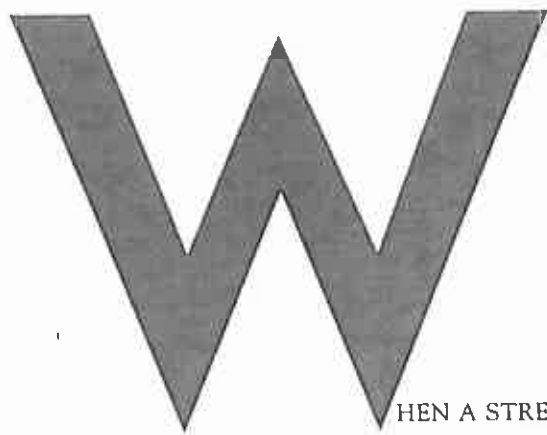


TURNING VACANCIES INTO CASH COWS

AN EMPTY STOREFRONT CAN BE MADE INTO A PRIME AD SPACE
By Joel Groover



WHEN A STREET-LEVEL RETAIL SPACE went vacant at 1000 Van Ness, a mixed-use property in downtown San Francisco, Developers Diversified Realty Corp. could have covered the windows with brown paper or just kept the lights off until the ink was dry on the next lease. Thanks to the advertising industry's ongoing quest to reach consumers through nontraditional channels, however, the Cleveland-based REIT had a much more attractive option: making money from the high-profile storefront by using it as a medium for ads.

Working with an ad agency that specializes in vacant storefronts, Developers Diversified allowed the Canadian Tourism Commission to cover the windows at 1000 Van Ness with full-color images touting the delights of Canadian travel. Rather than breezing by a darkened storefront displaying yet another "This Space for Lease" sign, passersby got to see images of tourists enjoying a meal at a swanky café and of a woman meditating beside a turquoise lake with snow-capped mountains in the background. "In this case, a film was applied right on the window," said Marc Feldman, Developers Diversified's vice president of new business development. "It

is beautiful advertising."

But when it comes to storefront ads, colorful window films are just the beginning. Some advertisers are paying to place messages on high-definition digital displays like the 101-square-foot screen that Boston-based WindowGain installed in an empty storefront at the Bluewater megamall in Kent, England.

Others are experimenting with interactive, window-projection technologies right out of the 2002 science fiction film *Minority Report*, in which the Tom Cruise character walks through a mall and is greeted by holograms that try to sell him products. "The projection-media stuff is unbelievable," said Brent Baer, a director of new business development at Los Angeles-based PosterScope, an out-of-home advertising firm. "I saw one campaign where you walk by and it looks like there are people in an office, walking up to the window to greet you. There are others where there is a fog on the window. When you wipe back the fog, an image appears. One of the car manufacturers did another campaign that was highly interactive — you could move bubbles and words around."

Developers Diversified expects to roll out of approximately 75 digital and static ads in major markets across the country. But the firm says it aims to take advantage of storefront advertising in secondary and tertiary markets as well, in part by making retailer-specific campaigns available to advertisers. If Procter & Gamble wanted to promote a new brand of toothpaste sold at Wal-Mart and Target stores, Developers Diversified could offer the company storefront advertising at Wal-Mart-anchored and Target-anchored centers within its 730-center portfolio, Feldman says. "Advertisers can reach a targeted demographic at the point of purchase," he said. "Instead of saying, 'I want to go into this DMA [designated market area],' they can say, 'I am selling a product at Wal-Mart, and so I want to reach people before they walk into that Wal-Mart.'"

Other owners and managers, in the United States and abroad, are paying attention to the potential upside of their vacant storefronts, observers say. The client lists of storefront advertising specialists WindowGain and New York City-based InWindow Outdoor now include Cushman & Wakefield, General Growth Properties, Grubb & Ellis and Jones Lang LaSalle. "We're finding that there is more and more opportunity on the real estate side," said Ray Lee, InWindow Outdoor's managing director of real estate operations. "There's been increased momentum in the last year or so, in part because of the [economic] climate."

Indeed, one consequence of the sluggish economy is an abundance of vacant storefronts, says Sam Chandan, chief economist at Reis, a New York City-based research firm. The vacancy rate at U.S. neighborhood and community shopping centers spiked in the second quarter to 8.2 percent, up 50 basis points from the previous quarter. The jump marked the biggest single-quarter deterioration in shopping center occupancy on record and pushed the vacancy rate for neighborhood and community centers to its highest level since 1995, Chandan says. The mall vacancy rate, meanwhile, rose to 6.3 percent, its highest level since 2002.

No shopping center owner would consider storefront advertising as an alternative to securing a long-term lease for a vacant space, of course. The issue is not just the lost rent, Chandan says, but also the decline in traffic that comes from too many vacancies. "When a tenant space goes empty, it is not just about the perception or the quality of the shopping experience," said Chandan. "It is also that each tenant depends upon every other tenant to be draws for traffic. This is particularly true of the large in-line spaces and anchors. There is no substitute for having a tenant in that space."

Still, attractive storefront advertising can add color, life and a sense of activity to what would otherwise be a visually dead zone, Chandan says. This matters, because the sight of dark storefronts at a shopping center can cause other tenants to think twice about whether to renew their own leases and make shoppers feel unsure about coming back to the place. "Certainly, it's better to minimize the visual impact of that empty space, rather than have it be out there impacting what the consumer takes away from having visited the mall," Chandan said.

Moreover, the financial benefits from storefront advertising are no hologram. InWindow Outdoor, PosterScope and WindowGain routinely pay retail landlords thousands of dollars on behalf of such major advertisers as Adidas, Jeep, MTV and Sony. "With the size of our portfolio, the aggregate of these advertisement deals is extremely substantial," said Feldman.

Just how much an owner might be paid depends on the size of the window, the visibility of the property and the desirability of the market. Centers that happen to be across from sporting arenas or similar event venues can be particularly good opportunities for advertisers, Baer says. PosterScope wrapped several buildings in New Orleans with huge ads for Adidas as part of a campaign timed to coincide with the 2008 NBA All-Star Game.

Naturally, street-level properties in major cities are among the most desirable locations for storefront advertisers. WindowGain works with the owners of downtown properties to advertise such clients as Boston.com, the Massachusetts State Lottery, Miller Brewing Co., the New England Aquarium and Verizon Wireless. Digital storefront ads, whether high-definition screens or nifty rear-projection displays, help attract attention to retail spaces, because of the content of the motion-filled imagery as well as the sheer novelty of the technology, says Bill Yackey, editor of *Digital Signage Today*, which covers the industry. "There's an automatic advantage there, as opposed to putting static signs and mannequins in the windows," he said. "The large format helps. If you've got a whole storefront window, that amounts to a 100- or 200-inch sign."

In some cases, this extra attention might actually help lease the space faster, says Lee of InWindow Outdoor. But landlords that embrace storefront advertising should make sure they do not inadvertently deter prospective tenants from inquiring about the space, says Jonathan Dubovsky, leasing director of Shopping Center Group's Georgia division. "We personally don't love wrapping an entire space with marketing," he said. "Prospective tenants want to be able to walk up to the space and, at the very least, put their hands and eyes up to the window and look inside. They want to look at the delivery conditions, the dimensions. We find that if you end up wrapping the entire space, you inhibit their ability to do those things."

Likewise, so-called pop-up retail, in which landlords temporarily rent a vacant space to a brand or retail tenant, should include signage that lets prospective long-term tenants know the space indeed is available, he says. "If someone is driving by and you still have the sign up from the previous tenant and the window is full of merchandise, [the retailer] might keep on going, thinking there is not a vacancy there," Dubovsky said.

Even in suburban centers that may not yet be on the radar screens of companies like WindowGain or PosterScope, landlords can take simple steps to make maximum use of vacant storefronts, says Tina A. Marshall, vice president of retail at Columbia, S.C.-based Edens & Avant. The developer, which owns roughly 130 community-oriented shopping centers in 14 states, has started placing greater importance on the value of storefront signage as a way to communicate with retailers, shoppers and prospective tenants, says Marshall.

National tenants often scout out centers in secret, not wanting to tip off the competition. But by failing to put the dimensions of vacant spaces on the "for lease" signs, developers often lose prospective tenants who eyeball their spaces and incorrectly decide they are too small or large, Marshall says. Edens & Avant now makes sure those signs contain detailed information about the dimensions. Likewise, the firm tries to put "coming soon" signs on vacant spaces as soon as it signs a new retailer, Marshall says. This helps allay tenant fears about the vacancy and stirs interest in the center among both shoppers and prospective tenants.

Other developers, particularly the owners of large, mixed-use centers, are using vacant storefront ads to drive traffic to existing retail, restaurants or residential developments located within their sprawling properties, Dubovsky says. "You might have a retail space that is front-and-center and highly visible to walking and vehicular traffic and use that retail space to market the condominiums, office or residential for sale in the back," he said.

A common practice among franchisors is to preapprove given spaces at shopping centers, even before an actual franchisee has stepped forward in that market. Edens & Avant and other landlords are now putting up "franchisee wanted" signs in vacant storefronts. They also are suggesting uses, such as "prime restaurant space" to encourage prospective tenants to imagine themselves at the center, says Marshall.

Meanwhile, Developers Diversified is among those that are thinking hard about the future of storefront ads. New technologies that enable storefront advertisers to reach shoppers via cell phone messages or that captivate shoppers with holographic imagery worthy of Hollywood could spur even more demand for vacant storefront space, and therefore larger payouts for landlords. Said Feldman. "We're really talking about a new generation of advertising."