

May 05, 2019 12:05 AM UPDATED 3 HOURS AGO

RH eyes Birmingham store in \$140M project

KIRK PINHO

- Luxury home-furnishings retailer would close its Somerset location
- Project hinges on public financing vote
- City stresses that all costs will be paid out of parking system funds



RH/Saroki Architecture

A rendering of the planned five-story RH store expected to be built on North Old Woodward Avenue in downtown Birmingham.

The anchor retail tenant for a mammoth downtown Birmingham development is slated to be a signature store by RH, the company formerly known as Restoration Hardware — presuming a critical financing hurdle can be cleared.

The Corte Madera, Calif.-based luxury home-furnishings retailer (NYSE: RH) is anticipated to lease 55,000 square feet in the planned \$140 million development west of Old Woodward Avenue and north of Willits Street on about 4 acres at the north end of the city's swanky central business district, the company and developers told *Crain's*.

The two-phase project — part of a four-headed joint venture that's a veritable who's-who of commercial real estate executives in Birmingham — in the end would include a series of components, including 25 rental residential units, 27,000 square feet of office and a total of 65,000 square feet of retail space across multiple buildings as well as about 1,150 parking spaces.

An existing parking deck and surface lot with about 745 spaces would be demolished; a parking mitigation plan is in place that would include shuttle services, Lyft and Uber, according to Ron Boji, president of Lansing-based developer The Boji Group who is part of the development team, Woodward Bates Partners LLC, working on the project. About 350 spaces off Big Beaver Road in Troy have been secured.

But the project only moves forward if a key public financing component can be secured in three months.

"If the vote does not happen, then no phases happen," said Boji, whose other partners in the project are John Rakolta Jr., chairman and CEO of Detroit-based construction giant Walbridge Aldinger Co.; Paul Robertson, chairman of Bloomfield Hills-based homebuilder Robertson Bros.; and Victor Saroki, founder of Birmingham-based Saroki Architecture.

David Stanchak, president and chief real estate and development officer for RH, is on tap to attend Monday's city commission meeting and discuss the plans with the city's elected leaders and attendees, according to the project's principals.

Shift to stand-alone stores

RH currently has a store in the Somerset Collection in Troy that would close once its lease expires at the end of 2022, Boji said. The mall is owned and managed by Southfield-based The Forbes Co.

"We are proud to have brought Restoration Hardware to Michigan and have enjoyed a long relationship with Gary Friedman and his company," Nate Forbes, managing partner of Forbes Co., said in a statement. "It is a testament to the strength of this market that they have decided to remain in

Southeast Michigan to open their new free-standing store model that they are introducing nationwide."

Stanchak said in an interview with *Crain's* that the closure is in line with a companywide real estate transformation strategy that is shifting away from its older mall and street-level stores across the country.

"What we are doing is transforming what was a very sort of nostalgic mall retailer, a seller of nostalgic items, to a full luxury furniture brand," he said.

"That has us moving from smaller legacy stores into large-scale galleries, and that's how we look at every location in the U.S. This is something we are doing across the country."

The new store, which would take the place of the 23-year-old, 10,000-square-foot Somerset location, is expected to have features like a barista bar and indoor and outdoor dining in a fifth-floor restaurant surrounded by a garden terrace, according to a press release. In addition, an atrium and conservatory are anticipated.

"These stores, it is all about design," Saroki said in an interview. "They know that they like to, when they can, have some regional influences in their stores, as well, so we are looking at some regional influences of Detroit, Birmingham and Cranbrook and at the same time we are being true to their brand, who they are ... Birmingham is where they want to be as a region, as the Detroit market. They know Detroit is an important market to them, and Detroit has a lot of design history."

The company had been in discussions to open a store in downtown Detroit a few years ago but those negotiations ultimately dissolved, [Crain's reported](#) in December 2015.

Stanchak said the Birmingham store would be similar to ones in Denver's Cherry Creek Shopping Center (70,000 square feet) and Seattle's University Village (60,000 square feet).

"But we will have a rooftop café in Birmingham like we do in West Palm Beach, and neither of those in Denver or Seattle have the food and beverage component since they opened before 2015," Stanchak said.

The West Palm Beach store is 80,000 square feet.

Costs paid from parking

During Monday's meeting, commissioners are to consider placing a bond issue on the Aug. 6 ballot that would fund part of the project and be paid off through a dedicated stream of \$55 million to \$65 million from the city's parking system.

City Manager Joseph Valentine said the parking structure would be funded with \$7 million from the parking system's reserve funds; \$3 million from a parking structure special assessment district; and the balance from the bond issue.

"The balance of that cost of the structure would be funded through a bond like we have funded the other structures and the user fees would pay for the debt service on the bond," Valentine said, noting that the city has a bonding capacity of about \$300 million and is at about 8 percent of that capacity.

"Even though we are asking the residents to approve the bond, there is no financial commitment from the residents for that obligation. All the costs will be paid out of the parking system," he said.

Public elements of the project include a plaza and a bridge to Booth Park across the Rouge River, plus a splash pad. Bates Street would be extended by about 530 feet to the northeast from its terminus at Willits Street, eventually linking up with Old Woodward.

Clinton Baller, a Birmingham resident, has been vocal in his opposition to the project and expects to campaign against a bond issue proposal if it goes for a vote in August.

"Very little creative thought has been brought to bear on this project. From land use planning to architecture to financing, the city and its developers are making it up as they go along," he said in an email. "The city is fixated on parking, and the developers are opportunistic. In a world of winners and losers, the developers will win and city residents will get nothing, having given up four acres of precious public property."

Last month, the commission approved a nonbinding development agreement with Woodward Bates Partners, which was selected to develop the project ahead of another Birmingham mainstay, Ara Darakjian, who has not gone quietly after losing out on the bid.



Process protested

Another Birmingham-based developer, TIR Equities LLC run by Darakjian of Pierce Street's Darakjian Jewelers Inc., has filed a federal lawsuit against the city for what it describes as a selection process rife with favoritism in what it called "an unjust, unfair, and unconstitutional 'competitive' bidder selection process."

"The process conducted by Defendants did not provide for any actual competition, as the evidence establishes that the outcome was predetermined," the complaint says. It argues that Saroki Architecture and the developer's parking consultant were involved in early planning stages with the city.

"In fact, the 'sample' conceptual design that was featured prominently in the City's Request for Qualifications and Request for Proposal for the Project — which design Defendants later relied upon in 'evaluating' the proposals for the project — was created by the architectural design firm of an equity partner in

the selected bidder itself ... along with Woodward Bates' own parking consultants," the complaint says. "In other words, two important members of the Woodward Bates team (an equity partner and its parking consultant) had been privately working closely with (the city) on the details of the Project long before the City opened the Project up to public bidding."

The city denies wrongdoing.

TIR Equities project would have brought with it a 15-story tower — a controversial proposal in a city that generally limits downtown development to no more than five stories, with just a few exceptions — along with underground parking totaling 1,781 spaces; 60,000 square feet of retail; 371 apartments; 22,000 square feet of commercial space; a park, plaza and other features, according to the lawsuit. The tower would be "stepped" downward to reach a four-story height at the street level "to reflect the design and tradition of existing buildings," the lawsuit says.

Troy-based law firm Rossman Saxe PC is representing Karakjian and TIR Equities in the case. Beier Howelett PC in Troy is representing the city.

Brian Saxe, partner with Rossman Saxe, said the parties are awaiting a judge's decision on motions to dismiss the case or proceed with oral arguments.

In May 2016, the city issued requests for qualifications to Morningside USA out of Chicago; Woodward Bates Partners; Southfield-based Redico LLC and Birmingham-based architecture firm McIntosh Poris Associates; and TIR Equities. In September 2017, a request for proposals was issued, with proposals from Woodward Bates, Redico and TIR Equities received in January 2018.

By May 2018, the city's Ad Hoc Parking Development Committee recommended Woodward Bates Partners to the city commission, which directed city staff to negotiate with the developer on the property. By June, TIR Equities was eliminated from consideration.

Chain's revenue up

RH reported \$2.5 billion in revenue in its 2018 fiscal year that ended Jan. 31, up from \$2.44 billion in the previous reporting period of Feb. 1, 2017 to Jan. 31, 2018, according to the company's most recent annual financial report submitted to the U.S. Securities and Exchange Commission.

The company, which was founded 40 years ago, has several different store models, which include Design Galleries (20 stores, averaging 33,000 leased square feet), Legacy Galleries (43 stores, averaging 8,000 leased square feet), Modern Galleries (two stores, averaging 11,000 leased square feet), Baby & Child Galleries (six stores, averaging 4,000 leased square feet) and Waterworks showrooms (15 stores, averaging 4,000 square feet) and outlet stores (39 stores, averaging 31,000 square feet), according to the report.

RH says it occupies about 1.47 million square feet for its stores overall, with initial lease terms ranging from 10-15 years initially and some with 25-year renewal options.

It formally changed its name to RH effective Jan. 1, 2017.

'Destination' store

Robert Gibbs, an urban planner who is principal of Birmingham-based Gibbs Planning Group, said the RH store would be a destination for Southeast Michigan shoppers. He previously consulted TIR Equities with a market study on its project.

"A large furnishing store will help reinforce Birmingham as a unique shopping destination in the region, especially as a home furnishings center," he said. "It has West Elm, Ethan Allen and a number of really nice specialty boutique stores, and those will all reinforce each other."

Gibbs said a general rule is that a destination retailer of 40,000 square feet or more will generally increase retail sales by 5 to 8 percent in the immediately surrounding area.

"That will draw people from the entire region," he said. "That Grosse Pointe customer and Northville-Plymouth customer who maybe just came to Birmingham once or twice a year will instead come three or four times."