



Mike Jaffe Talks Lifestyle

November 13, 2006

By Ian Ritter

In South Barrington, IL, near Sears Holding Corp.'s headquarters in suburban Chicago, a new lifestyle center called the Arboretum of South Barrington will start taking shape in the spring. The 600,000-sf center, set to open in summer 2008, will feature a combination of typical lifestyle tenants and home furnishings stores. This is not the first Arboretum for the project's developer Mike Jaffe. Now president of his own firm, the Northbrook, IL-based Jaffe Cos., he built another center called the Arboretum in Austin, TX, just more than 20 years ago, while working at Trammell Crow. Since then he has built, and mostly sold, three million sf of open-air centers in Illinois and Texas. On this most recent Arboretum project, real-estate investment firm Rreef has partnered with Jaffe's firm. He recently spoke with GSR about his newest project and trends in the industry.

GSR: You've done projects in Texas and Illinois. How are those markets different?

Jaffe: One of the differences is that the densities in Illinois and the Chicago area particularly tend to be much higher than one would find in Texas. Many of the Texas projects are located along highways. They have an entirely different frontage road system that allows it. Whereas most Chicago projects are at the intersection of arterial streets but necessarily right off of highways. The Arboretum is a great exception to that because it's one of the rare sites in the Chicago area that is at a four-lane interchange at a highway. The road systems in Texas tend to define where the retail goes, and Chicagoland has very few opportunities to build highway-accessible locations.

GSR: What's the difference in the tenant mix?

Jaffe: Illinois is very attractive to stores that sell things like outerwear and derive a lot of sales from fall and winter merchandise. Retailers like North Face or LL Bean love the market demand in areas like Illinois and elsewhere North. On the other hand, because of the heat factor, the apparel merchandisers either don't do stores at all in the South or do far fewer stores. Specifically, Eddie Bauer in the recent past and some others were very careful about doing stores in the South because they couldn't do a lot of fleece and sweater sales.

GSR: Why did you decide to go with the Arboretum name again after 20 years?

Jaffe: The site that we purchased in South Barrington had been a longstanding tree nursery. So it had roots in trees and landscaping and those types of things, and we certainly intend to preserve that heritage with an extraordinarily conscientious landscaping plan. Besides that, the name the Arboretum as a brand has been established in the retailers' minds as a place that they've experience for 20 years. Looking back, it's had tremendous sales, it's high quality and a pedestrian experience that emits trees and lush landscaping. It just made all of the sense to bring all of those ingredients to bear here in South Barrington.

GSR: Do you plan on holding onto the center or selling?

Jaffe: This is one, if it continues to shape up as it is shaping up, that we will absolutely love to hold on to. We have to be responsive to the needs of the capital partner Rreef in this instance. To a great degree, that decision will be worked out between the two of us. We would love to be the long-term holders of this property with this lineup of tenants that seems to be coming together.

GSR: Speaking of Rreef, how do you generally pick the joint-venture partners you end up working with?

Jaffe: The underpinning of the Jaffe Cos. success has been, without a doubt, relationships. This includes relationships with the tenants, the cities and villages in which we work, and relationships with capital sources. We have had a wonderful relationship with Rreef dating back to the mid-1990s. One of the lifestyle centers that I had owned, I sold to Rreef. They subsequently resold it, and it was one of those tremendous experiences where it was good for me as a seller at the time, and my buyer did quite well in their own right on the resale some years later. We have a longstanding, trusting relationship that has taken us through very large and complex transactions in the past. We've come to respect them. We know how they operate, they know how we operate and they're great partners. In the case of Rreef, they're more than just a capital source, they're really a strategic partner. Any time that we can both have access to capital and national expertise, that's a winning combination for use and for our partner. They're not just mere money. They've got a great tenant base and own shopping centers with a lot of operational history. Those things help to combine into a synergistic relationship for us.

GSR: Where else do you see potential for possible developments?

Jaffe: We're very selective about the projects that we pursue. We don't have to do a project every year, yet it seems that every two years or so we see something else that offers a good fit for what we do well and the market wants. We've got a nice team that certainly is invited into a lot of other opportunities, but we're quite selective. If it's an off-the-shelf deal, it's typically not something that we're suited for. We tend to gravitate to projects that are knock-out real estate locations. We go for the 100% site. But we also gravitate to those areas that might require much more of a handmade product that is perhaps more complex to put together. Those are the things that we seem to end up going into and pulling off.

GSR: What do you see as the future of lifestyle centers? Will they reach a saturation point?

Jaffe: As we stand the number of lifestyle centers that are justified will be fewer and fewer. Each new center has to describe to the marketplace why it's necessary and why it fills a niche. With the Arboretum, which is in a suburban infill location, there was no highway-located lifestyle center. Lifestyle centers are here to stay. The sales have been proven. The reception by the marketplace has been firmly established. People do like shopping and hanging out at lifestyle centers. They address the time-pressed, affluent market quite well, far better than regional malls, or even regional malls with gestures associated with them. Quite a few regional malls are adding a lifestyle portion, but by the time you're asking the customer to go to a place with a massive parking lot, it's ridiculous.

GSR: What are your favorite retail concepts right now?

Jaffe: One of the new concepts that's coming into our project is the idea of an upscale movie theater that serves warm food and grown up drinks at your seats. We think it's long overdue as a place for adults to go and experience movies without having to battle the teenagers, sticky floors and all of

the other issues that one faces at the multiplexes today. It's a very exciting piece of the industry and works well for those of us that are not doing centers aimed at teenagers. The malls work great for teenagers; lifestyle centers work better for adults and families. That's a new niche that is the next evolution within the theater industry that we're very excited about and other developers are excited about seeing.

Copyright © 2006 Real Estate Media. All rights reserved. Reproduction in whole or in part without permission is prohibited.