These areas often offer easy parking or are near major public transportation stations. Home Depot, Toys ‘R’ Us, and Target (among others) have opened prototype stores in Manhattan, however, this is more of an urban experiment than a trend.

- **National Retail is Limited in Center Cities**: Typical location models for major national retail chains do not favor center cities. Suburban areas continue to be the preferred location of choice for most national retail chains. While the argument could be made that many major cities are ‘under-retailed’ by national chains based on population, most cities do not have the other critical demographic criteria and attributes that retailers believe they need to be successful.

Of the 40 national chains studied for this project, about half have locations in the top 8 retail cities identified below. For cities below the top 8, the presence of high-end and other national chains is much more limited. The mid-tier cities that
have some national chains tend to have stores such as Gap, Banana Republic, Talbots, Barnes & Noble, Borders and perhaps one department store.

- **National Retailers Cluster Together**: Whether in suburban or central city areas, national retailers cluster near one another and other high-end local retailers in enclosed malls, open air malls, or designated shopping districts. Many national retailers have a pre-determined list of retailers with whom they prefer to co-locate.

- **Changing Urban Malls**: While most cities in the top 25 metro areas have a major shopping mall of 400,000 square feet or more, many of these are in decline, such as Philadelphia’s Gallery (1 million square feet) and St. Louis City Centre (900,000 square feet). Many of the newest developments in central cities are quite different including: mixed-use facilities, open-air malls, and street-level storefronts in neighborhood shopping districts. Louisville recently opened up the former Galleria Mall into an outdoor Urban Entertainment Center similar to Baltimore’s Power Plant. Examples of newer urban shopping districts or open-air malls include Philadelphia’s Walnut Street, Minneapolis’ Nicollet Mall and Atlanta’s Atlantic Station (a 138-acre mixed-use project on the site of a former midtown steel mill).

- **Top U.S. Retail Cities**: Among major U.S. metro areas, there are only about 8 strong retail center cities. They are New York, Chicago, San Francisco, Boston, Seattle, Washington, D.C., Philadelphia and Portland, OR. The selection of these cities as top tier retail centers was based on high retail sales, high consumer spending, high retail employment and/or a large presence of major national chains in the center city. While other cities, such as Minneapolis, Denver and San Diego, are improving their retail bases, most cities in the top 25 metro areas are struggling to retain and attract national retail chains.

- **What Top Cities Have in Common**: Most of the cities listed above have a number of common traits. They have: 1) large metro area populations; 2) high center city population densities; 3) high center city daytime employment; 4) high center city average incomes; 5) at least one large mall or shopping district (400,000 to 1.5 million square feet) in the center city; 6) good public transportation; 7) good public safety either real or perceived. It is the combination of all of these traits together in a core area that seems to drive success, as opposed to having only one or two traits.

- **Experience and Authenticity**: In urban areas, national retail (and high-end locally-owned stores) tends to locate in neighborhoods or areas that offer a unique experience relative to typical suburban neighborhoods. This includes the presence of small parks and squares, sidewalk cafes, clustered amenities and a pedestrian-friendly non auto-dominated environment that encourages people to linger. Urban areas are also capitalizing on their authenticity – using historic assets, architecture, cultural offerings, and unique urban settings to create a
desirable environment for residents, employers and visitors. Rittenhouse Square (Philadelphia), Magnificent Mile (Chicago), and Newbury Street/Public Garden (Boston) provide examples of urban areas that pull most of these traits together.

- **Department Stores:** With retail trends favoring big box stores, low-price warehouses, and open-air, ‘main street’ malls, *department stores have been losing their long-held ‘anchor’ position in the retail market*. Department stores are being forced to re-invent themselves (Sears, JC Penney), consolidate with other stores (e.g., the Federated takeover of May), eliminate stores (Federated, Lord & Taylor) or go out of business (Wards, Bradlees, Caldor). However, among the 25 largest metro areas, 18 have at least one department store in or near downtown. Six of the eight top tier retail cities listed above have at least 4 or more department stores, with only Philadelphia (2 stores) and Washington, D.C. (1 store) lagging the group. The department stores that are located in these center cities tend to be higher-end, including Nordstrom, Neiman Marcus, Macy’s, Saks Fifth Avenue, Barney’s, Lord & Taylor and Bloomingdales.

Pittsburgh provides a sobering example of the difficulty in trying to secure department stores to spur high-end retail growth. The city was successful in using incentives to lure high-end Lazarus and Lord & Taylor stores to serve as anchors for a planned high-end shopping avenue. However, both stores closed within 2 years of opening, citing sales figures that fell below 50% of projections.

- **Incentives:** While a handful of cities have created incentive programs to attract retail, research on this project was *unable to find any significant and successful retail incentive programs in major cities*. Pittsburgh, as discussed above, provided $50 million for new Lazarus and Lord & Taylor stores, only to see both downtown stores close within two years of opening. The city is now responsible for paying off that debt. Washington, D.C. has enabled TIF legislation for retail, however, it has produced no favorable results. Only one small store has taken advantage of Detroit’s retail grants incentive. Buffalo used significant state and local grants to attract Bass Pro Shops to anchor a downtown redevelopment project, however, this is viewed largely as an act of desperation by a city in need of an economic spark.

Most articles reviewed for this project, and representatives of other cities, conclude that incentives for retail are bad policy not only because they tend to be risky, but also because they do not seem to produce desired results. The best incentive for retail appears to be the creation of a city environment that supports retail through infrastructure, amenities, government support and incentives targeted to the project developer for the overall project, as opposed to potential project tenants.

- **Retail as Economic Development Effort:** Historically, most cities have taken the position that retail is a follower of other economic activity. Therefore, cities and regions have not considered attracting and supporting retail to be an economic
development priority. However, recent trends, such as renewal of center cities and the quest for improved amenities, have driven a new focus on retail as a key amenity in supporting quality of life.

Few cities, however, have placed much in the way of resources towards a retail attraction and support effort. Some cities have created retail incentives (see above) with minimal results; San Jose, Austin and Portland have each developed retail strategies; and Philadelphia has pieced together highly professional marketing materials to promote its retail neighborhoods. But none of these cities has a program, staff or organization that is dedicated to retail attraction and support.

- **Transportation and Parking:** While parking for retail is viewed as a must in the suburbs, it plays a different role in urban centers. The top 8 retail cities identified each have good public transportation systems (including subway and light rail) and a daytime population base that is already downtown on a daily basis for other reasons (e.g., residents, employees, visitors). Philadelphia representatives stated that their retailers do not complain about the lack of parking nearby because they recognize that their business will come from people who are in town for other reasons and will shop while they are there. If people do come downtown to shop, it is for the experience or a unique item, not for convenience. This is why the existing demographics are so important. Cheap, easy parking is not typically a necessary part of the successful urban retail district.

- **General Retail Development Trends:** Current retail developments tend to revolve around mixed-use, ‘lifestyle’ centers (often open-air ‘main street’ malls), and urban entertainment centers (UEC). Few traditional enclosed malls are being developed today, although many argue the existing ones still have a place in the market.

  *Mixed-use* developments are those that include office, retail and residential space. They often entail pedestrian friendly environments, lifestyle-oriented merchandising, main street ambience, convenient access, and scaled-down big-box stores.

  According to ICSC, *lifestyle centers* typically have an open-air configuration and 150,000 to 500,000 square feet of retail space, with at least 50,000 square feet occupied by upscale national chains. The tenant types are typically apparel, home goods, and books and music. Restaurants, entertainment and design ambience (including sidewalk cafes, open space and other desirable settings) also make the complex a destination for more than just shopping. Many of these ‘main street’ projects are anchored by mega-plex movie theaters and offer outdoor dining, fountains and park benches designed to replicate the environment of old time city shopping districts.

  *Urban Entertainment Centers* (UEC) are developments that mix destination,
entertainment and retail. These projects bring together unique tenants and sense of place to encourage visitors to extend their stay. They are often ‘over the top’, with one developer describing them as, “Disneyland without the rides”. To become successful, UECs require a strong tourist and local market. They also need some type of over-arching idea. The Cordish Company in Baltimore has become a signature developer of downtown UECs, with Baltimore’s Power Plant, Louisville’s 4th Street Live, Kansas City’s Power and Light District and projects in Orlando, Norfolk and other cities.

The Baltimore City Market and Retail Potential

- **Demographic Power in 1-Mile Radius of Core**: Baltimore arguably has one of the nation’s top center cities. The mix of residents, employers, tourists and amenities in the core of the city supports Baltimore’s emergence as a top tier downtown. Among the top 25 U.S. metro areas, Baltimore ranks 8th for population (36,980) within a 1-mile radius of the city center and 8th for number of households earning $75,000+ in the same radius.

- **Demographic Decline in 3- and 5-Mile Radius**: Like many major U.S. cities, Baltimore has a solid core city, surrounded by struggling areas. While Baltimore’s population in a 3- and 5-mile radius remains among the top 10 cities nationally, income, growth and other critical measures fall-off dramatically. Like Baltimore, most major metro areas used to resemble a ‘doughnut’, with the entire city in decline and the surrounding suburbs showing great strength and growth. Today, large metro areas are starting to resemble ‘bullseyes’, with redevelopment and a rising middle- and upper-class demographic in the core and in suburban areas, but with continued decline in other city areas and the inner ring suburbs.

- **Underserved by National Retail Chains? Yes and No**: Given its improving demographics in the city center and in demographic comparison with city centers in other metro areas, it could be argued that Baltimore is underserved by national retail chains. However, like most cities, Baltimore’s city center still does not fare well when compared to surrounding suburban jurisdictions given their strong demographics, flexible real estate, and parking access. The overall retail market in Greater Baltimore and nearby Washington, is very well served by national retail chains.

Of the 40 national retail chains evaluated for this project, only 8 have locations within 1 mile of Baltimore’s city center. They are: Banana Republic, Barnes & Noble, ESPNZone, Gap, Office Depot, Safeway, Talbots, and Whole Foods. Most of the other chains have multiple locations in suburban Maryland, however, some have no Maryland locations, including Barney’s, Cole Haan, Marshall Fields, Neiman Marcus, and West Elm.
• **Characterized by Small, Local Retail:** While the presence of high-end national chains is fairly limited in Baltimore’s center city, the City does have a large number of small, street-level, local retailers. Among the top 25 markets reviewed, Baltimore City is among the top 10 for number of retail establishments and has the lowest average employment per establishment. This contributes to the City’s authenticity, however, the existing building footprints and frontage are not suitable for attracting national retail chains.

• **What’s Been Holding Baltimore Back?:** Baltimore’s effort to attract national retail chains has been held back by: 1) demographics that have only recently begun to become attractive to retailers; 2) downtown daytime employment that is well-below top markets; 3) no large, clustered shopping district or mall in or near downtown; 4) lack of adequate space to group retailers together and provide desired footprints and store frontage; 5) stiff competition from Columbia and wealthy surrounding suburbs; 6) easy access to high-end urban shopping experiences in New York, Philadelphia and Washington, D.C.; 7) inadequate and poorly connected public transportation system; 8) the perception of crime; 9) lack of comprehensive information on the Baltimore market and how it compares to other cities and suburban markets.

• **Reasons for Optimism in Baltimore:** Baltimore has a number of reasons to be optimistic about its position to attract and support a strong retail base. The City: 1) is arguably one of the nation’s top downtowns given its dense clustering of residents, businesses, visitors, institutions, sports facilities and events; 2) meets many factors that are driving national retail chain locations in top tier cities; 3) has high population density; 4) has a high number of high income earners in the city center; 5) is realizing a booming demand for high-end residential units; 6) has a high hotel occupancy rate with many new hotels in the pipeline; and 7) has the authenticity (architecture, culture, distinct neighborhoods, diverse populations) that is driving urban renewal in many major markets.

• **Suburbs Win Demographic Battle with City:** While Baltimore and nearby Washington, D.C. are performing fairly well against other central cities for desired demographic attributes, the surrounding Maryland suburbs perform much better. Using a 5-mile radius geography, Washington, Silver Spring, Baltimore and Bethesda have by far the highest populations and employment levels in the region. However, growth, incomes and consumer spending are much higher in the suburban towns than in Baltimore. The median household income within a 5-mile radius of downtown Baltimore is only $31,976, while it is over $80,000 in Columbia and Bethesda. All other jurisdictions, including Washington, D.C., average over $50,000. Combine these demographic factors with other key factors considered in retail location models, such as available land, parking, and public safety, and it is easy to see...
why retailers tend to cluster in suburban areas.

- **Light Street to Canton is Strongest City Area:** Among the Baltimore City neighborhoods reviewed, the areas around the Inner Harbor from the corner of Light and Pratt Streets, through Harbor East, to Canton show the **greatest potential for attracting national retail.** Federal Hill possesses fairly strong demographics and provides possibilities, however, it is not as central to the business and tourism core as the other areas and does not have large buildings or parcels to meet national retail needs. Incomes and household growth would likely deter high-end national chains from considering Mt. Vernon, the East Side/JHU, and the West Side/UMMS, even though these neighborhoods have the largest populations within a 1-mile radius. These neighborhoods should be considered for local, boutique, and small national or regional retail chains.

**Primary Implications of Findings for Baltimore**

- **If Demographics Rule:** Then, in efforts to attract high-end national retail chains, Baltimore must focus on the neighborhoods within a **1-mile radius** of the core downtown area. These are the only areas in the City that begin to provide the demographics and attributes that are proving attractive to high-end chains in other cities. Baltimore must also begin to **produce demographics and marketing materials based on the entire city center** (e.g., 1-mile radius) and not a limited definition of what constitutes ‘downtown’. If Baltimore doesn’t put its best foot forward in attempting to attract national retail, it is much less likely to be successful.

- **If Cities Don’t Fit Retail Models:** Then Baltimore must **creatively package and market** itself to desired retailers guided by a well-conceived plan. Otherwise, the existing models will serve to pass the City by. Baltimore must also identify ways to **differentiate** itself from surrounding suburbs.

- **If National Retailers Cluster; If All Successful Cities Have Dedicated Shopping Districts and/or Malls:** Then Baltimore must identify and promote areas where retailers can **co-locate** and **cluster** together in large numbers.

- **If Retailers Want Certain Footprints and Frontage:** Then Baltimore must either work to find space that meets retailer models or work creatively with retailers to help them **adapt their models** to unique urban environments.

- **If Authenticity Matters:** Then Baltimore must preserve and **leverage its unique neighborhoods,** markets and architecture.

- **If The Experience Matters:** Then Baltimore must consider sidewalk cafes, parks/squares, and **places to linger** which are not dominated by automobiles when
determining where retail will thrive.

- **If Access Matters; If Top Tier Retail Cities Don’t Prioritize Easy Parking:** Then Baltimore must consider retail access in *housing, transportation,* and other *growth planning*. The City must also ensure its designated shopping districts are *pedestrian friendly* since most urban shoppers arrive on foot.

- **If Department Stores Aren’t Anchors Anymore, but Part of the Mix; If Most Downtown Department Stores are High End:** Then Baltimore should continue to explore the possibilities department stores may provide to the overall retail environment and mix downtown, but attraction of a department store should not be viewed as a panacea that will move the City ahead by itself. The City should focus downtown efforts on higher-end department stores.

- **If Retail Incentives Aren’t Effective:** Then Baltimore must consider the entire set of factors that are proving to drive attraction of targeted national retail chains, as opposed to looking for an incentive that will serve as a silver bullet. The City must also focus on attracting and working with *experienced developers* that have the proven ability to attract desired retail to their projects.

- **If Baltimore has a Strong, Diversified Center City, but has Limited Presence of National Retail:** Then Baltimore has the opportunity to move into the top tier of U.S. downtowns for retail if it markets and manages its assets well.

- **If Most Cities Don’t Have Dedicated Retail Marketing Programs:** Then Baltimore has the opportunity to achieve success and be a first-mover among mid-tier markets, given its dedicated retail staff at Downtown Partnership, focus on commercial revitalization at BDC (including Main Streets) and existing center city attributes and demographics.

- **If Site Selection for Retail Varies by Size and Type:** Then Baltimore must address the strategy to meet the different needs of primary retail types: 1) high-end national chains; 2) mid-level national chains; and 3) smaller, local retailers. High-end retail must focus primarily on the high-income core (1-mile radius); mid-level retail (e.g., Target, Kohls, Marshalls) must focus on neighborhoods that provide lower cost, easy access to a wide variety of residents; and smaller, local retail must focus primarily on the City’s many unique neighborhoods.
Background: Project Approach
To develop a successful assessment and strategy, the Team wanted to understand: how retail location decisions are being made; the key factors involved in the location process; how Baltimore and other places compare given these key factors; current and future retail trends; and the recent experiences of other cities. To attain this understanding, the Team approached the project from a variety of different angles. They are:

- **Understanding Retail Location Decisions**: Forty national retailers were evaluated to determine where they have actually located stores and how they make location decisions. The 40 retailers represent a cross section of retail types including department, grocery, specialty, and big box stores.

- **Comparing Center Cities in the Top 25 Metro Areas**: Each of the top 25 U.S. metro areas and their core cities were evaluated to determine their demographics. The cities were also studied to determine which national retail chains are located in or near downtown.

- **Determining Retail Trends**: A wide variety of articles and reports were reviewed to determine the latest retail trends.

- **Comparing Baltimore and Its Surrounding Suburbs**: Baltimore City was compared to surrounding suburban towns to determine the difference in demographic characteristics and other factors most critical to retail location.

- **Comparing Baltimore Center City Neighborhoods**: Key demographics were evaluated using a 1-mile radius of 7 different neighborhoods in or near downtown. The areas studied include: Canton, East Side/JHU, Federal Hill, Harbor East, Mt. Vernon, Pratt & Light Streets, and the West Side/UMMS.

- **Visiting a Top Retail City**: Members of the project team visited Philadelphia for one day to meet with local officials and to experience the City’s retail shopping districts and associated neighborhoods firsthand.

City Comparisons: Apples and Oranges
The problem in comparing cities is that they are political jurisdictions that are very different in size (land area) so the information obtained does not provide for apples-to-apples comparisons. For example, Phoenix has a city population of 1.39 million and Baltimore City has a population of 643,000. So it is commonly assumed that Phoenix (6th largest U.S. city) is over twice as big as Baltimore City (18th largest). However, Phoenix City has a land area of about 475 square miles, whereas Baltimore City has only 81 square miles. Baltimore City actually has a population density three times greater than Phoenix. Even downtowns are difficult to compare. The Team was able to uncover some studies that compared ‘downtown’ areas in many cities, however, most of the data was self-reported and the downtowms also varied in size and definition.
Therefore, instead of using the top 25 cities for comparison, the Team decided to start by identifying the 25 largest metro areas, which represent true markets. Then, to ensure apples-to-apples comparisons of city centers, Claritas software was used to collect demographic data for a 1-, 3- and 5-mile radius from each city center. Using this data, Baltimore actually ranks 8th among the top 25 U.S. metros for population within a 1-mile radius of the city center, while Phoenix ranks only 17th.

This approach more accurately portrays how national retailers make location decisions and helps to explain why Phoenix, in spite of officially being the nation’s 6th largest city, has limited retail downtown. It also more accurately reveals the true strength of Baltimore’s downtown and nearby areas.

Population and Households
It is important to recognize the importance of household growth, in addition to monitoring population trends, in evaluating a market. In Baltimore’s case, while population in certain neighborhoods has declined, the number of households in them actually increased. Incomes are also rising in many city neighborhoods. In neighborhoods in and around downtown and the Inner Harbor, homes that used to house lower-income families of 5, are now middle- to upper-class households of one or two people. The City is also realizing significant infill development. So, population may decline, but number of households, median household incomes, property values, and tax revenues in many neighborhoods are going up.