## **Tipping Point Series**

# Rivers Edge Revitalization Catalyzes Development in Surrounding Area

Center Now Fully Occupied, Attracting Major New-to-Market Retailers, With Higher Sales and Rents

BILL SPEER\*

**Abstract:** This is the third in a series of profiles on how shopping center companies have upgraded the value of their properties, as well as the role of research in this process. This profile examines how Kite Realty Group, owner of Rivers Edge, revitalized what had been an Indianapolis community center suffering from lackluster sales, unacceptably high vacancy levels and the impending departure of its key anchor tenant. The company's in-house Market Research Department worked closely with the development and leasing teams to facilitate the moribund property's repositioning. The successful redevelopment catalyzed a flurry of construction activity in the area and yielded substantial increases in center sales and rents.

It is September 15, 2011, and the only Nordstrom Rack in Indiana has opened its doors for the first time at Kite Realty Group's ("Kite's") Rivers Edge community center in Indianapolis. Throngs of shoppers have flocked to the center to visit the store, creating something of a spectacle and leaving available parking in short supply. Three weeks later The Container Store joins Nordstrom Rack at Rivers Edge, opening their only Indiana location at the property.¹ (Details on the project are contained in the "snapshot" in Figure 3-1 and the demographic profile in Table 3-1.)

Kite was not the original developer of Rivers Edge, and the center had not always been met with such success, despite a favorable location just south of Interstate Highway 465, in Indianapolis' affluent northern suburbs. (See Map 3-1.) The retail development was the brainchild of Jack Sourwine, a well-known local office developer, who, with his spouse, Patsy, purchased the property more than two decades earlier, in 1985.<sup>2</sup>

# Riverside Location Produces Construction Challenges

When Sourwine Real Estate Services ("Sourwine") started construction on Phase 1 of Rivers Edge one year

# **Figure 3-1**Rivers Edge Snapshot

**Center Name:** Rivers Edge (www.RiversEdgeIndy.com) **Location:** 4036 E. 82nd Street, Indianapolis, IN 46250

**Developers:** Kite Realty Group Trust

**Opening Date:** Original: 1989; Redevelopment: Fall 2011

(staged openings beginning Summer 2011)

Total Leasable Area: 153,000 sf

Number of Stores: 13 Parking: 612 spaces

**Anchors:** buybuy BABY, The Container Store, Nordstrom Rack

later, in 1986,<sup>3</sup> the firm faced a wide range of challenges. Portions of the property were comprised of land reclaimed from the flood plain on the banks of the White River on East 82nd Street at Dean Road. Other parts included a former landfill. In order to create a site suitable for retail development, the reclamation process necessitated construction of a 20-foot tall retaining wall and introduction of engineered fill and concrete piers to support the center structures. (The land immediately west

<sup>\*</sup> Principal, Speer Consulting LLC

<sup>&</sup>lt;sup>1</sup> "NORDSTROM RACK Grand Opening at Rivers Edge" (YouTubeVideo); and Cory Schouten, "Parking Already at a Premium at Rivers Edge Shopping Center," Indianapolis Business Journal, Oct. 1, 2011.

<sup>&</sup>lt;sup>2</sup> Warranty deed, Marion County Recorders Office, Oct. 21, 1985.

<sup>&</sup>lt;sup>3</sup> IndyGIS aerial photo archives for 4036 E. 82nd Street, Indianapolis, http://imaps.indygov.org.

**Table 3-1**Rivers Edge Plaza 2016 Demographic Profile

Demographic Rivers Edge Radii			
Characteristic	1 Mile	3 Miles	5 Miles
- Characteristic	2	<i>5</i> 1111.05	5 111105
Population	5,100	59,500	174,200
Households	2,900	28,300	80,100
Projected Five-Year Household Growth	5.7%	2.9%	2.7%
Median Age	39.4	37.1	38.6
Average Household Income	\$81,000	\$79,100	\$81,900
Total Household Income (\$Billions)	\$0.2	\$2.2	\$6.6
Number of Households with Incomes: >\$100,000	700	6,900	20,800
Percent of Households with Incomes: >\$100,000	25%	24%	26%
College Graduates	58%	53%	52%
White-Collar Employed	78%	73%	74%
Owner-Occupied Housing	39%	51%	60%
Estimated Median Housing Value	\$260,800	\$211,800	\$199,400
Ethnicity: White Black Asian/Other	84% 8% 8%	76% 13% 11%	74% 17% 9%
Hispanic	3%	7%	5%

Sources: U.S. Census Bureau; Nielsen, Inc.; Speer Consulting LLC

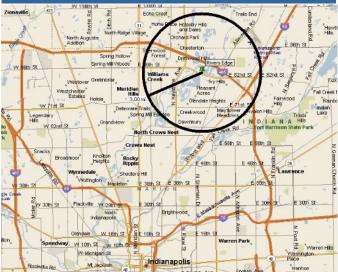
of the Rivers Edge site had formerly served as a gravel pit, also housing asphalt and concrete batching plants.<sup>4</sup>)

# Expansion Brings Second Phase; Ownership Change at Rivers Edge

Once the initial phase of Rivers Edge opened in 1989, Sourwine began planning for expansion of the center, which was the only retail property in its portfolio. By 1991, Phase 2 was under construction, ultimately expanding to a 110,000-square-foot (sf) community center anchored by a 25,697-sf Office Depot. 6

With shopping centers a secondary priority at Sourwine, Rivers Edge perhaps did not receive the attention needed to optimize center sales and operating income. By the end of 2007, more than one-quarter of the center's non-anchor space was vacant. The Office Depot





Source: Microsoft MapPoint

lease was set to expire in 2010, portending the prospect of a continued decline at the property.

While Rivers Edge had not been marketed for sale, Kite Realty Group, a successful Indianapolis-based developer and owner of a sizable portfolio of neighborhood and power/community centers, approached Sourwine. On Feb. 1, 2008 Kite acquired the property for \$18.3 million. Just months later, in August 2008, Kite filed a rezoning application which would allow outdoor seating and the addition of a new anchor retailer of about 60,000 sf at the center. As with previous properties profiled in this series, an ownership change for Rivers Edge would become a tipping point catalyzing a renewal of the center.

# Major Redevelopment Announced; Revitalized Center to Open in 2011

By 2010, however, Kite had shifted gears, with nonanchor sales productivity levels at the center registering a modest \$177 per sf.<sup>9</sup> At RECon, the International Council of Shopping Centers' annual convention held that May, they revealed plans for a more ambitious redevelopment of the property.<sup>10</sup> In August the firm announced that they would commence with a major \$15 million redevelopment

<sup>&</sup>lt;sup>4</sup> Kite Realty Group senior management.

Laura Douglas, CoStar News, Feb. 21, 2008.

<sup>&</sup>lt;sup>6</sup> Per *Indianapolis Business Journal*, PDF excerpt of article retrieved Oct. 26, 2015 from www.sourwine.com/links/ibj.pdf; Tracy Donhardt, "Sourwine Planning to Sweeten Its Local Office Offerings," *Indiana Business Journal*, Aug. 15, 2005; and Kite lease plan dated Dec. 13, 2007.

<sup>&</sup>lt;sup>7</sup> Cory Schouten, "<u>Kite Lands in Hot Retail Spot</u>," *Indianapolis Business Journal*, Feb. 25, 2008.

<sup>8</sup> Cory Schouten, "Rivers Edge and Crazy for Cafes," Indianapolis Business Journal, Aug. 5, 2008.

<sup>&</sup>lt;sup>9</sup> Kite internal accounting statistics.

Cory Schouten, "Rivers Edge Lands Nordstrom Rack, The Container Store," Indianapolis Business Journal, May 29, 2010.

of Rivers Edge. The state's first Nordstrom Rack (35,000 sf) and The Container Store (22,000 sf), together with buybuy BABY (26,000 sf) would anchor the redeveloped center, set to open in Fall 2011. Several existing tenants would remain open or relocate within the center during construction. Securing two new-to-the-market anchors for the property was another tipping point leading to the redevelopment's ultimate successes.

The project would involve demolition, new construction, new facades, new pylon signage, site work upgrades and landscape upgrades. According to the center's "ProView" listing in the "Blue Book Network" for the commercial construction industry, this multi-phase, extremely detailed construction process "included surgical demolitions of portions of the retail center, complete interior upgrades and façade and exterior improvements. As each store finished its renovation, it opened for business. The construction team worked around an active site with constantly changing construction areas, all while maintaining a clean and safe environment for patrons and store owners," because portions of the center continued to operate during the redevelopment process. <sup>12</sup>

Moreover, the redevelopment effort:

 required expansion of the Rivers Edge site, necessitating the acquisition and rezoning of an adjacent parcel to accommodate relocation of an existing tenant, Bicycle Garage Indy ("BGI");

- included upsizing storm-water drainage piping to secure neighborhood support for the rezoning;
- demolished the shuttered Office Depot space (to be replaced by Nordstrom Rack and buybuy BABY); and
- added a new signalized access point on East 82nd Street, activating a formerly weak end of the center (following litigation with BGI, which ultimately was offered a new space and test-ride area). (The new BGI space was constructed while the retailer continued operations in their existing space.<sup>13</sup>)

By the end of 2010, the redevelopment effort was fully under way. Center occupancy stood at less than 20%.<sup>14</sup>

#### **Kite Market Research Department Does Its Part**

While the Kite development and leasing teams were busy managing construction and releasing programs, Kite's Market Research Department initiated a series of efforts to assist with Rivers Edge's successful revitalization. Customized marketing packages were prepared for targeted tenant prospects, profiling regional and trade area demographics, competitive alignment and the overall economic context for Indianapolis (e.g., major employers, business climate, housing, recreation, etc.), especially important information for new-to-the-market retailers, such as The Container Store and Nordstrom Rack. The Kite Market Research Department also prepared extensive relocation option packages for in-place Rivers

# **Figure 3-2**Lessons Learned

- Difficult site development conditions can pose challenges, but a favorable location, with good access, visibility, superior trade area demographics and a strategic location near major shopping destinations, can result in superior property performance.
- Shopping centers controlled by owners whose primary focus is not on the retail sector can experience disappointing performance despite an otherwise favorable property location.
- The research team can supplement efforts of in-house development and leasing professionals, providing key information for new-to-the-market tenant prospects that have limited familiarity with the area, and assisting with tenant retention or strategic relocation.
- Attracting unique, new-to-the-market anchors to a property undergoing redevelopment can create a point of difference which can revitalize a previously moribund center.
- Substantial capital investment is often required to fund a center's redevelopment, but it can catapult it from lackluster sales, rent and operating income levels to a portfolio star.

<sup>&</sup>quot;Kite Realty Group Trust Announces Major Indianapolis Redevelopment" (Business Wire press release), Aug. 4, 2010; and "Nordstrom to Open First Indianapolis Rack" (PR Newswire press release), Aug. 4, 2010.

<sup>12 &</sup>quot;Rivers Edge Plaza" entry, The Blue Book, retrieved June 22, 2016.

<sup>&</sup>lt;sup>3</sup> Kite senior management.

<sup>&</sup>lt;sup>14</sup> Kite internal statistical accounting statistics.



Edge retailers needing to identify alternative premises—temporarily or permanently—during the center's redevelopment construction.<sup>15</sup>

#### **Igniting Retailer and Developer Interest**

With the 2010 announcement of Rivers Edge's new anchor lineup, retailer interest in the property was piqued. In January 2011, Harry & Izzy's, a corporate cousin to popular local St. Elmo Steak House, announced plans to open that fall an 8,600-sf restaurant at the redeveloped center. <sup>16</sup>

Other area property developers began to take notice. In October 2011, a local residential builder announced plans for a \$54 million, 230-unit high-end apartment complex nearby, stating that they were "inspired in part

by the updated look of Rivers Edge."<sup>17</sup> Other retail developers, taking note of the center's success (the property was fully leased by mid-2012<sup>18</sup>), announced that they would build two more open-air centers close to Rivers Edge. At the adjacent site of a former AMC movie theater, a 70,000-sf Latitude 39 entertainment complex was announced.<sup>19</sup>

By mid-2014, Giordiano's, recognized by the *Chicago Tribune* and *The New York Times* as purveyors of "Chicago's Best Pizza," announced that it would replace the former Sangiovese restaurant at Rivers Edge. It would be their first location in Indiana.<sup>20</sup> Retailer interest continues, with J. Crew Mercantile planning an opening by the end of 2016 in the space formerly occupied by Wild Birds.

#### Conclusion

Year-end 2014 non-anchor tenant sales reached \$429 per sf at Rivers Edge, more than doubling 2010 levels. Total center sales exceeded \$65 million, up 11% over 2013 levels and more than 70% greater than 2011 figures. By the close of 2015, net operating income at the center was almost quadruple 2010 levels, catapulting Rivers Edge's ranking for that measure from solidly in the middle of Kite's portfolio to the top 20%. Overcoming the massive challenges faced during the redevelopment of Rivers Edge had paid substantial dividends for the company.

#### **ABOUT THE TIPPING POINT SERIES**

This is the third in a series of articles that consider "turnaround success stories"—challenged shopping-center properties that were revived through recapitalization, remerchandising, redevelopment or other factors. These profiles briefly explain how the properties initially fell into difficulties; how the centers' major problems were identified; and how research methods (e.g., focus groups, demographic data analysis, social media) were used to determine the most effective course of action. The articles identify "tipping points" (i.e., what changed the dynamic) in the process of turning the centers around, reporting the steps ultimately executed. Collectively, the tipping points are meant to illustrate a variety of situations, such as leasing to a crucial anchor, infrastructure improvements, demalling, parking enhancements, a changed neighborhood environment, and an additional property use besides retail.

<sup>&</sup>lt;sup>15</sup> Kite Market Research Department.

Cory Schouten, "New Dining on the Way for 82nd Street: Harry & Izzy's, MacKenzie River Pizza Co.," Indianapolis Business Journal, Jan. 18, 2011.

<sup>&</sup>lt;sup>17</sup> Cory Schouten, "Developer Plans \$54 million in New Apartment Projects," Indianapolis Business Journal, Oct. 28, 2011.

<sup>&</sup>lt;sup>18</sup> Kite internal accounting statistics.

Cory Schouten, "Rivers Edge Success Spawns 2 New Retail Strip Centers," Indianapolis Business Journal, May 23, 2012, and Cory Schouten, "New Entertainment Venues Heat Up Clearwater Crossing," Indianapolis Business Journal, Dec. 11, 2012.

Scott Olson, "Chicago Staple Giordano's Snags Sangiovese Space," Indianapolis Business Journal, June 4, 2014.

<sup>&</sup>lt;sup>21</sup> Kite senior management; internal accounting statistics.



**Bill Speer**, Principal of Speer Consulting LLC, has more than three decades of industry experience in the areas of retail market and consumer research, financial analysis and asset management. He has been an independent advisor to retail and mixed-use developers, private and institutional investors, and public agencies since 2000. As Vice President and Department Head of TrizecHahn's Market Research and Financial Analysis Department (1987-2000), he was responsible for all market and financial analysis for new development projects and acquisition candidates. He evaluated feasibility of TrizecHahn's entertainment, retail and mixed-use development opportunities in Latin America, Asia and Europe as well as throughout North America and was responsible for

annual valuations of its \$2.6 billion retail portfolio.

A longstanding member of ICSC's North American Research Task Force, Mr. Speer served as its Vice Chairman for two years and Chairman in 1993. He co-chaired ICSC's 1998 Research Conference, was the chair of the 1999 Conference, and was a member of the Task Force's 2006 and 2007 Research Conference Planning Subcommittees. In 2009, he received ICSC's Trustees Distinguished Service Award, the organization's highest honor. In 2011, he was honored with ICSC's Award for Outstanding Service to the Research Community. He currently serves as the American representative to ICSC's European Research Group.

Mr. Speer holds bachelor's degrees in both political science and business from the University of California, Riverside and a master's degree in business administration from the Stanford Graduate School of Business. He is a member of the Phi Beta Kappa Honor Society and is a licensed California real estate broker.

For further information, he can be reached at: <a href="mailto:bspeer@sciti.com">bspeer@sciti.com</a>.