

# Miami Herald

## BUSINESS MONDAY

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## SQUEEZED OUT ON LINCOLN ROAD

*As the Miami area becomes more cosmopolitan, experts say a changing landscape is inevitable. That doesn't help many small businesses.*

# As rents rise, small businesses are moving away from Lincoln Road

■ As the Miami area becomes more cosmopolitan and increasingly attractive to out-of-town investors, experts say a changing landscape is inevitable.

BY RENE RODRIGUEZ  
rrodriguez@miamiherald.com

It's two o'clock on a Wednesday afternoon and business is booming inside The Shoe Shop, a small store that's been selling footwear and accessories at 635 Lincoln Road since 2007.

But despite the bustle, Jessica Elmaleh, a part-owner of The Shoe Shop, doesn't look all that pleased. The unusual rush of customers on a muggy weekday in June is due to an unfortunate turn of events: The Shoe Shop is having a going-out-of-business sale. Everything must go, with prices marked down from 40 to 80 percent.

The Shoe Shop will close permanently by August. Elmaleh said her lease expired in April, and the landlord raised her rent by 40 percent.

"There are too many corporate stores on Lincoln Road," Elmaleh said about her decision to shutter her business. "There's a price war, and we're not Amazon. We can't compete. People even try to negotiate shoes that are priced for clearance. Lincoln Road is just like Aventura Mall now. They don't make small businesses want to stay."

Over the last five years, a wave of out-of-town investors have paid record-high prices for Lincoln Road properties looking to capitalize on the Beach's international cachet. Increasingly, small businesses unable to keep pace with the skyrocketing rents in the historic Miami Beach shopping district are being forced to decide between relocating or closing.

The new tenants that have replaced them — global brands with the means to rent large spaces and hire top-shelf architects to design their stores — have raised Lincoln Road's visibility as an international shopping destination, drawing millions of visitors who help cushion the city's coffers. A major refurbishing to improve the Road's infrastructure and aesthetics is scheduled for 2019.



ELLIS RUA erua@miamiherald.com

Shoppers on Lincoln Road in South Beach pass a vacant storefront on June 16.

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**LINCOLN ROAD IS A UNIQUE STREET, AND THE MAKEUP OF THE STORES THERE IS CHANGING BASED ON WHAT DOES WELL.**

*Zach Winkler, senior vice-president and South Florida retail lead for the investment management company Jones Lang LaSalle*

"Lincoln Road has changed so much," said 35-year-old Yecenia Ramirez of Bogotá, Colombia, while sitting in the Lincoln Road promenade during a recent visit to Miami Beach. "To me, it's better now. The stores that are here are much bigger brands and the buildings are beautiful."

The changes, say business experts, are an inevitable consequence of Greater Miami's increasing cosmopolitan clout. But for small businesses and longtime residents who remember the Lincoln Road of a decade

ago, Lincoln Road's transformation comes at a steep cost.

### ONGOING TREND

The exodus of small, locally owned businesses away from Lincoln Road began in 1999, when homegrown staples such as Area Stage, the Alliance Cinema and New Concept Video moved or closed following the arrival of the Regal South Beach multiplex, The Gap, Pottery Barn and other national brands. Back then, rents on the

road averaged \$25-\$40 per square foot.

Today, despite the large number of vacant storefronts dotting Lincoln Road, rents go as high as \$330 per square foot — and the increase is squeezing more than just small boutique retailers such as The Shoe Shop.

The Brazilian artist Romero Britto, whose colorful paintings and sculptures have become synonymous with Miami in shops around the world, is suing to break the lease on his Lincoln Road Britto Store, which costs him \$55,166 per month. And Books & Books owner Mitchell Kaplan said that when the current lease on his Lincoln Road store/café expires in December, he might move to a different location. The Miami Beach bookshop will celebrate its 30th anniversary next year.

Many small business owners on Lincoln Road echo similar sentiments but decline to give their names out of fear of reprisals from their landlords. Their rents have risen too much, they say. They can't match the lower prices offered by nearby retailers with corporate owners, such as The Gap. The overall foot traffic on the Road has declined, with some tourists opting to do their vacation shopping at Brickell or Wynwood.

Kaplan, who opened the Books & Books Lincoln Road location in 1989 and is considered one of the pioneers of the Road's 1990s revival, said his current lease allows him to renew at market-value rates when it expires late this year.

But Kaplan, who said his current rent is even higher than Britto's, hasn't decided whether the store and café will stay put or look for another location on Miami Beach.

"We're paying 50 percent more in rent than we paid 10 years ago, but sales aren't the way they were 10 years ago," Kaplan said. "Our rent is 25 percent of our sales now. There's no way we can make that work. My landlord has expressed that he's willing to negotiate with us and we're going to try to find a potential solution. It's becoming untenable for small businesses like mine to stay on Lincoln Road, which has become a sort of Dadeland without a roof."

Kaplan argues that there is room on Lincoln Road for big tenants such as Apple as

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ELLIS RUA erua@miamiherald.com

Shoppers enter the Britto Store on Lincoln Road in Miami Beach on June 16. According to court documents, the artist Romero Britto is attempting to break his lease due to an alleged hostile environment on the strip.

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## RENTS

well as smaller, funkier businesses that would preserve the street's community feel. He points to cities such as San Francisco, where voters in 2015 approved the creation of a Legacy Business Historic Preservation Fund that provides annual grants to owners and landlords of local businesses that have served their communities for at least 30 years.

Kaplan also warns that Lincoln Road's increasing reliance on tourists to keep its roster of big-box tenants chugging is a precarious gamble.

"Because of the way Lincoln Road has operated, with developers dictating the quality of life, you now

have a place that draws mostly only tourists," he said. "I used to go out to our restaurant on Saturday afternoon and run into 50 people I knew. Now I rarely run into people I know. We are giving up that community center that was Lincoln Road. As someone who grew up on Miami Beach, I've been through this story before. All this prosperity could fall apart at any minute if something disrupts our tourism."

What stacks the deck against local businesses even more in these situations is the way real estate developers get their financing. The higher the credit ratings of their tenants, the better finance

terms they can secure from banks. And bigger, national tenants have better ratings.

Tourists play a critical role in Lincoln Road's future. Timothy F. Schmand, executive director of the Lincoln Road Business Improvement District (BID), said that according to the group's pedestrian counters, which were installed last year, the road drew 11 million visitors in 2017 and 30,000 a day during the peak tourist season of January-April. Of the nearly 16 million tourists who visited Miami-Dade in 2017, more than 58 percent stayed in Miami Beach. [In total, tourists spent a record \$26 billion in the county, according to the Greater Miami Convention and Visitors Bureau.]

That's little consolation to The Shoe Shop's Elma-

leh and neighbor Jose Paredes, the owner of the women's clothing store Sofi at 639 Lincoln Road. His lease, too, is up for renewal and he doesn't think he will be able to hang around much longer.

"The rent is going up a lot," Paredes said. "We're in the process of negotiating, but I think we're going to have to move. It's too expensive." Both Elmaleh and Paredes declined to say what they currently pay.

According to Business Insider, Lincoln Road is the fifth most expensive shopping street in the U.S., leasing at a current rate of \$300 per square foot (Palm Beach's luxurious Worth Avenue ranked seventh, at \$145 per square foot). The developers and investors who have snapped up Lincoln Road

properties at record-setting prices over the last few years — the iconic parking garage at 1111 Lincoln Road sold for \$251 million in 2017 — are seeking bigger, international tenants who can afford to pay more.

That's the case for Canadian billionaire Albert "Aldo" Bensadoun, who purchased the 635-639 Lincoln Road property — which includes Sofi and The Shoe Shop and measures 5,332 square feet — for \$35 million, or a whopping \$6,560 per square foot.

Bensadoun launched the Aldo footwear brand in Montreal in 1972 and today operates nearly 1,700 stores in 40 countries. He opened an Aldo shoes location at 637 Lincoln Road soon after acquiring the property. Astrid Morin,

the manager of corporate PR and public affairs for Aldo Group, did not respond to email requests from The Herald inquiring if new tenants had been lined up for the spaces.

Bensadoun's purchase followed the 2015 acquisition by Spanish billionaire and fashion mogul Amancio Ortega of an entire block of Lincoln Road between Lenox and Michigan Avenues. At \$370 million, it was one of the most expensive real estate purchases in Miami-Dade history.

Lincoln Road property owners also have pockets deep enough to sit and wait until the right tenant comes along, which explains the preponderance of available spaces dotting the 10-block district, which stretches east from Alton Road to Washington Ave-



Pedestrians walk past vacant storefronts along Meridian Avenue and Lincoln Road on June 17.

RENE RODRIGUEZ [rodriguez@miamiherald.com](mailto:rodriguez@miamiherald.com)

nue between 16th and 17th streets on Miami Beach.

Stephen Bittel, chairman and founder of the real estate firm Terranova Corp., one of the largest owners of Lincoln Road property, said the current vacancy rate on the Road is at 14 percent. He also said that despite the upcoming arrival of new Lincoln Road tenants such as Sephora, Genuine Pizza and the Mexican cantina Cerveceria del Barrio, the vacancies will remain — and perhaps even increase — until the completion of an extensive \$62 million renovation of the common areas street, which is scheduled to begin in the second half of 2019.

The improvements, which will be overseen by the landscape architecture firm James Corner Field Operations, will add more green space, lighting and pedestrian pathways.

"Retail streets are always evolving," said Bittel, who began developing on Lincoln Road in 2010, when rents were still going for \$65 per square foot. "There's no question Lincoln Road suffered a downturn [after the recession], and in that downturn, tenants closed stores. But we have recovered and we're back. We've had more people looking in the last six months than we've had in the last two years. I remain quite bullish on Lincoln Road."

### UPS AND DOWNS

Since its creation in the 1920s by Carl Fisher, the developer known today as the "Father of Miami Beach," Lincoln Road has weathered dizzying highs and crippling lows, along with numerous renovations. In the 1940s, Burdines, Saks Fifth Avenue and Bonwit Teller all had stores there. Business dipped in the 1960s, when

tourists started to do their shopping at the new luxury mega-hotels such as the Fontainebleau and the Eden Roc.

The Road went into freefall in the 1970s, then started to recover in the 1980s, after Ocean Drive and Art Deco architecture brought new national attention to Miami Beach. Artists, restaurants and South Beach's new bohemian population revitalized the street in the 1990s, and by the year 2000 major retailers began to show an interest.

Dr. Paul George, resident historian at HistoryMiami, said he was hired by Apple to help the company scout a bigger location on Lincoln Road after Apple outgrew its initial location at 738 Lincoln Road.

"At the time, they were doing more business at that store than at any other Apple location in the world," George said. "They were renting space across the street to use as a break-room space for their employees, but they were insistent about staying on the Road. They could have built a big-box store anywhere, but they understood Lincoln Road was a valuable location. It has a personality and a history other places don't have."

Apple's bid to replace the building at 1001 Lincoln Road and build one of their trademark glass cube stores was denied by Miami Beach's Historic Preservation Board in 2012. Three years later, Apple relocated to its current location at 1021-1025 Lincoln Road, an 8,000-square-foot space that is part of the property purchased by the Spanish billionaire Ortega.

The Lincoln Road BID was founded in 2015 with a 10-year life span to stabilize and improve the dis-

tract via promotion, marketing, advertising and advocating for business owners. The membership is comprised of property owners, who pay self-taxes ranging from \$2 per square foot for frontage on Lincoln Road and \$0.20 per square foot for property without frontage.

According to the group's most recent budget, the BID will generate a projected \$1.7 million for the period of October 2017-September 2018.

"As the retail industry retrenches, there are fewer retailers," said Lyle Stern, vice president of the Lincoln Road BID. "There is not an abundance of tenants looking for larger spaces. Lincoln Road is suffering from that just like every other market. Wynwood has substantial vacancies."

Stern said that in addition to the cooling of the brick-and-mortar retail landscape over the last two years, Miami Beach had to recover from the triple whammy of the Zika virus, the closing of the Miami Beach Convention Center for renovations and Hurricane Irma.

"Retail is a very challenging industry right now," Stern said. "The number of retailers who are expanding is smaller than it's been in a decade. It's an incredibly fragile model. But then look at the incredible success of the Nike or Apple stores or [restaurants] Yardbird and Juvia."

### CHANGING LANDSCAPE

Analysts say the progression from mom-and-pop clothing and jewelry stores to bigger names such as John Varvatos, Guess, Diesel and Banana Republic are part of the natural evolution of one of the



ELLIS RUA erua@miamiherald.com

At the 635-639 Lincoln Road building, the property's owner Aldo Group, which paid \$35 million for the property in 2016, is raising the rents on the tenants. The women's clothing store Sofi on the left will soon relocate and The Shoe Shop on the right is closing permanently. The Aldo shoe store in the middle will remain open.

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SEE RENTS, 18G



RENE RODRIGUEZ rodriguez@miamiherald.com

Pedestrians walk by the new Sephora store at 818 Lincoln Road on Thursday. The 6,000 square-foot beauty and cosmetics shop is located at the former Romero Britto gallery space.

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most iconic shopping districts in the U.S. — as well as the city of Miami Beach itself.

“Lincoln Road is a unique street, and the makeup of the stores there is changing based on what does well,” said Zach Winkler, senior vice president and South Florida retail lead for the investment management company Jones Lang LaSalle. “Big box stores such as Forever 21 and Zara are doing really well. Miami Beach is always progressing and morphing into what could be the most useful allocation. It’s not that these small businesses are being pushed out: It’s more that they’re being relocated.”

Olivia La Vecchia, a senior researcher for the nonprofit Institute for Local Self-Reliance, said Lincoln Road’s transformation follows a trend that is playing out in retail dis-

tricts around the country.

“Locally owned businesses come in and make disinvested places lively and vibrant again and contribute to the local tax economy,” she said. “Then big national chains move in. Rents often go up and the physical landscape of the district might change.”

Deep-pocketed retailers have amped up Lincoln Road’s style. Apple hired the Miami-based Touzet Studio firm to make its store at 1021 Lincoln Road evocative of the Chrysler auto showroom that occupied the space in the 1930s. Nike used giant terrazzo panels, tile-and-lighting installations and concrete-and-iron patterns to give its 30,000-square-foot Nike Miami store at 1035 Lincoln Road, which opened in 2017, a distinct vibe.

The shift in Lincoln Road tenants also reflects

Miami Beach’s increasingly high-net worth population. According to EWM Realty International, Miami Beach is the 11th most expensive city in the world ranked by price per square foot for residential properties (\$850) — costlier than Beijing, Rome and Frankfurt (New York is the highest in the U.S. at \$2,089; Miami clocks in at \$505).

The Q1 2018 market report by Douglas Elliman real estate showed the overall median sales price for homes and condos in Miami Beach rose for the third consecutive quarter by 11.7 percent to \$430,000. The median price of luxury condos slipped 5.4 percent to \$2,862,500, while luxury single-family home prices dipped 45.1 percent to \$6,275,000.

“Who’s going to be able to afford to shop at these higher-end retailers? The people who are staying at the higher-end hotels and condos on Miami Beach,” said Adam Lustig, a partner at the real estate group

of the law firm Bilzin Sunberg. “Lincoln Road is evolving from a cute mom-and-pop street that was very walkable into a hub for global fashion brands. The street has always been charming and locals have always enjoyed it. But the influx of high-net individuals is luring large national and international tenants who can pay these huge rents.”

### NO ONE IS IMMUNE

Even those tuned to the wealthy, however, can feel a crimp in their business. In May, Britto filed a complaint against his landlord The Denison Corporation seeking to get out of his lease at 532 Lincoln Road. The complaint claims that “crowds of vagrants,” street performers, loud music and frequent arrests by Miami Beach police for assault, battery, burglary and disorderly conduct have hurt his business.

Britto signed a 10-year lease in 2015 to operate a store selling giftware and small collectors’ items at a monthly rent of \$55,166 plus 4 percent annual increases. Britto’s complaint argues that Denison is responsible for keeping the peace in the area around the store.

“Romero Britto was an early pioneer of Lincoln Road’s rise as a cultural and lifestyle destination, and he’s been a model tenant ever since,” said Alan Kluger, a partner in the law firm of Kluger Kaplan, which is representing Britto. “On any given day, the entry way of Romero’s gallery is inundated with vagrants and beggars who intimidate customers and interfere with business. Romero’s landlord has been unresponsive to multiple requests for relief, including additional security or assistance with en-

forcement.”

But Bruce Weil, the attorney representing Denison in the case, said Britto’s legal complaint is the latest salvo in an ongoing attempt by the artist to lower his rent.

“For almost a year prior to the lawsuit, Romero Britto had been trying unsuccessfully to obtain a reduction in the rent, never complaining about too much crime or street performers interfering with his art gallery,” Weil said in a statement to the Herald. “The landlord believes this is a baseless excuse hatched to avoid paying rent because he either is unable to as a result of internal financial issues with his gallery or he just chooses not to.”

Britto rents a second, larger location on the west end of the street, the Britto Gallery at 1102 Lincoln Road.

According to figures provided by Melissa Berthier, the public relations manager for the City of Miami Beach, the number of calls for service (3,121) and arrests (212) on Lincoln Road have decreased 20 percent and 39 percent respectively from January to June 2018 compared to the same period in 2017. The city also reports a 60 percent decrease in robberies, a 64 percent decrease in vehicle burglaries and a 37 percent decrease in theft cases during the same year-over-year period.

But while some of Britto’s Lincoln Road neighbors don’t agree with his complaints about crime, they concede that sales have slumped.

“I don’t think our business has been hurt by [disorderly conduct],” said Janitza Leonard, the manager of the Alex and Ani jewelry store at 541 Lincoln Road, which is directly across from the Britto Store.

“If anything, people who are drunk buy more. Business in general has gone down, but we are in a three-year lease, so we lowered our sales goals and have been able to do OK. Let’s see how the summer goes.”

Flexibility and resiliency are some of the advantages of small businesses, said La Vecchia of the Institute for Local Self-Reliance.

Because they tend to cater to locals as much as tourists, independent shops are better equipped to ride out turbulent tourist seasons or dips in sales caused by crunches in the economy.

“They are willing to weather retail-apocalypse storms more than national stores, because locally owned businesses have a stake in the community,” she said.

And even if all the vacant storefronts fill up with shiny new tenants after the Lincoln Road renovation is completed, some locals say they will always still pine for the past.

Pedro Figueredo, a longtime Miami Beach resident, said that while he acknowledges the economic benefits that bigger tenants bring to Lincoln Road, he can’t help feel a bit of nostalgia for the way it used to be.

“Lincoln Road has changed,” Figueredo said on a recent Saturday morning while having coffee with his friends. “Before it was a lot of mom-and-pop stores. Now there are a lot more chain stores. ... Before it was very informal and felt more like a small town. People knew each other. Now the stores come and go and you don’t know who the owner is. They’re big corporations, they’re very impersonal and they’ve taken over.”

Rene Rodriguez:  
305-376-3611,  
@ReneMiamiHerald