

# ***Urban Market Operational Review: September 2006-August 2007***

Economic Development Committee  
November 19, 2007



Office of Economic Development  
[WWW.DALLAS-EDD.ORG](http://WWW.DALLAS-EDD.ORG)



# Purpose

- Provide background on the City and private stakeholders support of Urban Market as an essential downtown amenity.
- Present results of staff review of Urban Market operational and financial status at the twelve month milestone of the assistance program.
- Provide staff recommendations for the second year of the loan/grant program.

# Urban Market



**Address:**  
1500 Jackson Street  
Dallas, TX 75201

**Size:**  
20,000 square feet grocery store  
and cafe



# Background

- The City Council, by approving assistance to Urban Market, confirmed that it is a critical urban asset required to continue downtown revitalization efforts.
- On September 27, 2006, the City Council authorized the execution of a loan/grant agreement with Urban Market, Inc. pursuant to the City of Dallas Main Street District Initiative Loan and Grant Program, as amended, for the retention of the Urban Market grocery store in an amount not to exceed \$550,000.

# Background

- City funding was contingent upon a private stakeholder match.
- Over the two year assistance period, financial support to Urban Market will be a maximum of \$1.1 million.

# Background

- Through this agreement, financial assistance is to be provided to support the grocery operations of the Urban Market over a 24 month period.
- Second year funding is contingent upon the findings of a 12 month operational review.
- Contributions would be collected from stakeholders in months 1 and 12 and disbursements made over a 24 month period, subject to the terms and conditions of the executed agreement.

# Background

The Urban Market Advisory Committee and City Council are to determine the appropriateness of the second year funding based on operational improvements and financials over the last 12 months, and projections for the next twelve months.



# Urban Market Advisory Committee

- The Urban Market Advisory Committee was formed to monitor progress of the Market's operations over the term of the assistance provided.

## Urban Market Committee Members

- Ray Baldwin, Key Shareholder of Urban Market, Inc.
- Karl Zavitkovsky, Office of Economic Development
- Major Private Stakeholders – JPI, Gables, Camden, Matthews Southwest, Joule Hotel/Headington, Forest City



# Private Stakeholder Commitment

<u>Stakeholder</u>	<u>Yr 1 – 2006</u>	<u>Yr 2- 2007</u>
Hunt	\$25,000	\$-0-
Matthews Southwest	\$25,000	\$25,000
Joule Hotel	\$25,000	\$25,000
JPI	\$25,000	\$25,000
Gables	\$25,000	\$25,000
Camden	\$25,000	\$25,000
Belo	\$15,000	\$-0-
Spectrum (3 <sup>rd</sup> Rail)	\$5,000	\$5,000
Fairfield	\$5,000	\$5,000
Hamilton Properties	\$5,000	\$5,000
Zad Roumaya (Buzz)	\$5,000	\$5,000
Haynes & Boone	\$5,000	\$5,000
Jackson Walker	\$5,000	\$5,000
Hughes & Luce	\$2,500	\$2,500
Greenberg Traurig	\$2,500	\$2,500
* Forest City	\$100,00	\$90,000
TOTAL	\$300,000**	\$250,000**

\*In a separate agreement, Forest City agreed to fund \$200,000 to support downtown retail initiatives, of which a portion will be applied to this contract.

\*\*Financial commitments received to date.

## Financial Status Prior to City/Stakeholder Assistance

- For the second quarter of 2006, the period prior to assistance, Urban Market's shortfall (net of unpaid rent) was \$136,000, or \$45,000 per month.
- Prior to the City/Stakeholder assistance, Interurban Building shareholders had invested over \$2.5 million in the Urban Market to keep the doors open, including a first year operating shortfall of \$1.2 million.
- The City, along with Urban Market management, determined that the financial gap to operational breakeven over the 18-24 month financial assistance period would be \$1.1 million.

# Twelve Month Review: Sept 2006-Aug 2007

## Management and Operational Changes:

- During the review period, Urban Market management has implemented a number of significant management and operational changes to facilitate self-sufficiency:
  - Store inventory and operating controls have been tightened;
  - An operating line of credit was secured by assets of the estate of Hiram B. (Chip) Johnson;
  - Operating hours and promotions were changed to align more closely with customer needs;

# Twelve Month Review: Sept 2006-Aug 2007

## Management and Operational Changes:

- A shift in merchandise offered now caters to a broader market;
- Tracking/buying system has been enhanced to track customer shopping trends;
- As compared to the same period last year, debt (aged payables) has been reduced by 51%, resulting in a greater ability to obtain supplies from vendors;

# Twelve Month Review: Sept 2006-Aug 2007

## Management and Operational Changes:

- As compared to the same period last year, inventory has been reduced by 16% (more frequent buying leads to less waste);
- As compared to the same period last year, payroll was decreased from \$717,562 to \$500,392 (reduction of 30%);

# Twelve Month Review: Sept 2006-Aug 2007

## Management and Operational Changes:

- Outreach initiatives to surrounding residential complexes have been initiated and focus groups are to be conducted to identify opportunities to better serve the residential communities;
- Urban Market management plans to secure a consultant to develop and implement an aggressive marketing strategy.

## Twelve Month Review: Sept 2006-Aug 2007

As a result of management and operational improvements made by the Urban Market during the report period, operating losses have decreased by 65%, from \$930,960 in the year prior to the start of the grant assistance program to \$322,211 over the last twelve months.

September 2005-August 2006	September 2006-August 2007
Operating Loss: \$930,960	Operating Loss: \$322,211

## Twelve Month Review: Assistance Provided

- During the first year of assistance, September 2006 through August 2007, City/Stakeholder funds were used to support the following operational expenses of the Urban Market:

Pay Off Aged Payables	\$ (194,675)
Rent (\$2/sf)	\$ ( 33,000)
Payroll Expense	<u>\$ (322,325)</u>
<b>TOTAL</b>	<b>\$ (550,000)</b>
Money received from City/Stakeholders thru August, 2007	\$ 550,000

Note: Last year's total loss was \$322,211; a portion of City/stakeholder funds as well as Urban Market income was used to offset payables and debt incurred prior to assistance.



# Management Observations

- The store is under new management as of September 2006, business operations have been tightened, and merchandise more closely reflects market demands.
- Population growth has been slow over the last twelve months but is expected to grow in 2008 and will positively impact store sales.
- There is a strong tie between store sales and convention activity.

# 2008 Marketing Efforts

- Re-vamped marketing efforts will focus on the convention/hotel business and growing residential market.
- The marketing efforts will also involve engaging major stakeholder residential properties in focus groups, educating leasing staff, and potentially providing shopping discount cards to residents. These residential complexes are ideal locations from which to draw new shoppers because they are typically within downtown, but not within the Main Street Core Area (ie. Camden at Farmers Market, Gables' Republic Center, and Matthew's Southwest South Side on Lamar).

# Forecasting Assumptions

- There is a concern that with the opening of CVS, sales at the Urban Market will be affected, at least initially.
- By the end of the second quarter 2008, an additional 200-300 residential units would allow the store to break even.

# Financial Forecast: Sept 2007-Aug 2008

- Operational losses will continue to decline due to improved business operations, residential growth, and new marketing initiatives.
- The original proforma, performed by previous management, shows aggressive Urban Market growth which lead to unrealistic income assumptions.
- The updated proforma assumes a loss of \$263,568 during the second year of the grant/loan assistance program.

# Financial Forecast

	PRIOR TO ASSISTANCE		YEAR I ASSISTANCE		
	Sept 05 Aug 06 ProForma	Sept 05 - Aug 06 Actual	Sept 06 - Aug 07 ProForma	Sept 06 - Aug 07 Actual	Sept 07 - Aug 08 Forecast
Gross Income	2,705,841	2,552,777	4,311,006	2,657,057	2,682,082
Cost of Goods Sold	1,993,174	2,265,465	2,837,391	1,952,406	2,009,487
Payroll Expense	687,766	717,562	1,220,427	500,392	420,000
Operating Expenses	934,380	500,710	766,353	526,470	516,162
<b>Profit/(Loss)</b>	<b>(909,479)</b>	<b>(930,960)</b>	<b>(513,165)</b>	<b>(322,211)</b>	<b>(263,568)</b>

# Financial Forecast

- Whereas in August 2006, prior to assistance, Urban Market exhibited an actual loss of \$32,967, the forecast indicates an anticipated loss of \$1,736 the last month of assistance, August 2008.

August 2006 Actual Loss (prior to assistance)	August 2008 Forecasted Loss (last month of assistance)
\$32,967	\$1,736

# Summary of Findings

- The operations of Urban Market have been tightened to make for a more efficient business.
- City and Stakeholder financial assistance has been essential to Urban Market in paying off aged debt and allowing payroll and other operating expenses to be satisfied.

# Summary of Findings

- Urban Market is committed to implementing new marketing efforts to increase market penetration.
- Residential growth is the lynchpin to making Urban Market self-sustaining.
- The Urban Market is a major asset for the downtown and provides an essential service to downtown residents.
- A downtown grocery store is critical to the retail mix and the growing residential market.



# Summary of Findings

- It is important to note that while Urban Market has improved its operations and decreased its losses, it is still not cash flow positive.
- It is projected that the downtown population will continue to grow if the store is in operation.
- Attaining self-sufficiency will require a critical mass of downtown residents.
- The downtown residential population will provide greater opportunities for Urban Market to capture increased sales and succeed over time.

# Staff and Stakeholder Recommendation

- Staff recommends the continuation of the grant/loan program over the next 12 months to sustain the Urban Market in the downtown core.
- Continue to monitor program and financial status.
- Continue to work with Urban Market management in the development and implementation of new marketing approaches to attract new shoppers.

## Next Steps

- Allocate funds to Urban Market over the next 12 months in accordance with the Grant Agreement, through August 31, 2008.
- Continue to collect stakeholder donations to match the City's assistance.

# Appendix A: Projection Assumptions

	Sept 07 - Aug 08 Original ProForma	Sept 07 - Aug 08 Current/Updated Forecast
Gross Income	4,375,027	2,682,082
Cost of Goods Sold	2,849,292	2,009,487
Payroll Expense	1,295,317	420,000
Operating Expenses	813,379	516,162
<b>Profit/(Loss)</b>	<b>(582,961)</b>	<b>(263,568)</b>

The current/updated forecast shows income lower than originally anticipated due to slower than expected residential population growth, an assumption that the newly opened CVS will diminish sales by 10% over the first quarter, and the challenges of increasing market penetration and/or increasing sales per customer trip.

# Appendix A: Projection Assumptions

	Sept 07 - Aug 08 Original ProForma	Sept 07 - Aug 08 Current/Updated Forecast
Gross Income	4,375,027	2,682,082
Cost of Goods Sold	2,849,292	2,009,487
Payroll Expense	1,295,317	420,000
Operating Expenses	813,379	516,162
<b>Profit/(Loss)</b>	<b>(582,961)</b>	<b>(263,568)</b>

Despite lower revenue, the overall loss is \$319,393 less than originally anticipated because of the success of streamlining the store's operations.

# Appendix A: Projection Assumptions

	Original '07-'08 Population Assumptions	Current '07-'08 Population Assumptions
Main Street Core Population: Addition of new residents between 2007 and 2008	1,283, over the twelve month assistance period, including vacancy	828, over the twelve month assistance period, including vacancy
Occupancy	95%	90%
Market Penetration	61%	63%
Sales: Amount and Frequency	\$11 x 3 trips/week	\$11 x 3 trips/week

- Urban Market user assumptions have not significantly altered other than a slow down in anticipated completed projects.
- The total amount of occupied units, market users, and sales grow over time based on population growth, with the rates of each category staying consistent.

# Appendix A: Projection Assumptions

- Projected Residential Lease-Up/Sales:

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	
Total Units	67	56	33	33	38	36	84	84	82	67	67	43	TOTAL Sept '07 - 'Aug '08
x 1.2 persons per unit	80	67	40	40	46	43	101	101	98	80	80	52	
Cumulative Units/Quarter			156			107			250			177	690
Cumulative Residents/Quarter			187			128			300			212	828

Notes/Assumptions:

All projects assume 90% occupancy

All projects have a reduction in leases/sales by 50% during holiday/winter (Nov-Feb)

Projects include: Republic Tower, Mosaic, Third Rail Lofts (Gulf States, 1414 Elm Street and 1407 Main Street), Metropolitan and Mercantile Tower

# Appendix A: Projection Assumptions

## 2006 Main Street District Residential Assumptions

## 2007 Main Street District Residential Assumptions

PROJECT	UNITS	COMPLETION DATE
<b><u>Main Street Core Area - COMPLETED</u></b>		
Manor House	252	
1900 Elm (Titché-Goettinger)	129	
Santa Fe Terminal	205	
The Kirby - Residences on Main	157	
Wilson Building	143	
1611 Main Street Lofts	8	
Residences at Jackson	8	
Davis Building	183	
1505 Elm Street Condominiums	67	
Interurban Building	134	
Dallas Power & Light	158	
Miscellaneous Units	8	
	<b><u>1,452</u></b>	
<b><u>Main Street Core Area - UNDER CONSTRUCTION</u></b>		
The lofts at 400 N. Ervay	92	2007
Gulf States Building	64	2007
Gables at Republic Center	227	2007
Fidelity Union Life Towers (Mosaic)	440	2007
1407 Main Street	85	2007
1414 Elm Street	8	2007
1200 Main Street	273	2007
Mercantile Complex	375	2007
	<b><u>1,564</u></b>	
<b><u>Main Street Core Area - ANNOUNCED</u></b>		
Santa Fe IV	48	2008
Forest City additional projects	355	2008
500 S. Ervay	320	2008
Miscellaneous Units	8	2008
	<b><u>731</u></b>	
	<b><u>3,747</u></b>	

PROJECT	UNITS	COMPLETION DATE
<b><u>MAIN STREET CORE - COMPLETED</u></b>		
Manor House	252	
1900 Elm (Titché-Goettinger)	129	
509 Elm Place Residences	29	
Santa Fe Terminal	205	
The Kirby - Residences on Main	157	
Wilson Building	143	
1611 Main Street Lofts	8	
Residences at Jackson	8	
Davis Building	183	
1505 Elm Street Condominiums	67	
Interurban Building	134	
Dallas Power & Light	158	
Gulf States Building	64	
Gables at Republic Center	227	
Mosaic (Fidelity Union Life Towers)	440	
1414 Elm Street	14	
Metropolitan (1200 Main Street)	<u>273</u>	
	<b><u>2,491</u></b>	
<b><u>MAIN STREET CORE - UNDER CONSTRUCTION</u></b>		
Mercantile Complex	375	2008
1407 Main Street	<u>85</u>	2008
	<b><u>460</u></b>	
<b><u>MAIN STREET CORE - ANNOUNCED</u></b>		
Forest City Additional Projects	355	2011
Butler Brothers Building (500 S. Ervay)	400	2009
Tower Petroleum/1900 Pacific Ave.	130	2011
Miscellaneous Units	8	
	<b><u>893</u></b>	
	<b><u>3,844</u></b>	



# Appendix A: Projection Assumptions

- On the previous page, the chart on the left shows the 2006 Main Street Core Area residential unit assumptions. Of those shown as under construction projects, 1,018 units were completed last fiscal year and are in the process of leasing/selling, 460 units remain under construction, and 92 units are delayed and may not be completed. The updated number of announced units is 893, none of which will be completed within the Urban Market assistance period.