

MJB Consulting

Downtown Pittsburgh Retail Market Analysis and Positioning - Executive Summary

---



**Executive Summary Only  
of  
Downtown Pittsburgh  
Retail Market Analysis  
Undertaken On Behalf Of The  
Pittsburgh Downtown Partnership**

**MJB Consulting**  
July 2008



**A Retail Real Estate Consulting Firm**

# Downtown Pittsburgh:

## Retail Market Analysis and Positioning

### Executive Summary

- In retail, it is often said that one should try to generate more business from existing customers before endeavoring to attract new ones. With this in mind, the following focuses on the "drivers" with the most influence on Golden Triangle retail *today*, rather than the ones that would need to be created from scratch.

#### Office Workers

- With the Manhattan-like daytime foot traffic resulting from its density of well-educated, higher-income workers, the Golden Triangle can make a compelling case to "fast-casual" operators (i.e. fast-food service model, but with higher-quality ingredients, more sophisticated menu items, in a somewhat more upscale and contemporary setting, at a slightly more expensive price point; existing examples include Au Bon Pain and Qdoba Mexican Grill).

- Given that 59% of workers in the Golden Triangle are female, and 76% are aged between 18 and 44, the opportunity for concepts appealing to this demographic's desire for "affordable luxuries" and "guilt-free indulgences" is substantial. These include cupcake cafes, frozen-yogurt shops, nail/beauty salons, massage studios, etc.

- Even though other fine-menswear brands might be realistic targets for the Golden Triangle, their presence would have the impact of further oversaturating the market and imperiling long-time operators. One concept worth exploring, however, is the male-oriented beauty salon that, unlike traditional barber shops or value-priced brands like Supercuts, focuses on the grooming and pampering needs of the modern "metro-sexual" man.

- The most desirable locations for worker-oriented businesses would be Grant, between Sixth Avenue and Fifth Avenue, and the Lower Liberty-Fifth Avenue-Market Square area, with the latter offering more available spaces. Also, certain concepts, such as frozen-yogurt shops and male-only salons, might be intrigued by blocks that can draw from both office-worker concentrations as well as Downtown's student population-- like, for instance, on Wood Street, between Forbes and Fourth Avenue.

#### Residents

- Due to its large daytime-worker population, Downtown already has a number of the convenience-oriented businesses that residents would want (e.g. drug stores, convenience stores, etc.), in addition to a new small-scale

grocer. The problem is that these operators do not always align their closing hours with the schedules and needs of the growing in-town population. The PDP might explore the possibility of incentive programs that encourage them to remain open later.

- In order to establish itself as a livable "neighborhood", Downtown needs a "Third Place", a phrase coined by the sociologist Ray Oldenburg to refer to those informal meeting places, separate from home (the "first place") and work (the second), that anchor community life. Every culture has its own version: in Britain, for example, it is the pub, in Germany the beer garden. In the United States, it is usually the coffeehouse.

In pioneering neighborhoods, the coffeehouse takes on added import, as central gathering places that help to forge and cement a sense of community for a group of trailblazers who might otherwise feel that they are alone on the urban frontier. Examples include The Quiet Storm, in the Penn Avenue corridor, and Beleza Community Coffeehouse, in Mexican War Streets.

- Downtown has its share of coffee bars, yet given their office-worker focus, these act more like assembly-line distributors of product, rather than "Third-Place" venues where one might want to linger a bit, read the newspaper, meet new people, spend the afternoon, etc.

- An appropriate operator for a "Third Place" coffeehouse in the Golden Triangle is one that would be sufficiently capitalized in order to afford its relatively high rents, and with a certain level of up-market polish so as to appeal to the affluent empty-nesters moving to Downtown.

- The bookstore is another important part of perceived livability, particularly for the sorts of well-educated households that tend to populate downtowns. Indeed, large-format chains like Barnes & Noble and Borders can play a dual role, also acting as a "Third Place" of sorts, with their in-store cafes, comfy reading chairs, etc.

However, Barnes & Noble and Joseph-Beth Booksellers are unlikely to be interested; Borders is considering the possibility of putting itself up for sale, with Barnes & Noble one of the interested parties; and Books-A-Million, which is entering the Pittsburgh market, might not be sufficiently upscale to play a "Third-Place" role for the sorts of affluent residents who live in or are considering a move to Downtown.

- As the most basic of services, the grocery store is perhaps the most important retail milestone for a fledgling downtown neighborhood. The store's prospects, however, remain uncertain.

### Event Patrons

- The greatest impact of the event venues in and near Downtown is likely to be in the dining and nightlife categories, with the Cultural District's theaters, related arts attractions (e.g. Andy Warhol Museum) and the convention center as the primary drivers. Within that sphere, there is a diverse mix of possible offerings, to cover the wide range of tastes and sensibilities and the different needs and objectives that such traffic will encompass.

- If, however, Downtown's dining and nightlife scene is to reach the next level, it must emerge as a larger destination, one that can not just capture the conventioners, workers and residents already in the Golden Triangle, but also, draw on its own, from across the region.

The most effective means of achieving such status is to present a series of offerings that collectively fill a specific *niche* within the larger competitive marketplace, one defined and differentiated, in the minds of both consumers and tenants, by a target demographic/psycho-graphic that remains under-served by or has become frustrated with the existing choices.

- One such niche, emerging in the Cultural District, is the small but growing number of stylish bars (e.g. Bossa Nova, Sevice, etc.) catering to a somewhat older and more mature contingent of well-heeled professionals. Most of these offerings are hugely popular among daytime office workers, but they also sizzle well into the weekend night, with a crowd that does not appear to be in town for a convention or a performance.

Such establishments offer alternatives for those looking for a nightlife option other than a traditional "shot-and-beer" bar or a loud and sweaty dance club, for concepts that are more worldly and cosmopolitan, for spaces that are vibrant enough to be "happening" but also mellow enough to allow for adult conversation, and finally, for crowds that do not leave a 30+-something feeling old.

- Downtown also enjoys a number of advantages in the competition for higher-end dining concepts. Many upscale restaurants can be found on the South Side, but offerings like these would seem to make far more sense in, say, the Cultural District, than on the booze-fueled East Carson Street.

Furthermore, with the growing number of high-style nightspots, Downtown would also seem to be an appropriate setting for cutting-edge dining establishments, ones that, like Six Penn Kitchen, embrace a modern, contemporary aesthetic, or that, like Sevice, offer a cuisine or concept that is relatively new to the market.

- Efforts to expand on the Golden Triangle's existing dining and nightlife offerings would be accelerated by a Cordish-style project on the RiverParc site, taking advantage of, among other things, the proximity to the convention center. For example, a "Cultural District Live!" would be

particularly effective at drawing larger national brands that might be hesitant to consider Downtown otherwise.

Such complexes, however, often project a mid-market feel that would contrast with the upscale positioning proposed here for the Cultural District. Furthermore, while they do not always focus exclusively on national brands, care would need to be taken to ensure that the ones which are included do not replicate (and potentially cannibalize) what is already offered elsewhere in the region by cherished local icons.

- Generally speaking, Pittsburgh-area dining and nightlife impresarios should be preferred, because, in contrast to say, large-format fashion retail, these are categories where local entrepreneurs are more easily able to compete with national brands, executing similar concepts with equal if not even greater skill, and where, as a result, a larger pool of such operators exists.

Moreover, in an era of increasing homogeneity, such local operators can serve to differentiate Pittsburgh in the minds of conventioners and other visitors, as well as underscore one of the region's more appealing virtues, its pride in the locally-grown (as evidenced by the satisfaction taken in the role that Millcraft Industries has played in Downtown's recent re-emergence).

- Not surprisingly, given its concentration of event venues, the undisputed center for dining and nightlife in the Golden Triangle is the Cultural District, but with the opening of Capital Grille and McCormick & Schmick's at Piatt Place, other high-profile redevelopment projects as well as on-going improvements in the public realm and pedestrian connectivity, the Fifth Avenue/Market Square area is poised to challenge that dominance.

Also, one cannot help but feel that dining and nightlife operators will ultimately gravitate to the human scale, historic buildings and atmospheric streets of Firstside, particularly the Market and First Avenue corridors. Similar urban neighborhoods elsewhere across the country have re-emerged in precisely this fashion. Indeed, there is even a history of such use there, with the wildly-popular but now-defunct Froggy's.

Specifically, Firstside is well-positioned to take advantage of the limitations of liquor licenses on East Carson Street, with youth-oriented nightlife impresarios possibly becoming interested in its location just across the Smithfield Street Bridge from Station Square (see above), and its nearby student population.

Since they would be geared towards a different, younger audience, such venues would *not* jeopardize the upward momentum of nearby Market Square, and since they would be confined to the Firstside district, they would not introduce an unwelcome East Carson Street-style rowdiness to the mature nightlife quarters in the Fifth Avenue/Market Square area or in the Cultural District.

## Universities

- In spite of their low incomes and seasonal presence, countless case studies from across the country demonstrate that students can be a powerful force for retail regeneration.

Taken together, the two educational institutions in the Firstside neighborhood combine for an enrollment of 6,800, roughly equivalent to the number at the Penn State campus in Clarion, PA or Xavier University in Cincinnati, OH. Furthermore, students account for over half of Downtown's residential population, and one can assume that a high percentage do not have cars and are "captive" consumers.

In its Advisory Services Panel for Point Park University, the Urban Land Institute (ULI) underestimated their potential impact, neglecting to include, for some reason, the 3,200 at the Art Institute of Pittsburgh, or, for that matter, the roughly 1,100 at the Pennsylvania Culinary Institute and the 10,000+ at Duquesne University, which, despite the recently-opened "Power Center", still lacks a true "college-town" feel.

- A sales pitch highlighting the artsy vibe of the student population as well as the large number of 20-somethings in the office buildings could prove effective with certain youth-oriented "alternative" fashion brands. Indeed, this market presents one of the two most promising opportunities in the Golden Triangle for boutique retailing.

- Students also provide support for other types of retail already discussed in connection with the daytime-worker population, such as fast-casual eateries (a category which they helped to create and for which they have always exhibited strong demand), frozen-yogurt shops, male-only hair salons, etc.

- Businesses looking to cater to both the student and daytime-worker populations make the most sense on the stretches of Wood and Smithfield with proximity to both Firstside's educational institutions as well as Downtown's major office-building concentrations.

- Although Firstside is never going to be Oakland, it can and needs to attract some of the iconic businesses that define a classic "college town". For example, while it has a Starbucks Coffee, it lacks a true coffeehouse that can serve as that "Third Place" for students, with comfy chairs, free wireless, later hours, perhaps a vaguely artsy/alternative vibe (given the Art Institute), etc.

Another such concept is the 24-hour diner, which could supplement patronage with revelers from just across the bridge at Station Square (and perhaps, in the longer-term, from Firstside itself), although it might have to

offer on-site parking in order to tap certain late-night markets (e.g. Duquesne students), and institute security measures to deter undesirables.

- Point Park University has established itself as *the* driver in this part of Downtown, yet as ambitious as its "Academic Village" plan is, one could think even more broadly about the opportunity that the Firstside neighborhood presents. The responsibility falls to PDP to take the lead in this respect.

For example, the "Academic Village" plan concentrates efforts largely on Wood Street and the Boulevard of the Allies (as well as Forbes Avenue, with the Pittsburgh Playhouse). However, PDP should expand the focus west to Market and east to Grant, so as to allow for the inclusion of other corridors like Smithfield, First Avenue and Market.

Smithfield not only offers a higher level of foot traffic than Wood and a more continuous stretch of storefronts, but also, it sits at the nexus of Point Park University and the Art Institute of Pittsburgh, and is a block closer to Duquesne University. As such, it is the corridor where most student-oriented businesses would most likely want to locate. And as discussed earlier, the atmospheric streets of First Avenue and Market offer dining/nightlife potential.

- PDP should discourage Point Park University from burying retail uses, like a "Third Place" coffeehouse, within a self-contained, Student Union complex. Doing so would, as in an enclosed mall, waste an opportunity to create synergies on the street level, transform perceptions of Firstside (as a place of youthful vitality and emerging community), and fashion a true urban "village".

#### Destination: Up-Market

- The Golden Triangle's potential for up-market destination retail is predicated largely on Saks Fifth Avenue. For example, while many of the neighborhoods near Downtown consist predominantly of lower-income households, the presence of Saks creates a larger trade area with much stronger demographics, e.g. higher household incomes (roughly \$80,000 average, \$53,000 median) educational attainment (42% with B.A.'s or more) and occupational levels (75% white-collar).

- Downtown can offer the sort of compelling narrative and upward trajectory that certain aspiring and existing boutique-owners are likely to respond to. Also, it boasts higher levels of foot traffic, greater visibility and a more central location than any of the other alternatives in the region.

- While the ground-floor rents in many corridors in the Golden Triangle are at a point that most independents simply cannot sustain, "Upper Liberty", i.e. the stretch of Liberty between Eighth Street and Tenth Street, is priced more affordably, and in addition, can tap the Cultural District's narrative and brand

as well as draw on the presence of the pioneering Chick in marketing itself as Downtown's emerging boutique cluster.

- Upper Liberty is also just 1.5 blocks from the northernmost of Smithfield's row of up-market destination retailers, and while the connectivity is weak because the tenant mix changes so dramatically in those 1.5 blocks, PDP should, with the exception of local icons such as Smithfield Café, work with landlords to re-tenant spaces upon lease expiration with up-market boutiques, so as to better establish this link to Liberty.

- In certain respects, Upper Liberty might not seem like an ideal location for this sort of retail, but the corridor does offer relatively high visibility and foot traffic. Boutiques are risky endeavors, and while such entrepreneurs can sometimes thrive on a sleepy street with strong "word-of-mouth", a lack of pass-by would only add to the list of challenges that they must overcome, and further diminish their odds of success.

Furthermore, the high visibility of Upper Liberty, as a major Downtown thoroughfare and with its proximity to wider draws like the Cultural District theaters and the Convention Center, means that a clutch of boutiques there could have a disproportionately positive impact on the Golden Triangle's brand image throughout the region and beyond.

- The kinds of concepts most likely to be successful on Upper Liberty are the ones that focus on a relatively high-paid, style-conscious shopper, the sort who might already be buying at Chick, patronizing the growing number of more mature nightspots in the Cultural District, working in the nearby office buildings, etc.

Indeed, while the Cultural District has already been earmarked (above) for additional nightspots and restaurants, boutiques could not only co-exist with such uses on Upper Liberty (where the rents remain sufficiently affordable), but also, it is hoped, take advantage of the stretch's visibility to these night-lifers and diners, who might then return in the future, during the day, to shop there.

- One other possibility for up-market boutiques in the Golden Triangle is Forbes Avenue, between Market Square and Smithfield Street, although the potential of this still-sleepy stretch is perhaps longer-term, once/if the energy of Market Square starts to spread eastward, "The Gardens" project is developed, the street's profile rises and its levels of foot traffic increase, etc.

- Given the role that boutiques could play in creating a distinctive shopping destination, PDP should, in collaboration with its foundation partners, develop a fund for providing assistance, for example, with build-out, inventory and working capital, as well as bankrolling advertising campaigns and web consultants.



- Although not thought of as upscale, certain large-format, discount-oriented box stores enjoy immense popularity among affluent consumers. Target, or "Tar-zhay", is only the most obvious example: wealthy shoppers are also drawn to certain "off-price" fashion retailers, where they can take pleasure in finding bargains on designer labels for which they would otherwise have to pay full-price at mall department stores.

From a larger perspective, these sorts of tenants are ideal for downtowns like Pittsburgh's because their appeal cuts across cultural and socio-economic lines, enhancing the Golden Triangle's image among opinion-makers and potential tenants/investors while at the same time remaining affordable to lower-income households.

- After removing the trade areas for formidable competitors like The Waterfront at Homestead and Waterworks Mall, income levels within the one that remains might simply be too low for many of these upscale box brands. Having said that, extraordinarily high sales at an existing location could justify the opening of another store nearby even if the trade areas overlap, perhaps to relieve some of the pressure on the first one.

However, for most of these brands, the presence of Saks Fifth Avenue is critical, and they would lose whatever interest they have in a Golden Triangle location if the upscale anchor were to leave.

- "Ubiquitous" brands are ones that have already blanketed the region's major sub-markets, while "in-betweeners" chains have stores in more than one but not all of them. These include mall standards as well as successful local chain-lets with anywhere from two to five units across the region.

A Downtown location for either a ubiquitous or in-betweeners chain would not be a true destination but rather, would have to rely heavily on other anchors and drivers for potential customers. For this reason, co-tenancies are especially important to such operators: a critical mass of complementary retailers must be in place, or else they will not have what they need.

In the case of the Golden Triangle, the other demand-generators on which it would be relying -- anchors like the Saks Fifth Avenue and the Macy's (which is itself ubiquitous), and drivers such as the large and dense daytime-worker/business-traveler population -- simply do not provide enough store traffic on the all-important weekends.

Saks Fifth Avenue's departure would make the opportunity even less compelling: indeed, one has to wonder whether the ubiquitous brands already in the Golden Triangle -- Talbots, Ann Taylor, Jos A. Bank Clothiers and Bailey Banks & Biddle -- would remain if the upscale anchor were to leave.

- Having said that, there remain a few national brands and local chain-lets that -- assuming Saks was to re-sign -- might still be pursued, given the sorts of locations that they have taken elsewhere, the distribution of the ones that they currently occupy in the Pittsburgh market, their 2008 expansion plans, etc.

- The Golden Triangle, of all of the major shopping destinations, would seem to be the one best-positioned to capture the one-per-market luxury retailer. It sits at the center of the region's road network, at the intersection of I-376 and I-279, the only location within the second ring where two freeways intersect.

However, the Nordstrom brand is one of the few that is strong enough to overcome such centrifugal forces. As one local broker said, "women will walk barefoot through glass and barbed wire to shop at Nordstrom", and as recent announcements at Ross Park indicate, luxury retailers will do the same. Downtown had its chance; sadly, it failed to take advantage.

Yet even with Ross Park's current momentum and competitive edge, it is still worth making a concerted effort to attract certain "game-changing" brands. The probabilities of success might be low, but the reward would be huge, in terms of the additional weekend traffic generated (and the new retailers that materialize as a result), the reversal of momentum and injection of morale for Downtown vis-à-vis Ross Park.

- At present, the strongest location for such up-market brands is Smithfield Street, specifically the four-block stretch from Forbes to Strawberry Way. But with available space limited on Smithfield and with the development of big-splash projects and potential for sizable floor-plates on Fifth Avenue, up-market destination retailers now might be willing to take a fresh look at the latter corridor, especially the block closest to Smithfield.

In this respect, the intersection of Smithfield and Fifth Avenue is Downtown's "100% corner", and the re-tenanting of the Mellon Bank Building (the former Lord & Taylor), at that pivot, is the critical piece. Another key parcel is the one across from Piatt Place, at the southeast corner of Wood and Fifth Avenue and including the Lerner Building.

- Given that one of Downtown's competitive disadvantages is its relative lack of possible spaces to offer to prospective tenants, the PDP should take the lead in efforts to obtain site control over key parcels that have long been in the hands of property owners either not interested in or able to redevelop for higher-value retail uses.

- PDP, however, should *not* move ahead *on spec*; before acquiring properties, it should, in collaboration with a retail partner as well as other relevant stakeholders, create a plan for redevelopment, make the case to possible retailers and obtain commitments from key anchors. Finally, with such real-

estate endeavors, PDP should not be insensitive to the position of existing tenants, if for no other reason than to avoid the tumult of earlier retail regeneration efforts in the Golden Triangle.

- Just as PDP is acting like the typical mall developer in generating and providing new space, it should also, in collaboration with its foundation partners, play that role in the offering of incentives and provision of assistance to new tenants, in particular, boutiques, upscale box brands and one-per-market retailers.

This is a *critical piece* in attracting retail -- especially larger anchor stores -- to the Golden Triangle. In order to compete on a level playing field with shopper-center developers, Downtown *must* be willing and able to offer the same sorts of carrots, and property owners do not necessarily have the incentive or the wherewithal to assume this burden.

- Just as importantly to the tenant recruitment effort, PDP should do whatever it would take to retain existing anchors. Without Saks Fifth Avenue, for example, most of the up-market brands proposed in the report would have little interest in the Golden Triangle, and so, no effort or resources should be spared in the push to keep the department store in Downtown.

- The PDP should continue to work towards a permanent policy of free evening/weekend parking during the holiday shopping season. In terms of the parking tax, it remains critically important that the City continue with State-mandated reductions. And in order to decrease the effective cost still further, the PDP should focus once again on the creation of a parking validation program.

#### Destination: Mid-Market

- With so few comparison-goods retailers in the lower-income neighborhoods close to Downtown, and with so many households there reliant on mass-transit and easily able to access Downtown by bus, it is important that the Golden Triangle retain its role as a major shopping destination for this demographic.

The issue, of course, with many of these stores is that their presence and target shopper can be a deterrent to other prospective retail and non-retail tenants, and de-value Downtown's brand in the minds of suburbanites, visitors and potential investors. Regardless of how one feels about this or what it says about our culture, it is the reality.

- The solution would seem to lie in "cross-over" retail. In addition to the upscale box brands, there is another sub-set of operators -- the "*mid-market*" box brands and mall-based in-line chains -- that appeal even more directly to lower-income shoppers but remain both acceptable to (and are

patronized by) a broader demographic. An existing example is Burlington Coat Factory.

- An important anchor for mid-market (and, to a lesser extent, up-market) retail is Macy's. PDP should lobby the chain to upgrade its Fifth Avenue flagship, while at the same time working with it to coordinate a possible redevelopment of the enormous building, involving, for example, a smaller, more appropriate retail floor-plate along with other uses on the higher floors.

- Wood between Fifth and Forbes should be designated as the "mid-market" block, with the tenant mix in the PDP-led redevelopment of its east side including the sorts of mid-market box and in-line brands referenced above.

This mid-market positioning for Wood makes sense in light of the demographic to which it currently caters, but represents an improvement on the tenant mix there now. At the same time, it fits with the value-oriented, student/20-something retail envisioned for Wood south of Forbes,

- As for the issue of buses on Fifth Avenue, one possible compromise is to keep the routes but remove one of the two stops at Wood and Smithfield, preferably the one at Smithfield, so as to improve the tenanting potential of spaces closer to that corridor, while at the same time reinforcing Wood between Fifth Avenue and Forbes as this new mid-market (transit-accessible) shopping destination.

- Of course, while higher-end anchors and projects might be able to accept mid-market retailers on the next street, they would not necessarily welcome them *next door*. In deference, then, to Piatt Place's co-tenanting needs, the more upscale box brands, which are typically not unwilling to co-locate with their mid-market brethren, should be pursued for the space at the southeast corner of Fifth and Wood, and the bus stop kept on the southwest corner of that intersection.

- This overall concept would yield a core shopping area that serves as a true "cross-roads", that raises the tenanting standard, moves demographically to the other side of the "tipping point" and protects/enhances the value of recent investments on Fifth Avenue, but at the same time, appeals across socio-economic/cultural lines and remains accessible to the lower-income shopper.

END