DOWNTOWN BUILDING BLOCKS

presented to

Downtown Gresham

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RETAIL CORRIDORS — AN OVERVIEW

In-city urban retail districts can be grouped into three broad categories: emerging, transition, and mature. **Emerging retail districts** typically serve local residents, feature few national chains, and are districts with very little redevelopment activity. **Transition retail districts** are evolving and possess a higher number of active ground floor businesses. There also are a larger number of improved buildings and these districts can often support new construction in their later stages. **Mature retail districts** exhibit steady sales trends and generally benefit from high foot-traffic counts. Mature districts often have a large number of national chains and exhibit a very high level of retail sophistication.

The types of retailers who succeed in the first two stages of retail development—emerging and early transition retail districts—are destination businesses. Destination purveyors do not depend upon foot traffic to drive their sales, instead they draw their clients from a wider geographic area than just the local neighborhood. Their visits are usually part of a planned trip. The success of these destination shops becomes the stable base upon which a commercial district can revitalize. As a commercial area becomes more mature, it tends to be able to support more impulse retailers, or boutiques that sell items that buyers purchase when shopping as an activity. Another characteristic of a district that is moving from the transition to mature stage is that it can support higher density residential construction without public subsidy.

As an example, let's look at North Mississippi Avenue in Portland, Oregon, which has revitalized rapidly, in part due to its six-block length. It is clear that the street moved into the late stages of a transition district on the backs of destination retailers. Out of the 32 retailers that populated the street in the first three waves of development, 27 were destination retailers. It was not until the fourth wave of development that there was a shift toward impulse retail, when 8 out of 13 new business concepts were impulse retailers. Through the first four waves of redevelopment, just over 9% of the destination retailers ultimately closed their businesses, while roughly 30% of the impulse retailers went out of business.

What Is a Destination Business?

Destination concepts are ones that succeed, not due to foot traffic, but due to attracting people from a wider area than just the local neighborhood for the specific goods and services that the business offers. In other words, destination purveyors offer a special service or product that people will travel to obtain. In general, these businesses do not carry items that people just casually walk by and impulse purchase.

Examples of Destination Retailers:

- Food Service (Restaurants, Brew Pubs, etc.)
- Day Spa (Massage, Facials, Steam/Sauna)
- Wellness Center (Naturopaths, Massage Therapists, Acupuncturists)
- Fabric Store
- Knitting Store
- Musical Instrument Store
- Specialty Paper with Printing
- Birdfeed Supply
- Eyeglass/Optometrist
- Comic Book Store
- Hair Salon
- Specialty Pet Supplies
- Nail Salon
- Specialty Lighting Store
- Specialty Bike Store
- Large Item Furniture Store
- Art Gallery

Food Service is the most successful and important destination business in emerging and transition districts, but other destination retailers, such as the examples on this list, are needed to round out the district and provide it with activated storefronts, exposure, and clients so that it can grow toward becoming more stable and economically viable.

What Is an Impulse Business?

This type of business is characterized by boutiques that carry items that people purchase when impulse buying as they pursue shopping as an activity unto itself. Impulse retail depends heavily upon high foot-traffic counts. Typically, you see the largest concentration of impulse retail in mature retail districts, and some in transition retail districts.

Examples of Impulse Retailers:

- Clothing Store
- Candy Shop
- Gift Shop
- Card Shop
- Music Store
- Ice Cream Shop
- Housewares
- Bookstore
- Make Up Store
- Jewelry Store
- Candle Shop

Impulse retail depends upon a high level of retail sophistication to be successful.

Tips for Downtown and Main Street Retailers

1. VISUAL APPEAL. The exterior of the building must be attractive and enticing to the eye. Use color!

2. EXTERIOR LIGHTING. The exterior should be well lit so that evening and winter visitors feel safe and welcome.

3. STOREFRONT DISPLAY LIGHTING. Lighting above and inside the storefront windows is critical to making it easy to see inside the place of business during the day.

4. INTERIOR LIGHTING. Interior store lighting is very important. It is expensive to operate spot lighting everywhere, both from a fixture and ongoing operational perspective. But, a mix of direct/indirect fluorescent with more expensive spot lighting that highlights attractive inventory can make a huge difference.

5. RETAIL CLARITY. A driver or pedestrian should be able to look at a storefront and easily tell what a business is offering when they glance in the direction of the store. This is accomplished with signs, storefront window displays, and appropriate storefront window lighting, as described above.

6. SIDEWALK ACTIVATION. Outdoor and sidewalk activation is almost irresistible. You don't want a pristine sidewalk environment devoid of ornamentation or activity. Sidewalk tables, art, planter boxes, open doors, and sale items are all wonderful visual cues that tell people to stay, to enjoy, to shop.

7. CASH AND CARRY. All retailers, especially those that sell large, big-ticket items, should have some inventory that is small and suitable for walk-in browsing and purchasing, contributing to a strong pedestrian shopping environment.

8. LEVERAGE THEMES. Businesses should be looking for ways to increase the profile of their individual business and the district through programming, events, and classes. This should be occurring on a business-by-business basis all the way up to district-wide events. This brings people to your downtown or Main Street, creates identity, and gives reason for press outlets to write stories about your district.

PROFILES OF TENANTS AND SPACES IN EMERGING AND TRANSITION DISTRICTS

For emerging and transition districts, the vast majority of potential tenants are local businesspeople. Generally, in terms of creditworthiness, your best case scenario as a developer or property owner is to attract a tenant opening a second or third location. Occasionally, you can lure regional chain tenants, such as an Umpqua Bank branch, or a Bishop's Barber Shop. Local retailers do not make decisions based on the ultimate $/SF that can be generated within a district. Instead, most of them work backwards from their business plan to come up with a monthly rent that they can afford, then they try and find a space that is suitable.

Price is the single biggest driver for destination tenants that are able to take a risk on an emerging district. Local tenants in Portland typically want to keep their rent expenses at between $1,500 to $2,000 per month. As an area shifts toward becoming a transition district, and therefore becomes more expensive, the ideal sized space shrinks to reflect these same desires to keep costs between $1,500 to $2,000 per month. For instance, when rents on N Mississippi were $12/SF/Year, the spaces most in demand were roughly 1,500 square feet. When rents approached $18/SF/Year, the ideal space size shrunk to 1,000 square feet.

I recommend that developers create spaces that are roughly divisible down to 900 SF because it allows for maximum flexibility so that a landlord may accommodate the widest possible pool of tenants. Typical dimensions that work well include spaces that are 15 to 25 feet wide and 50 to 75 feet deep. While historic buildings are particularly popular, if new space is developed properly, it can command a rent similar to an historic building, with the added advantage of having the seismic rating needed for larger restaurants that require an assembly occupancy designation.

The design of new ground floor spaces in downtown and Main Street environments should include generous storefront windows, high ceilings, and exposed beams, even if they are Glulam. In terms of exterior aesthetic, a modern look can be absorbed well by the tenant class found in emerging and transition districts, but any design that mirrors that of suburban office parks or malls should be avoided.

In emerging and transition districts, raw space is more difficult to lease to tenants who are opening their first business and have zero expertise or experience managing a build-out. Often, in lieu of a tenant improvement allowance, a developer of new retail space will need to be prepared to offer warm shell space, including framing, sheetrock that is taped and sanded, and providing a bathroom.

A note on NNN expenses, redeveloped space can have an advantage over new construction if an existing building has a lower tax basis because that building can charge a lower NNN fee than new construction projects that have a higher assessed value. Since local tenants make decisions based on overall monthly rent expenses, a high NNN expense can cause a project to have to lower their base rent to compensate.

Additionally, in emerging districts, developers and landlords have to be willing to consider gross leasing when tenant sophistication is low. Startup business people have no experience with commercial leasing and they are deeply distrustful of NNN leases as a result.

Lessons from Successful Downtowns and Main Streets

1. DESTINATION VS. IMPULSE BUSINESSES. Emerging and transition districts need a solid base of destination businesses.

2. RESTAURANTS. Food service is key to making a district a destination, particularly staples that become neighborhood hang-outs: bakery, breakfast/lunch dining options, pizza place, and a coffee shop are all examples.

3. STRENGTHEN NODES. Focus improvement on areas that are already active and engaging, then work to connect them.

4. TENANT FOR VALUE. Tenanting to create place and ground floor activation results in long-term value for all downtown stakeholders. Lowering rent initially to get the correct tenant use in the door is a proven strategy that works.

5. WALKABILITY. Every business and every building should contribute to a vibrant and active environment for pedestrians.

6. SPACE SIZE AND FINISH. High ceilings, wood floors, exposed brick, dramatic window lines, and old world charm are all valuable. Don’t make them too big or too

small. Flexibility is a must to appeal to the widest possible tenant pool. Spaces divisible down to about 900 SF are ideal.

7. CONNECTIVITY. Blanks in a downtown or main street, whether they be vacancies, empty lots, or inward facing office or industrial uses, kill a retail district and lower its ability to generate sales and foot traffic.

8. PROMOTE, PROMOTE, PROMOTE. Event planning, large and small, is a huge part of creating civic identity and driving traffic to the expertise offered by passionate local business owners.

9. WIDE STAKEHOLDER INVOLVEMENT. Active and connected building owners, property owners, public sector officials, and residents can develop and implement strategies to effectively plan events, promote the district, and create place.