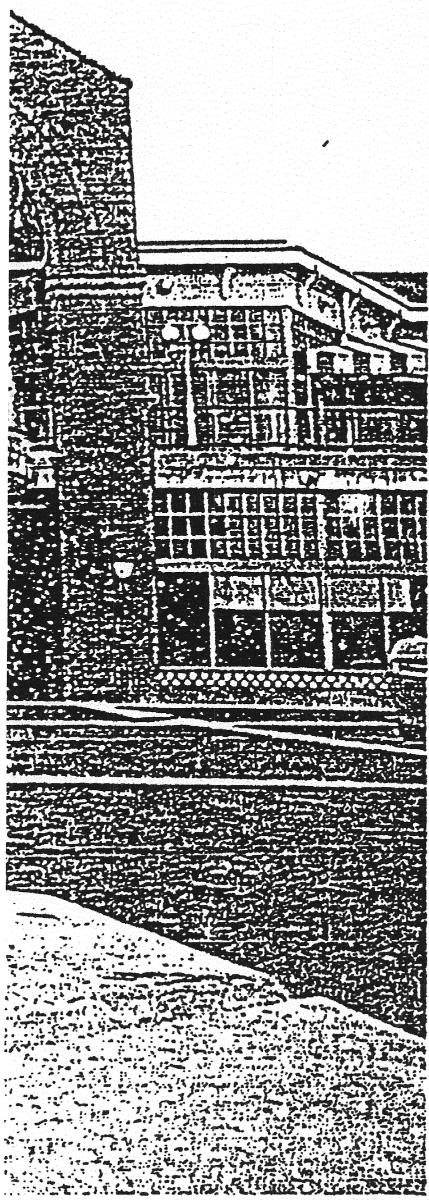
Governing Magazine
8/90

AFTER THE FESTIVAL IS OVER

Like Toledo, scores of cities have built glitzy festival marketplaces in an effort to cure downtown commercial blight. But in many of them, the cure isn't working very well.

By Jonathan Walters



The crowds that were supposed to enliven Toledo's Portside festival mall still haven't shown up.

It was a disaster that brought Toledo's press corps to the mayor's office on the afternoon of May 23—a man-made urban financial disaster. Portside, the $18 million festival marketplace that had been counted on to revive the dreary downtown core of a faded industrial city, was about to sink.

Its commercial space was almost all vacant. A local bank had announced plans to write off $17 million in loans to Portside's owner, the Toledo Economic Development Corp., as uncollectible, and turn the project back to the city, which did not want to run it. City officials had just told the few remaining tenants that they would have to close the doors in 48 hours unless the tenants promised to meet Portside's $40,000- to $50,000-a-month operating costs through the summer.

But Mayor John McHugh didn't call a press conference to dwell on those problems; he was talking resurrection. McHugh introduced a man who seemed to be Portside's only potential savior: Cleveland real estate developer Jeffrey Jacobs. Dressed in pinstripes and exuding self-confidence, Jacobs took to the podium and talked in upbeat terms about bringing in new restaurants, nightclubs, a pool parlor and a comedy café. He talked about pulling people down from Ann Arbor and Detroit for weekend getaways to Toledo; he talked about bringing young people back downtown.

But after outlining the dream, Jacobs quickly got down to reality. Salvation, if it was possible at all, would not be cheap. He was a businessman, not a philanthropist. The marketplace would close down for good, he warned, unless everyone put "something into the salad bowl so that we can mix it up and come up with a long-term, viable project." He was willing to invest as much as $2 million of his own. What was Toledo willing to put up to keep Portside in business? Jacobs was well aware of the millions of dollars that Toledo's banks had already lost on Portside and the millions in precious federal aid the city had poured in after it, but he made it clear that some combination of banks, the city and the state would have to put up as much as $5 million more if they expected him to take over the project.

From the windows of the briefing room, Portside could be seen 22 stories below and east on the banks of the Maumee River, sitting at the center of Toledo's redeveloped waterfront. An attractive jewelry box of glass and steel, with neat, clean walkways, a bright green roof, awnings, curved lamp posts, sweeping hand railings and a riverside terrace, it had opened six years earlier in a mood of high promise. On that spring day in 1984, civic leaders took turns rhapsodizing about what Portside would do for Toledo: bring both locals and tourists pouring downtown, generating hefty revenues that could be plowed back into the city.

In May of 1984, Portside featured eateries whose menus ranged from nuts to seafood, and retail shops with everything from scented candles to bathing suits. Ninety percent of the 61,599 square feet of leasable space was rented, and there were nearly 75 businesses in all. In May of 1990, however, Portside was a compact ghost town, with papered-over windows, deserted food stands and virtually no shoppers in any of the handful of stores left open.

By then, it had been four months since Mayor McHugh, frightened by the prospect of having the bank dump Portside into his government's lap, had created a panel of corporate and community leaders to deal with the problem. He had asked them to find out why Portside failed, determine how it might still be put to use and, most crucial, recruit a developer willing to come in and take the job on, preferably one who would also bring some of his own money to the table.

Portside has been 'a very expensive learning process for a lot of people,' says John McHugh, the mayor of Toledo.

The panel came up with many reasons why the project flopped. It discussed a wide variety of ideas about what to do with it, from video arcade to community center. It found Jacobs.

The one question the panel didn't address was why Portside was ever built in the first place. But that required no investigation and no expertise. It was built for the most understandable of reasons. "We were looking for the magic potion that was going to turn the community around," says J. Michael Porter, president of the Toledo Area Chamber of Commerce, "and the whole romantic notion of a portside kind of thing really appeared to be a wonderful solution."

Toledo had a bad case of festival mall fever. But it was far from alone. At the end of the 1970s and on into the following decade, cities all over the country scrambled to develop such projects, convinced of their potential to create new life for dying downtowns: instant identity, automatic civic pride—and prosperity. From Seattle to Baton Rouge to lower Manhattan, cities decided they had to have a festival marketplace. They were spurred on by comments such as those made in 1978 by mall developer James Rouse, speaking of the successful new project in Salt Lake City: "If you can do that in Salt Lake City, with a population of only 170,000, you ought to be able to do it almost anywhere."

A festival mall, or festival marketplace, is a project that mixes specialty shops and clothing stores, restaurants and food stands in a colorful setting designed to entertain customers rather than provide the necessities of life. There are about 250 of these places listed in the most comprehensive guide to the subject, a book called *Centers: Upscale Specialty & Festival*, published by MJJTM Publications. Most of them are in or near an urban downtown. Many are located on a waterfront; many are part of a historic preservation project.

They are one of three basic types of development introduced into central business districts over the last two decades, the other two being retail shopping malls—clones of their suburban counterparts—and mixed-use developments, which include office, retail and hotel space. And while only about 15 to 20 percent of all downtown projects built since 1970 have been festival malls, their profile has been higher because of what cities counted on them to do.

Most of the cities that built such centers were dazzled by two successes: Faneuil Hall Marketplace in Boston and Harborplace in Baltimore. Planners from other cities came to observe, saw the crowded shops and restaurants, the obvious vitality, the renewed civic pride and downtown rebirth. Boston's achievement was impressive; Baltimore's was positively miraculous. It had turned a laughingstock town into one of the trendiest urban areas around, with a mayor (William Donald Schaefer, now Maryland's governor) who was being hailed as an economic development genius. The developer, James Rouse, was pictured on the cover of *Time*, standing amidst the excitement of Harborplace, with the caption "Cities Are Fun" right next to the photograph.

There were some early warnings that the Baltimore and Boston experiences might not be transferable to other cities. In 1978, Jane Thompson, one of the designers of Faneuil Hall, warned cities that "this isn't instant cereal that can be dropped on a community."

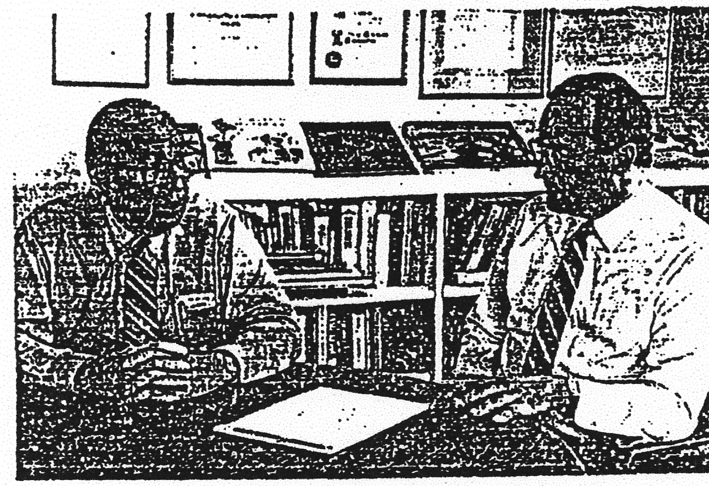
But few of the local officials who visited Faneuil Hall and Harborplace were listening to that. "Cities go through cycles of looking for the big-win concept," says Tom Moriarity, senior associate with Halcyon Ltd., which advises cities on downtown revitalization. "Convention centers, arenas, hotels. It's the 'all we need is a fill-in-the-blank' syndrome. Festival-type markets were viewed as a catalyst that could be dropped out of the sky into just about any town, but it doesn't work that way. They're very hard to do right; the kind of store mix, the design and layout. They have to be truly festive, and I don't think secondary ones have had the quality of design of the first-tier ones."

None of the copies of Harborplace and Faneuil Hall have matched their performance. A few have done moderately well: those in Salt Lake City and Cleveland, for example. In other cities, such as Jacksonville, Florida, and Norfolk, Virginia, the marketplaces have yet to prove themselves to be big money-makers, although they have spurred significant downtown development. But in general, the projects haven't lived up to expectations. The list of cities with serious festival mall problems is now substantial.

In Flint, Michigan, city officials finally gave up on Water Street Pavilion last January, four years after it opened with the same sort of fanfare and promise as Portside. In Richmond, the 6th Street Marketplace is still open, thanks entirely to huge infusions of cash by the city. In New Orleans, Riverwalk has received a $4.5 million facelift in hopes of boosting what has been a losing effort to date. Cincinnati abandoned the festival market at its old train station and floated a $41.7 million bond issue to turn it into two museums and a theater. New York City's highly touted South Street Seaport, just a block off Wall Street, is said to be a money loser. Yamhill Market in Portland, Oregon, is in receivership (*see accompanying article, facing page*).

Toledo's failed festival mall amounts to only a modest financial disaster for the city, since it was built mostly with

How Rouse Became a Certified Genius



Festival mall developer James Rouse and Robert Baron, president of Rouse's Enterprise Development Corp.

Legend has it that the staff of the Rouse Co. came back from Boston to tell the boss, James Rouse, that a festival marketplace built around historic Faneuil Hall in Boston would be a loser. Rouse told them to go back and look again. Again they came back with the same glum assessment. Rouse ordered them back a third time. Finally getting the message, his staff returned with an upbeat estimate of the marketplace's potential.

The real story is less dramatic, but essentially identical. "Actually, I didn't allow a market study at all because I knew that it would show Faneuil Hall to be not feasible," says Rouse. "I went up and looked at it, and it seemed like a natural to me."

Rouse's instinct that the marketplace could succeed turned out to be off by a factor of about three. When the marketplace opened in 1976 it didn't just succeed—it succeeded spectacularly. When Rouse followed up Faneuil Hall with Harborplace in Baltimore, it represented back-to-back grand slams. Rouse was a certified genius at reviving downtowns.

Rouse applied the same basic principles to downtown development that he had brought to his string of successful suburban malls: a colorful array of complementing shops and stores and tight control over retailers, including coordinated hours and joint promotions. The retail mix at his festival markets expanded on the concept to include a wide variety of unusual and upscale boutiques, some devoted to books or kitchenware, others featuring toys, clothes of a single color, stuffed animals or pig paraphernalia. Another innovation was the emphasis on food stands, harkening back, if obliquely, to downtown's days as a center for wholesale and retail meat and produce.

The company currently operates 16 such projects, including Pioneer Place in Portland, Oregon; Underground Atlanta; Riverwalk in New Orleans; The Grand Avenue in Milwaukee; South Street Seaport in New York City; and Bayside in Miami.

In 1981, Rouse stepped down as chairman and CEO of the Rouse Co. to form the Enterprise Foundation, which would devote itself to improving the lot of inner-city neighborhoods. Besides soliciting donations and grants to achieve its goals, the foundation would cash in on festival marketplaces. A subsidiary of the foundation, Enterprise Development Corp., was formed to develop marketplaces around the country and to turn the profits to neighborhood and downtown revitalization.

Again, Rouse's instincts were off, but not in a positive way. Of the four U.S. cities in which the Enterprise Development Corp. has developed festival marketplaces to date—Norfolk, Virginia; Toledo, Ohio; Flint, Michigan; and Richmond, Virginia—only Norfolk has worked at all, and it has been no cash cow. In the other three, Enterprise has negotiated settlements with the cities and withdrawn as project manager, losing about $5 million in the process, according to Enterprise President Robert J. Baron.

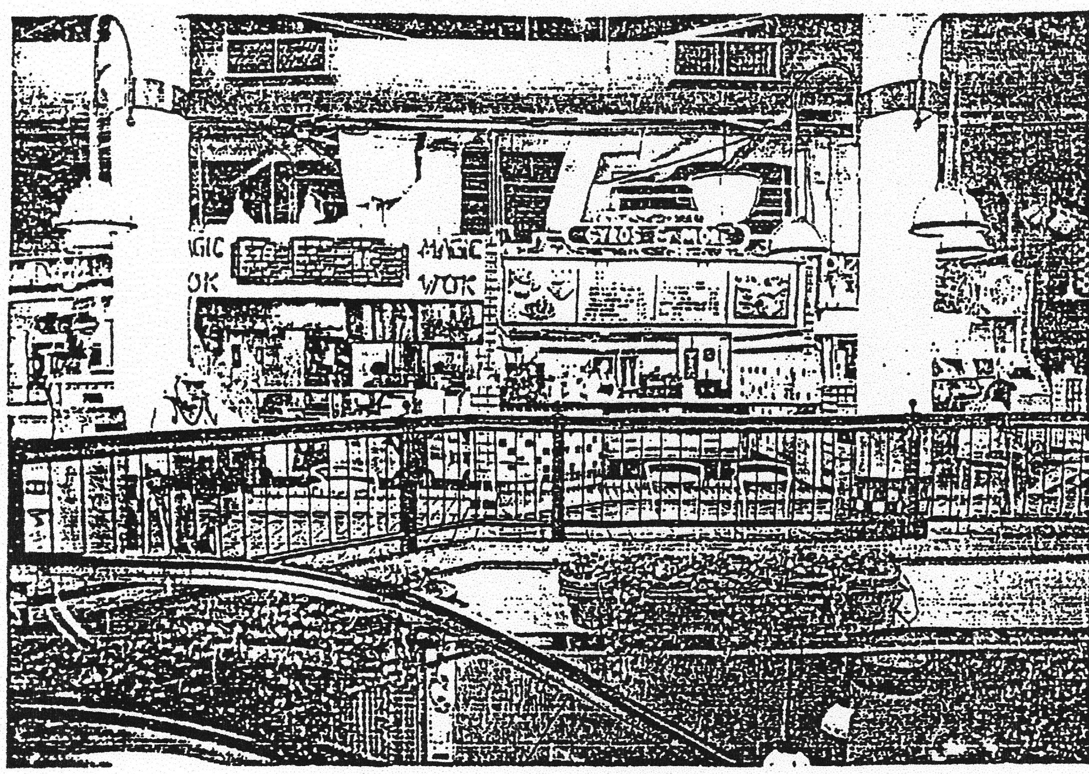
Rouse does not admit that these projects were mistakes, or even failures. Enterprise wanted to continue managing all of them, and he thinks each would have eventually panned out. "Boston didn't show a profit for the first six or seven years, and neither did Baltimore," he says. If there is any pattern to the failure, in his view, it is in the level of financial commitment by cities to the projects and the burden of private debt carried by each.

None of the cities with failed festival malls really seems angry or upset with Enterprise or Rouse. "His intentions were good," says Jack Berry, Richmond's city manager. "He's an honorable man. It just didn't work out. I still have the highest regard for him, but this project was doomed from the get-go."

Undaunted, Enterprise has moved abroad. It completed a project in Sydney, Australia, in 1988. Its co-development in Osaka, Japan, opened last month, and it is negotiating co-development agreements for projects in Barcelona, Spain; Manchester, England; and Glasgow, Scotland. Its next festival mall in the United States will be a joint venture in Honolulu.

Rouse still believes that the formula for reviving downtowns is essentially transferable. "You see new vitality in a lot of different forms: new office buildings, specialty retail centers, centers of art and education. But I still believe very strongly that the festival concept is not a phase that has played out. The restoration of retail and entertainment activity downtown is not a fad; it's a necessary condition."

—J.W.



There were nearly 75 shops in Portside when it opened six years ago. Now neither the food stands nor the few remaining stores in the festival mall are doing much business.

private funds and federal assistance. It was developed by the Enterprise Development Corp., a not-for-profit company created by James Rouse in 1981 to help fund downtown and neighborhood redevelopment using marketplace profits.

The project was funded with a $10 million industrial revenue bond, the entire issue of which was purchased by one bank, and a $9 million conventional loan from the same bank. Another $17 million in Urban Development Action Grant money was spent by the city on surrounding improvements, including parking and parks. But while Portside may not have cost the city heavily in dollars, it has been a genuine civic trauma in the hopes that it raised and then could not fulfill, and in the toll it has taken on the city's mood and morale.

"It's been a very expensive learning process for a lot of people," says Mayor McHugh. "My advice to other cities would be: Don't do it."

Where did it go wrong? What should Toledo have thought about before plunging into the festival mall business?

For one thing, cities need to think realistically about their own geography and demographics when considering major projects downtown. Toledo didn't pay much attention to either. As befits a city known more than anything for its glass industry, Toledo made a symbolically appropriate architectural choice: It built Portside almost entirely of glass. It looks lovely, but it becomes a solar oven in summer, pushing its electric bills for air conditioning to near $20,000 a month, a cost that hard-pressed shop owners find hard to carry.

While operating expenses go way up in summer, in the winter the whole project simply hits the doldrums. In Boston and Baltimore, there is at least a steady flow of light traffic in winter, and enough business in summer to sustain it over slow months. Toledo's slim operating margin and small market simply didn't allow for the seasonal fall-off in business.

Perhaps more important, the city didn't better gauge blue-collar Toledo's response to the retail mix of an upscale festival marketplace. The first set of stores included a high-priced fishing equipment shop, a place that sold nothing but purple clothes, and a gourmet peanut and cashew shop. Too many Toledoans came to the market once—usually to show it off to a friend or relative—and never came back.

Not only was it the wrong mix of stores, it was too little retail space, say city officials. Suburban malls usually devote about 70 percent of their square footage to commerce. Portside was 50 percent commerce, 50 percent open space. The low percentage of rentable space meant that the costs for utilities, city services, security, general maintenance and cleaning were spread across a much narrower group of businesspeople.

Toledo made a further miscalculation, similar to the one that many cities were making in the festival mall boom period. It assumed that the mall by itself would be a sufficient attraction to rejuvenate the downtown area. But at 100,000 square feet, Portside turned out not to be large or diverse enough to be a destination in itself. And it got no help from its surroundings. While Toledo has an outstanding art museum, it is more than 20 blocks west of Portside; nobody strolls down from the museum for lunch at the marketplace. The city's only other main attraction, its zoo, is two and a half miles out of town.

The tourists, motorists traveling nearby I-75 and pleasure boaters on the Maumee River, all envisioned as key Portside customers, never materialized to any significant degree.

Why weren't all these pitfalls figured in? "I think we wanted things to be so positive that we let our emotions get in the way of good business sense," says Porter of the Chamber of Commerce.

Local politics and the local economy created additional problems that the planners had not foreseen. Voters in Toledo and surrounding Lucas County turned down the first proposed bond issue for a convention center, projected as a centerpiece of the rebuilt downtown and a key traffic

Paul Fetters photograph

MALLS IN TROUBLE: SOME COMEBACKS

BATON ROUGE, LOUISIANA
Catfish Town, opened in 1984.
Original cost: $25 million, including a $2 million Urban Development Action Grant and $26 million in private funds.
Status: Foreclosed in 1987.
Prospects: The marketplace has undergone a privately financed $1.9 million redevelopment as a "festival workplace," consisting of 230,000 square feet of office space and a scaled-back food court. The workplace is now 90 percent leased, including 20,000 square feet occupied by the city.

DAYTON, OHIO
The Arcade Square, opened in 1979.
Original cost: $47 million, $14 million of which was in public funds.
Status: Already in and out of receivership once, it is currently losing money.
Prospects: City officials hope its fortunes will be boosted by added retail space and a $50 million office building and parking garage adjacent to the marketplace.

FLINT, MICHIGAN
Water Street Pavilion, opened in 1985.
Original cost: $22 million, mostly from a Mott Foundation grant, with a small portion coming from a UDAG.
Status: Closed in January.
Prospects: City officials are negotiating with the University of Michigan at Flint to take over the marketplace as a student activity center. The university will pay $50,000 for the marketplace.

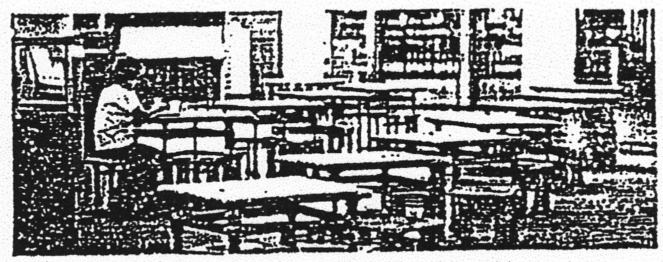
INDIANAPOLIS
Union Station, opened in 1986.
Original cost: $42 million, $17 million of which was public funds, including a $4.8 million UDAG, $9.9 in federal Urban Mass Transit funds and $2.4 million in local funding.
Status: Open and profitable after a market repositioning.
Prospects: One of the few festival malls to have made a comeback. Failing badly, it underwent a privately funded, $1 million-plus shift from retail to entertainment center last year and is now paying the city more than $400,000 annually in rent and taxes.

JACKSONVILLE, FLORIDA
Jacksonville Landing, opened in 1988.
Original cost: $42 million, 40 percent of which was city funded.
Status: Open, not yet profitable.
Prospects: City officials are optimistic that the marketplace will be profitable. It has already spurred significant downtown development.

NEW ORLEANS
Riverwalk, opened in 1986.
Original cost: $60 million, all of which was private except for $8.25 million in UDAG money lent to the developer by the city.
Status: Open, not yet profitable. But the developer is meeting payments on the city loan.
Prospects: The marketplace recently underwent a privately funded $4.5 million redevelopment to make it more accessible from surrounding streets, including improved signage. Its food court was also cut back to allow more retail space, and its stores were reorganized so that like offerings were clustered into the same parts of the building. The city is counting on the opening of its new $40 million aquarium adjacent to Riverwalk—$25 million in bond funding, $15 million from private sources—to improve traffic in the marketplace.

PORTLAND, OREGON
Yamhill Marketplace, opened in 1982.
Original cost: $6 million, including $1.25 million in UDAG money and $250,000 in city funds, the balance from private funding.
Status: Went into receivership last year and is still operating at a loss.
Prospects: The city is hoping that the Rouse Co.'s Pioneer Place, a mixed-use project featuring more than 100 specialty stores opening near the market this year, will create enough spillover traffic to make Yamhill profitable. The city paid $7.2 million and the developer $2.8 million of the $10 million cost of a parking garage serving both malls.

RICHMOND, VIRGINIA
6th Street Marketplace, opened in 1985.
Original cost: $29 million, raised through UDAG money, private loans and a limited partnership.
Status: Open, but not profitable.
Prospects: City officials are working with a private management company on redeveloping the marketplace into a more traditional retail mall. City officials believe it will never be profitable and expect to continue subsidizing its operation—including all debt service—at an estimated cost of $2 million a year.



A lonely meal in Toledo's Portside.

TAMPA, FLORIDA
The Shops on Harbour Island, opened in 1985.
Original cost: Confidential, but estimates put it at just under $10 million.
Status: Open, but not yet operating "up to potential," according to city officials.
Prospects: City officials hope that a recent retooling of the center to include more traditional retail stores will draw more locals to the marketplace, while the October opening of the city-funded $146 million convention center adjacent to the marketplace will boost tourist traffic.

TOLEDO, OHIO
Portside, opened in 1984.
Original cost: $18 million, financed privately through a combination of industrial revenue bonds and conventional loans. The city also spent $17 million in federal funds on surrounding improvements, including parks and parking.
Status: Open, but not profitable.
Prospects: Current plans call for closing the marketplace in September, when it will undergo a $5 million to $7 million redevelopment into a regional entertainment center, opening again in March 1991. As of this summer, private sector and city officials were working to secure state and private financing for the project, set to begin after Labor Day.

generator for Portside. The bonds were eventually approved and the convention center built, but it did not open until two years after Portside.

Meanwhile, Toledo was victimized by a series of corporate moves and takeovers that eliminated or weakened some of the major corporations that had their headquarters downtown. Owens-Illinois Inc., Libby-Owens-Ford Co. and Champion Spark Plug were taken over, and Owens-Corning Fiberglas Corp. had to cut back operations in fighting off a hostile takeover. A subsidiary of Champion left town. Not only did those moves hurt employment in Lucas County as a whole, but they meant a sharp decline in the number of downtown office workers, who had been viewed as natural Portside customers during the weekday hours.

If Toledo had known in 1984 all the things it knows now, it probably would not have built Portside. The mall hasn't paid a penny in debt service or turned a dime back to the city for other projects. But the question for the 1990s in Toledo, as in many cities with similar problems, is not whether to develop a festival mall. It is what to do with the one it has.

The revival of ailing festival malls is becoming a growth industry of its own, complete with "marketplace doctors." Indianapolis was in a situation not unlike Toledo's when it decided to call a marketplace doctor, the Chicago firm of Moor + South. Indianapolis' festival project, at the old Union Station, featured the same array of offbeat stores and food courts that had spread from Faneuil Hall and Harborplace to every corner of the country. Opened amid local fanfare in 1986, it soon began to fail.

> Cities have a tendency to fight mall failure simply by changing managers, the way a football team changes coaches.

According to Molly South, the problem in Indianapolis was a familiar one: The competition from retail firms outside the city was too strong. She advised an emphasis on entertainment over retail. "When you're sitting right in the middle of downtown," she said, "there is lots of lunch, dinner and evening traffic you can generate." She felt that entertainment would also appeal to the population outside the city, the "distant locals," as she calls them, more than the specialty shops would.

Moor + South used space that had been a museum on Indiana history to add a sports bar and a sing-along bar. The firm also re-worked the existing retail space to include a bit more traditional fare to appeal to locals. It seems to have worked. In 1989, Union Station paid the city nearly half a million dollars in taxes and leases.

Another example of a calculated revival approach was that applied to Catfish Town in Baton Rouge, which opened in 1984 and went into receivership three years ago. After its failure, a marketing survey done with the city's help indicated a need for office space downtown. Accordingly, Catfish Town was redeveloped as a "festival workplace." It is now mostly offices, with a small food court, and is 90 percent leased.

Revivals have to be plotted carefully. Cities have had a tendency to fight mall failure simply by changing managers, the way a football team changes coaches. Toledo did that in 1988, replacing the Enterprise Development Corp. with the Webb Companies. Nothing was done to address the original marketing mistakes. Portside continued to sink, leading eventually to the more drastic measures that are now being contemplated.

Whether Portside will come back is still uncertain. City officials are spending the summer working with Jeff Jacobs to find the $5 million required for redevelopment.

So far, no pat formula has emerged for saving marketplaces. Different cities have pursued various strategies for pulling them out of the doldrums, from pushing adjacent development, in hopes of jump-starting festival projects, to simply subsidizing them (*see accompanying article, page 32*).

All of this begs the question of how many failing marketplaces can be revived even by the best management or the most carefully calculated new use. If revival means establishing them as the profit centers it was hoped they would become, then the answer may be very few. But the specialists are urging cities to look at these projects in broader terms, considering their value to the life of the community above and beyond what they make in profits, if they make any at all.

In many places, the eventual choice for a city government is between insisting that a developer meet his original financial obligations, which runs the risk that he will eventually close the doors, or choosing to subsidize the project with government money on a continuing basis. "Sometimes," says Molly South, "it makes sense to look beyond the question of simple dollars and cents. How much does the market contribute to the quality of life? What kind of sales tax is it or is it not contributing? What effect would closing have on employment?"

Flint decided it had no choice but to let Water Street Pavilion close down as a commercial enterprise. The city is selling the $22 million property to the University of Michigan for $50,000 to use as a student activity center, including administrative offices and a bookstore. The marketplace food courts will remain open to the public, but the university will pick up the cost of operation.

Richmond, however, made the opposite decision. It has chosen to keep 6th Street Marketplace open as a commercial venture, essentially at all costs, which include paying off the private loans incurred by the $29 million development and covering any operating costs that the tenants cannot meet. The total comes to about $2 million a year. At the same time, the project is being repositioned from festival mall to suburban-style retail mall. The kite stores and food courts are being moved out, and shoe stores are moving in. "We're emphasizing national and regional chains and franchises and de-emphasizing the mom-and-pop local-type retailers," says Jack Berry, the city manager.

Even if the building is fully leased and doing well, Berry calculates, it will never make money. "But now," he says, "it's part of the infrastructure of downtown, just like the coliseum, the convention center and the downtown hotels, and it's a critical element. So really, you have to view it like a park that is subsidized from tax dollars. Unfortunately, as a real estate investment it's a disaster, but it's also essential to downtown."

That is the conclusion Toledo has reached about Portside. Somehow, says Michael Porter of the Chamber of Commerce, it has to be kept alive. "Right up front," he says, "a city has to make the decision whether or not this kind of facility is important enough for the other things it does for your community to invest government money in it, and understand that you're probably not going to get any of it back. It's a physical amenity that you're just going to pay for. You really have to understand that with very few exceptions, they can't work on their own." □