SALT LAKE CITY
BUSINESS ADVISORY BOARD
451 S. State Street, Room 335
Wednesday, November 13th, 2019
8:30 a.m. – 10:00 a.m.

AGENDA

1. Roll call

2. Announcements
   - City Council Announcements

     a. Outline of Process for Selecting New District 5 Council Member. After November 19, you can sign up for updates on the vacancy at this address: https://mailchi.mp/slcgov/d5vacancy
     b. Since the October BAB meeting, the Council/RDA Board…
        - Approved Airport Redevelopment Budget. Budget Amendment No. 3 increased the budget by $496 million to accommodate faster-than-forecast passenger growth.
        - Discussed 300 West Reconstruction Project. Phase One stretches from 900 South to 1300 South, and construction will begin in 2021.
        - Organized Fact Finding Discussion Relating to Homelessness. Fact-finding discussion with stakeholders on homelessness-related topics.
        - Organized Gardner Policy Institute Housing Briefing
        - Discussed Proposed City Fire Board of Appeals.

   - Economic Development Announcements
     a. Permit Roundtable Update
     b. New Mayor
     c. Celtic Bank Microloan program

   - Board Member Announcements

3. Approval of the minutes of the October 9th, 2019 meeting

4. Business Item:

   A. Department of Economic Development Annual Report – Ben Kolendar – Acting Director of Dept of Economic Development
   B. Small Business and Rising Rents Downtown Discussion – Downtown Alliance & Roberta Reichgelt
   C. Salt Lake City Capital Improvement Program Discussion

5. Adjournment

Mission: To foster an equitable and robust business ecosystem as ambassadors, advocates, and advisors.

Core Values:

- Commitment
- Vision
- Respect
- Collaboration
- Inclusivity
- Impactful

SALT LAKE CITY
BUSINESS ADVISORY BOARD
451 S. State Street, Room 335
Wednesday, October 9th, 2019
8:30 a.m. – 10:00 a.m.
Minutes

1. Roll call

The following members of the Business Advisory Board were present:

Curtis Thornhill, Vice-Chair	John Lair	JD Smith
Karen Gunn	Darrin Piccoli	
Jeff Carleton	Sue Rice	

The following members of the Business Advisory Board were absent:

Angela Brown, Chair	Steve Labrum
Abudujannah Soud	Kestrel Liedtke

Also Present:

Rachel Molinari, Department of Economic Development; Roberta Reichgelt, Department of Economic Development; Will Wright, Department of Economic Development; Andrew Wittenberg, Department of Economic Development; Peter Makowski, Department of Economic Development; Allison Rowland, City Council Office; Peter Nelson, Sustainability Department; and Kristen Lavelett, Local First Utah; Dan Rip, Community and Neighborhoods (CAN) Department

2. Announcements

City Council Announcements

Allison Rowland of the Salt Lake City Council's office gave an update on the following items:

- The RDA Board approved $6.1M in support for new affordable housing through the 2019 RDA Notice of Funding Availability (NOFA).
- The RDA Board approved funding for a new 650 South Main TRAX Station.
- The RDA Board discussed the North Temple RDA Project Area and how to catalyze development.
- The RDA Board discussed the potential sale of The Utah Theater (144 South Main).

Economic Development Announcements

- Ms. Reichgelt stated that there were no updates from the permit roundtable group at this time. However, the City hired a liaison to communicate with local downtown businesses who might be affected by new construction planned for the area. The liaison will report back to the permitting roundtable group with the businesses concerns.

- Mr. Makowski announced that he has been asked to serve as the Acting Business Development Director. This position is new to the department since Mr. Kolendar accepted the position of Acting Director of the Department of Economic Development. He added that Liesl Limburg will serve as Acting Corporate Recruitment and Retention Manager.

Board Member Announcements

- Chairperson Brown was not in attendance to announce the October SLUG Magazine Edition or SLUG Mag's Boo!stillery. However, Mr. Piccoli said that the event is on October 18th at The Union Event Center.

3. Approval of the minutes of the September 11th, 2019 meeting

Mr. Piccoli made a motion to approve the minutes of September 11, 2019.
Mr. Carleton seconded the motion. Upon Roll Call, the motion passed unanimously.

4. Business Item:

A. Reappointments and Chair/Vice-Chair Elections – All

Ms. Reichgelt said that Ms. Rice and Ms. Gunn's terms on BAB will expire December 2019. She explained that the BAB ordinance allows BAB members to serve two 4-year terms. If they decide to serve a second term, staff would notify the Mayor's office and begin the reappointment process and final approval by the City Council. Ms. Reichgelt asked for Ms. Rice and Ms. Gunn to decide in the next week in order to start the process and to avoid any potential vacancy on the Board.

Vice-Chair Curtis urged members to think about the upcoming Chair and Vice-Chair elections that will take place in January 2020. Ms. Reichgelt mentioned the elections will follow the same open nomination process as last year.

B. New Business Licensing Platform & C Pace Program Discussion – Roberta Reichgelt and Will Wright, Economic Development

Ms. Reichgelt and Mr. Makowski asked for feedback on the two presentations from last month's meeting.

Mr. Carleton thought it was a work in progress.

Mr. Piccoli thought it had a lot of potential, but that it was a dead-end because it doesn't communicate with any other department in the City.

Mr. Lair expressed similar concerns with the lack of integration with other departments. Mr. Makowski explained the goal of the upcoming roundtable is to address that issue and hopefully streamline the process where possible.

Ms. Reichgelt added that Mr. Carleton, Ms. Lavelett, Mr. Deitsch, and Ms. Liedtke volunteered to test the Business Licensing Software and will have an update at the BAB meeting in November.

Ms. Reichgelt asked if anyone had questions or comments about C-PACE Program that was presented at September's meeting. Ms. Rice asked how many participants were in the program. Mr. Wright stated that Hunt Electric in West Valley is the only user of the program, but that there are six businesses in the pipeline. Mr. Wright said Theda Chappell will run the numbers for any interested businesses to see if the program is right for them.

Mr. Carleton said he thought it was a great program, but the challenge lies in getting the word out to the right people. He thought being able to finance the seismic upgrades of older buildings could be worth it to the right business. Mr. Piccoli said The State Room might be interested in the C-PACE solar panel financing program.

C. Small Business and Rising Rents Downtown Discussion – Roberta Reichgelt, Economic Development

Ms. Reichgelt asked BAB Members to provide a recommendation to the Mayor's Office, City Council, and/or Planning Department based on the executive summary of the article to keep space affordable and ensure that entrepreneurs continue to thrive.

Ms. Lavelett said that Local First tried to develop a program for small businesses to be able to buy their buildings. Ownership is one of the best ways to ensure stable occupancy costs. She noted how the Central Ninth neighborhood has seen a lot of growth in recent years, but businesses are not able to stay there long-term because the rent is too high. She also mentioned how the 9th and 9th neighborhood is seeing more national chains move in which will also raise rents for tenants in that area. In addition, the slow progress of streetscaping and overall density projects also led to diminished walkability of the area and many small businesses cannot wait long for customers to flock the area before they start to struggle financially.

Mr. Makowski mentioned how it is hard for developers to get tenants in the ground floor of mixed-use buildings. It is even harder when the building is not near a transit-oriented location.

Ms. Gunn asked if Main Street America groups could have any impact on activating ground floor spaces. Ms. Reichgelt replied that the economic vitality aspect of the Main Street Program could help act as a bigger voice in the community for recommending developers include ground-floor retail or mixed-use into their projects.

Ms. Reichgelt said that after talking with Zion's Bank about loan options, they recommended the Small Business Administration's 504 commercial ownership loan program. Zions did not want to compete with what was already on the market.

Mr. Makowski said that Redevelopment Agency (RDA) funds cannot be used for business acquisitions, however, the Economic Development Loan Fund (EDLF) program specifically states this as appropriate use of its program, yet very few applications requesting funds for acquisition have made it to the EDLF committee.

Ms. Reichgelt stated that San Francisco recently passed a law that requires landlords to register property that has been vacant for more than 60 days. In the past, there has also been a tax placed on these properties which is something San Francisco is looking to reimplement. The loophole in

this process was that if the property was actively for sale or lease, no tax was assessed. Another option would be to offer credits to favorable leases for small businesses.

Ms. Lavelett thought the two most important ideas mentioned in the article were broadening ownership and zoning for a local business environment. She recognizes that these are long term conversations with multiple partners but could benefit the business community in the end.

Ms. Reichgelt mentioned the RDA's Adaptive Reuse Loan Program available in the Granary District, provides a forgivable loan up to $200K if used for historic preservation. She has talked to the RDA about including it in the State Street project area but does not know if it has been included.

Ms. Rice asked if the City can step in for any rent control for small businesses. The consensus was that it would be extremely difficult to implement a program for rent control.

Ms. Gunn asked if the City Council has read the article and Ms. Rowland said that Economic Development would need to put the information together and send it to Council members to review. Mr. Makowski noted that before sending anything, it would need to be a fully baked idea with developed suggestions.

Ms. Reichgelt asked Mr. Rip what the City's real estate policy is regarding offering favorable leases for local businesses or nonprofits. He explained that while there is no official policy, they try to do a combination of nonprofits within the competitive Request for Proposal (RFP) process.

D. Salt Lake City Capital Improvement Program Presentation – Dan Rip, Real Estate Services Director

Mr. Rip provided an overview of the City's CIP process, policy, CIP requests, recommendations, funding sources, and process timeline.

He explained that capital improvements are the purchase, construction, or renovation of city buildings, parks, streets, or other physical structures that must have a useful life of five or more years and a project cost of $50k or more. He added that maintenance is not a capital improvement.

Ms. Reichgelt said the program is accepting applications through December 2019 and asked for recommendations of projects from BAB members.

5. Adjournment

There being no further business, the meeting was adjourned.

_____

Angela Brown, Chairperson

This document and the recording constitutes the official minutes of the Economic Development Business Advisory Board meeting held October 9, 2019.

COMMUNITY & NEIGHBORHOODS

Capital Improvement Program

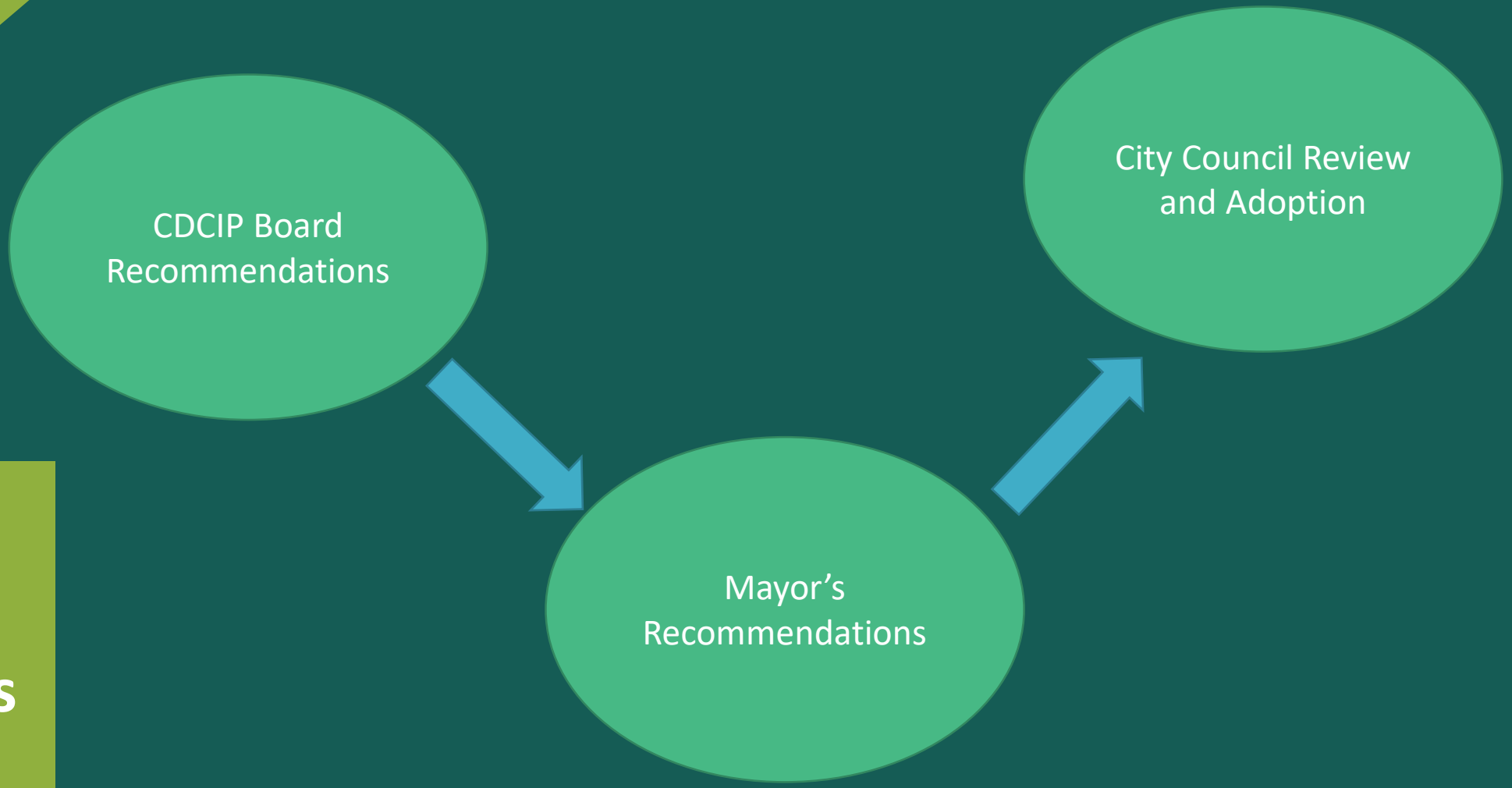
“Maintaining high-quality infrastructure is essential to the economic vitality and quality of life of communities”

Government Finance Officers Association

Capital Improvement Criteria

- Capital improvements are the purchase, construction, or renovation of city buildings, parks, streets, or other physical structures
- Capital improvements must have a useful life of five or more year and a project cost of $50,000 or more
- A maintenance expense is **not** a capital improvement
- Should be relevant to the City's Capital Facility Plan

CIP Process


CDCIP Board Recommendations
Mayor's Recommendations
City Council Review and Adoption

CIP Policy

City Council follow Legislative Resolution No. 29 of 2017

Contemplates:

- Project definition and criteria
- Projects must be identified by Capital Facilities Plan (CFP)
- Funding goals
- Project Prioritization
- Cost overruns
- Re-capture policy
- Maintenance Standards
- Debt Management Policy

Administration to follow Administrative Policy

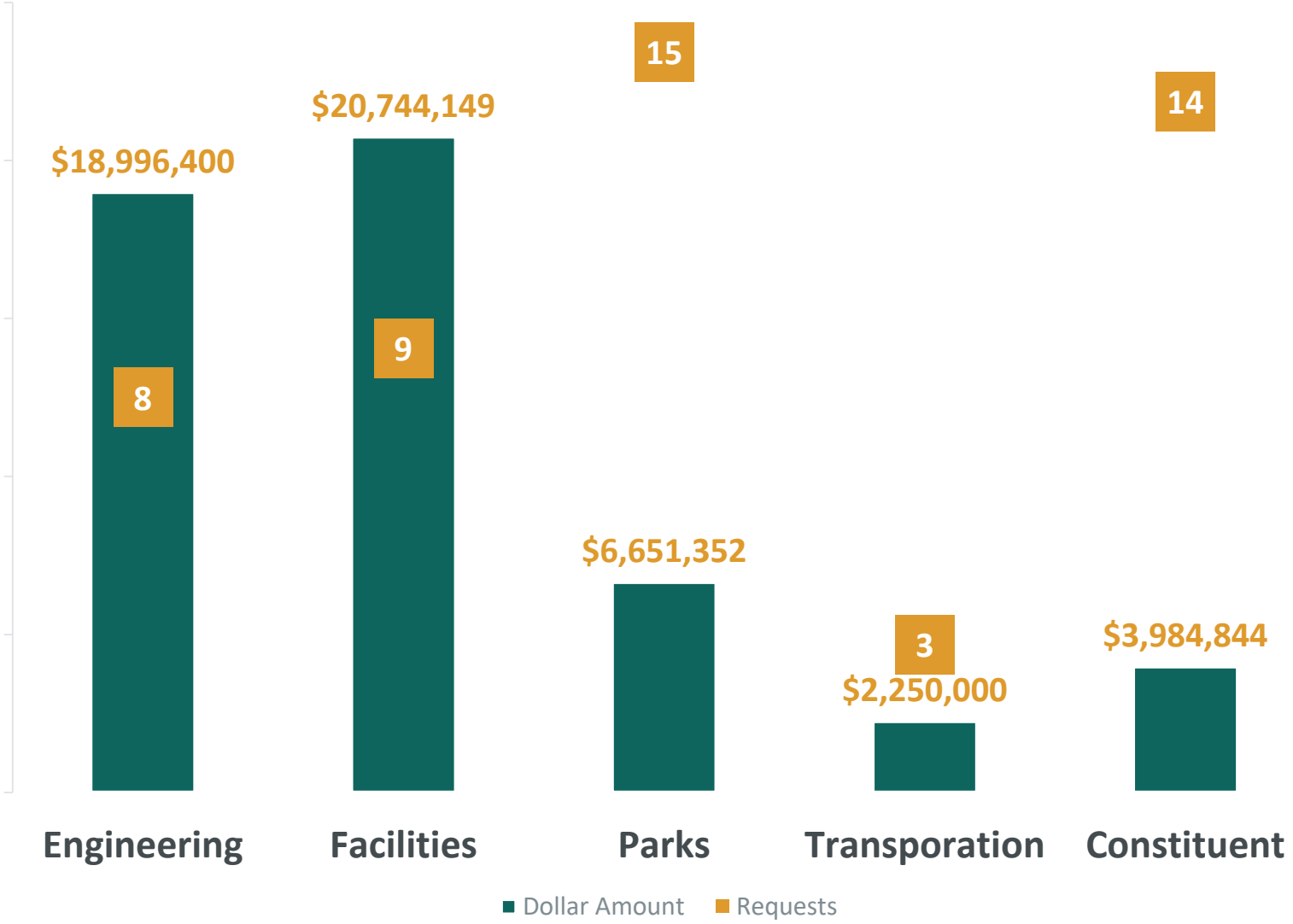
Contemplates:

- Guiding funding principles
- Achieves City sustainability goals
- Adheres to City's budget policies
- Strategically aligns with CFP
- Communication policies
- Standardized financial tracking
- Application screening criteria

CIP REQUESTS

Total Requested Funds
$52,626,745

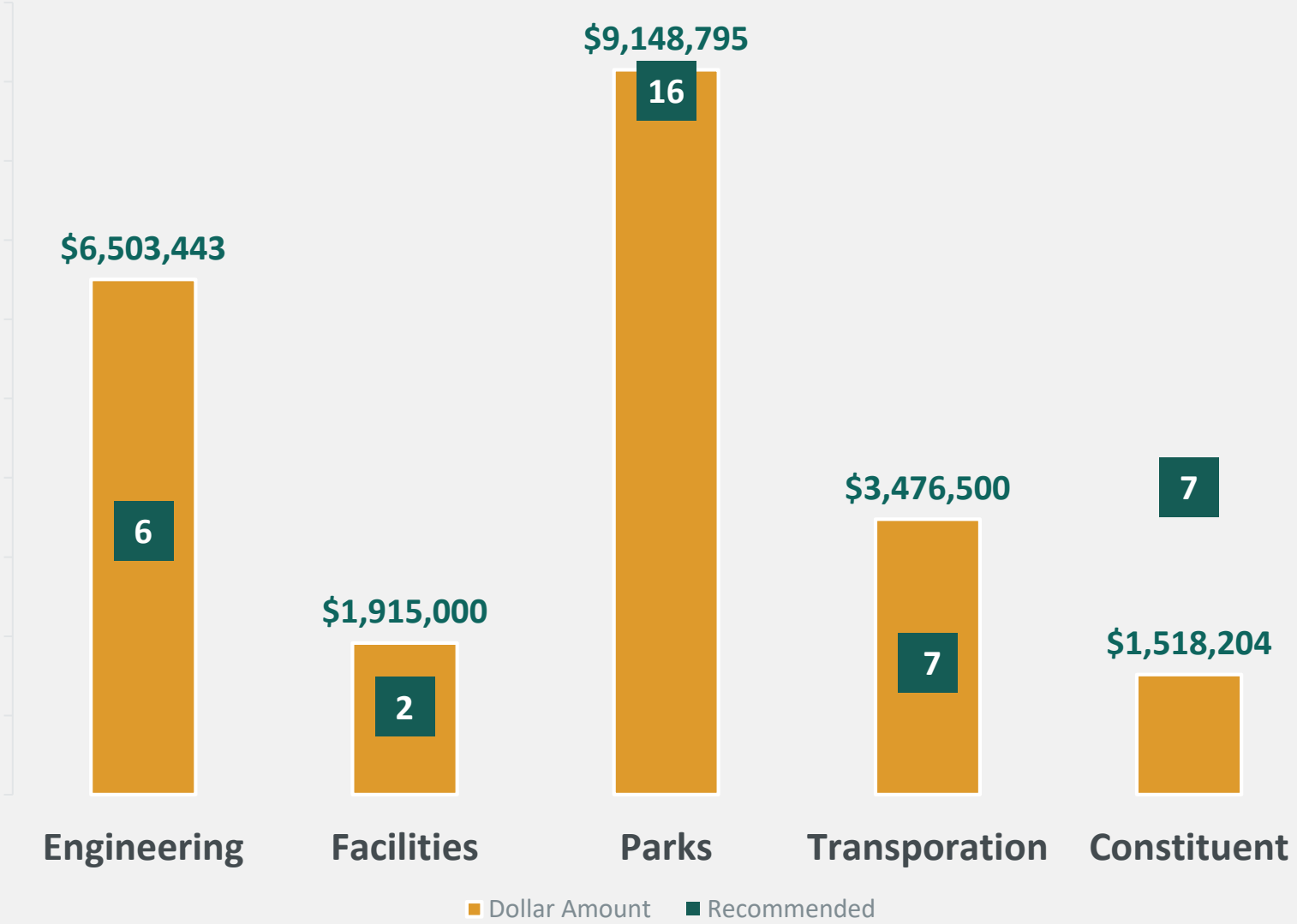
Total Requests
49



CIP RECOMMENDATIONS

Total Recommended Funds
$29,264,036

Total Recommended
31



CIP Funding Sources & Uses

General Fund Transfer:
$21,119,479
Impact Fees:
$4,567,913
$3,251,400 (Streets)
$1,316,513 (Parks)
Class C:
$3,000,000

Total CIP Funding
$29,264,036

Capital Projects:
$6,531,074
Maintenance:
$1,945,383
Debt Service & Obligations:
$12,643,022
Parks Impact Fee:
$1,316,513
Streets Impact Fee:
$3,251,400
Class C:
$3,000,000

Proposed CIP Process Timeline

February	CIP applications due (utilizing CFP)
March	CDCIP Board Begins
April	CDCIP Board & Mayor complete Recommendations
May	Creation of Mayor's Recommended CIP Book * * CIP Log will still be submitted to Council with Mayor's Recommended Budget
June	Mayor's Recommended CIP Book Transmittal
July	CIP Book reviewed by Council
August	CIP Book adoption by Council

Items critical for improving and maximizing impact of the process

- Policy
- Priorities

JACKIE BISKUPSKI
MAYOR
EXECUTIVE DIRECTOR, RDA

DEPARTMENT *of*
ECONOMIC DEVELOPMENT

BEN KOLENDAR
ACTING DIRECTOR

BUSINESS DEVELOPMENT STAFF MEMO

DATE: November 13th, 2019 **ITEM : B**

PREPARED BY: Roberta Reichgelt

RE: Business Advisory Board Email Distribution List

REQUESTED ACTION: Review of presentation Affordable Space Report

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EXECUTIVE SUMMARY/ANALYSIS: Business Development staff requests the board to review this report prior to the next meeting.

ATTACHMENTS: PDF Doc – Affordable Space – How Rising Commercial Rents Are Threatening Independent Businesses, and What Cities Are Doing About It

Affordable Space

How Rising Commercial Rents Are Threatening Independent Businesses, and What Cities Are Doing About It

Olivia LaVecchia and Stacy Mitchell

April 2016

ILSR INSTITUTE FOR Local Self-Reliance

About the Institute for Local Self-Reliance

The Institute for Local Self-Reliance (ILSR) is a 42-year-old national nonprofit research and educational organization. ILSR's mission is to provide innovative strategies, working models, and timely information to support strong, community rooted, environmentally sound, and equitable local economies. To this end, ILSR works with citizens, policymakers, and businesses to design systems, policies, and enterprises that meet local needs; to maximize human, material, natural, and financial resources; and to ensure that the benefits of these systems and resources accrue to all local citizens. More at **www.ilsr.org**.

About the Authors

Olivia LaVecchia, lead author, is a researcher with ILSR's Community-Scaled Economy Initiative, where she produces reports and articles on concentrated economic power and locally rooted alternatives. Her work reaches wide audiences, spurs grassroots action, and influences policy-making. Contact her at **olivia@ilsr.org** or via Twitter at **@olavecchia**.

Stacy Mitchell, co-author, is co-director of ILSR and director of its Community-Scaled Economy Initiative. Her research focuses primarily on the retail and banking sectors. She has produced numerous reports and written articles for a variety of national publications, from *Business Week* to *The Nation*. Her perspective is regularly sought by local and national news media, and she is a frequent presenter at national conferences. Contact her at **smitchell@ilsr.org** or via Twitter at **@stacyfmitchell**.

The authors would like to thank everyone interviewed for this report for their valuable insights.

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Executive Summary

The cost of leasing commercial space is soaring in many U.S. cities, threatening the future of independent businesses. In cities as diverse as Oakland and Nashville, Milwaukee and Portland, Maine, retail rents have shot up by double-digit percentages over the last year alone. As the cost of space rises, urban neighborhoods that have long provided the kind of dense and varied environment in which entrepreneurs thrive are becoming increasingly inhospitable to them.

Local businesses that have been serving the everyday needs of their communities, sometimes for generations, are being forced out and replaced by national chains that can negotiate better rents or afford to subsidize a high-visibility location. In ILSR's 2016 *Independent Business Survey*, 59 percent of independent retailers reported being worried about the escalating cost of rent, with one in four describing it as a top challenge. The trend isn't limited to retailers. The price of industrial space is rising rapidly too, jeopardizing a budding renaissance in urban manufacturing.

This report examines what's causing commercial rents to skyrocket and explores six broad policy strategies that elected officials and community leaders are proposing to address it.

We find that the sharp rise in rents isn't limited to affluent neighborhoods. It's happening across a range of communities, with some of the most intense pressure falling on businesses in lower income neighborhoods. The problem is especially detrimental to people looking to start new businesses, further raising barriers to entrepreneurship and stunting economic dynamism.

Just as there's a public stake in the availability of affordable housing, so too is there a public interest in the commercial side of the built environment. Having a healthy independent business sector is closely tied to other municipal policy priorities, including reducing climate emissions, expanding jobs, lessening economic inequality, and strengthening the social fabric of neighborhoods.

Just as there's a public stake in the availability of affordable housing, so too is there a public interest in the commercial side of the built environment. Having a healthy independent business sector is closely tied to other municipal policy priorities.

A complex web of causes lies behind rapidly growing and increasingly unaffordable commercial rents:

- **Soaring commercial real estate prices –** A global surplus of capital seeking higher returns is flooding into urban commercial real estate, causing a speculative run-up in prices.

- **The increasing popularity of cities –** Cities are booming as more people seek walkable, mixed-use urban districts. While this has increased opportunities for businesses, it's also driven up demand for small storefront space, with the rise in rents often significantly outpacing sales growth.

- **The growth imperative of national chains –** Increased demand is also coming from national chains, which, having saturated the suburbs and under pressure from shareholders to show square footage growth year after year, have turned to cities to sustain their expansion.

- **A limited and declining supply of small spaces** – Older urban buildings are being redeveloped or razed, and the projects that replace them often provide spaces that are designed for chains and too large to be suitable or affordable for local entrepreneurs.

- **A preference for national companies over independent businesses in commercial real estate financing** – Banks and other lenders often provide lower interest rates or better terms if a property owner or developer has signed national, brand-name tenants.

This report outlines a range of ideas that elected officials, business owners, and community leaders have come up with for keeping space affordable and ensuring that entrepreneurs continue to thrive:

1. Broaden Ownership

Although not suitable for every small business, owning rather than leasing is one of the best ways to ensure stable occupancy costs. Only a small minority of independent retailers currently own their space. Several cities are exploring programs to increase that share by helping businesses buy their buildings, or buy their spaces as commercial condominiums.

Another approach involves expanding community ownership of commercial buildings. Through various structures, such as real estate investment cooperatives, neighbors can invest in commercial buildings and guarantee local businesses long-term stability and reasonable, cost-driven rent increases.

2. Reduce the Power Imbalance in Landlord-Tenant Negotiations

Another set of policy ideas would give small businesses certain rights when it comes time to renew their leases. These protections might include an established timeline for negotiations, an option for a long-term lease, and recourse to arbitration. Cities are also looking at ways to provide property tax credits to landlords who provide affordable leases to locally owned businesses.

3. Zone for a Local Business Environment

Zoning can be a powerful tool for creating a built environment that provides plenty of opportunity for local entrepreneurs. Key strategies include protecting the varied fabric of established commercial districts, ensuring an ample supply of small spaces, and adopting business diversity ordinances that encourage a mix of different types of businesses.

4. Set Aside Space for Local Businesses in New Development

Several cities have required that a portion of the space in select new development projects be set aside for locally owned businesses. These requirements could be codified and applied across all development projects that meet certain size or location thresholds.

5. Create a Preference for Local Businesses in Publicly Owned Buildings

Cities often own and invest in real estate themselves. Some are establishing a preference for leasing spaces in city-owned or -financed buildings to locally owned businesses. In underserved communities, this could include offering space at below-market rates to local, neighborhood-serving businesses.

6. Recognize Businesses as Cultural Landmarks

Following in the footsteps of Rome, Paris, and London, San Francisco has established a program to recognize and support longstanding, culturally significant businesses. The program provides incentives to landlords who agree to 10-year leases, and it could also evolve to help businesses purchase their spaces.

Introduction

For 22 years, Lisa Monson ran her business out of a building she rented in Salt Lake City's 15th and 15th business district. The 2,800-square-foot space was a good size for her hair salon, and she liked being in a neighborhood of locally owned businesses.

Like many business owners, though, the more Monson continued to invest in her business, the more wary she became of losing her space. Her landlord wouldn't offer her a long-term lease, and every three years, she faced a tough renegotiation. Meanwhile, national chains had started moving into the neighborhood, including a Starbucks and an Einstein's Bagels that bought out a local bagel shop.

"It kept me in a place where I was completely at risk of being thrown out," Monson explains. "I knew that if he got an offer for a lot more money, I wouldn't be able to match it."

The cost of commercial space is spiking upward around the country, driven both by run-away real estate speculation and the growing popularity of urbanism. As a new generation discovers the appeal of walkable and mixed-use neighborhoods,[1] demand for small commercial spaces in those neighborhoods is far outpacing supply, and rents are rising to match. Locally owned enterprises, which thrive in these areas, are increasingly threatened with displacement from the neighborhoods that they've made vibrant, and getting replaced by national chains that can negotiate better rents or afford to subsidize a high-visibility location. As high rents shutter longtime businesses, they also create an ever-higher barrier to entry for new entrepreneurs, stunting opportunity and leading to a scarcity of start-ups in cities once known for their business dynamism.

"The rents have come to be the most critical issue in the survival of locally owned businesses," says Betsy Burton, president of the American Booksellers Association and a founder of the independent business advocacy group Local First Utah.

When once-thriving blocks become colonized by generic national brands, local business owners lose. But so do cities and the people who live in them. The businesses on the front lines of rising rents are the grocers and hardware stores, the neighborhood-serving businesses selling everyday goods with little padding on their margins. When these businesses get displaced, residents lose the ability to walk to the store for their shopping, to bump into neighbors, and to chat with the business owners, who often attend to a variety of community needs that go well beyond making sales.

As high rents shutter longtime businesses, they also create an ever-higher barrier to entry for new entrepreneurs, stunting opportunity and leading to a scarcity of start-ups in cities once known for their business dynamism.

Cities also stand to lose, because the strength of the independent business sector is closely tied to other policy aims. At a time when more than 30 major U.S. cities and counties have committed to reducing their greenhouse gas emissions by 80 percent or higher,[2] having local food markets, pharmacies, and other stores in neighborhoods has been shown to sharply reduce the amount of driving households do, and even to spur more people to commute to work by public transit.[3] Locally owned businesses also sustain much of the social fabric of neighborhoods, and recent research has found a strong relationship between their prevalence and community well-

being, including higher income growth and lower poverty rates, as well as increased levels of civic engagement.[4] And for cities looking to increase jobs, fostering a built environment that's small in scale and hospitable to local enterprises has been shown to support stronger levels of positive economic, social, and cultural activity across metrics from number of jobs per square foot to diversity of residents.[5]

The displacement of local businesses isn't just an issue in affluent neighborhoods. Among New York City's boroughs, the Bronx has seen the biggest jump in evictions of small businesses and the largest percentage increase in the number of chains.

The displacement of local businesses isn't just an issue in trendy, affluent neighborhoods. Among New York City's boroughs, the Bronx has seen the biggest jump in court-ordered evictions of small businesses,[6] and over the last year it also experienced the largest percentage increase in the number of chains.[7] Among these newly arriving chains is a Boston Market, slated to open on a busy corner previously occupied by Zaro's Bakery, a beloved business founded by a Polish family in 1927 and given just a few weeks' notice that its lease would not be renewed.[8] Across the Harlem River, in Washington Heights, numerous longstanding businesses have recently been evicted or handed hefty rent increases. One is the nearly 40-year-old Liberato Foods, a Dominican grocery store with two-dozen employees, which is reportedly facing a tripling of its rent.[9]

"I think affordability is a very high issue if not the highest issue that businesses face," says Vicki Weiner, deputy director of the Pratt Center for Community Development, of local businesses in New York City. "What they make compared with what they have to pay in rent seems to be out of scale in every neighborhood, no matter what the market conditions are."

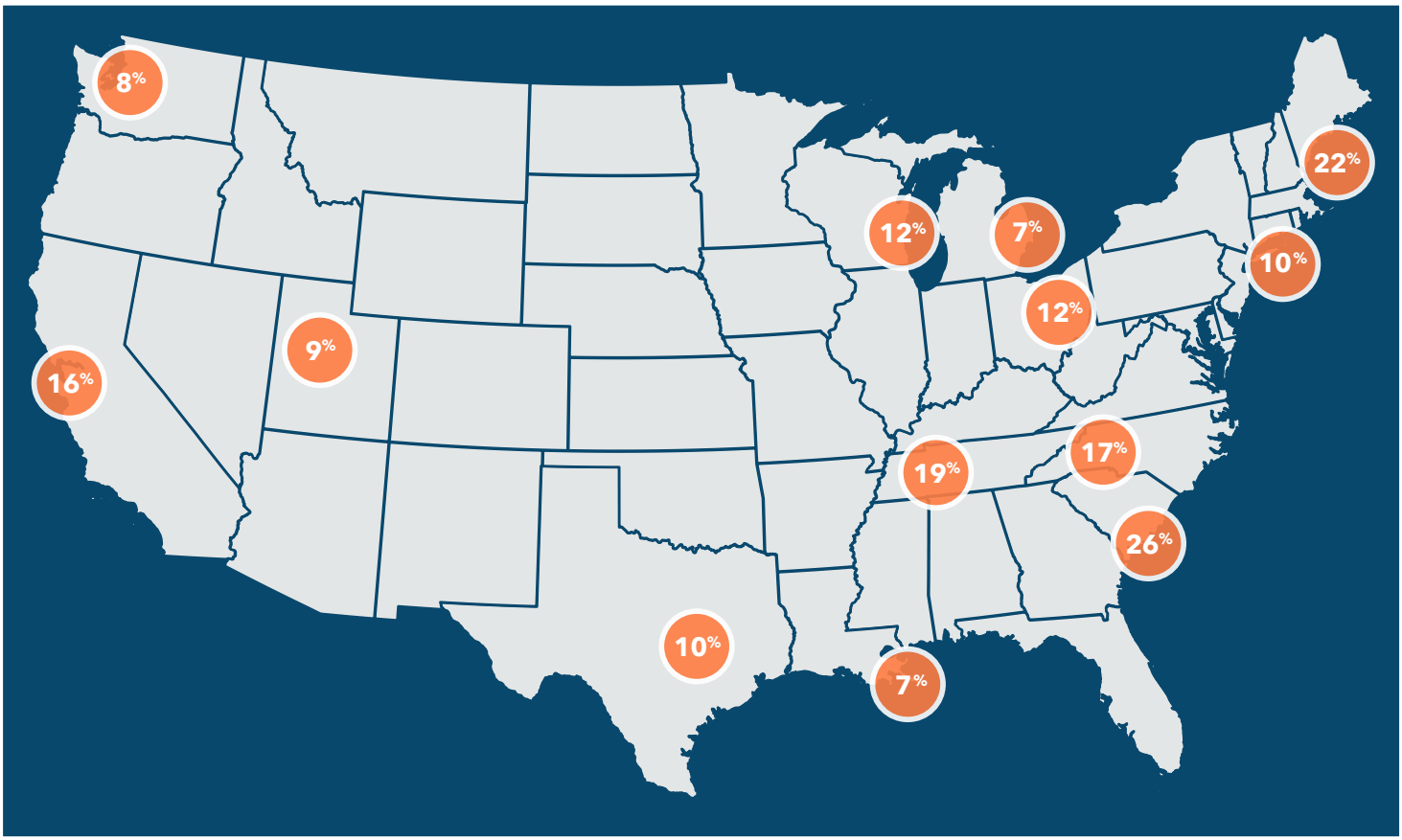
Some cities and community leaders are beginning to grapple with the ways that public policy can offer solutions. They are coming up with innovative ideas, from tax abatements for new developments that set aside space for local retail to low-interest loan programs that help local businesses buy their buildings, all with the aim of creating and maintaining a built environment that's affordable, appropriate, and accessible for locally owned businesses.

"We know that small businesses, particularly those that are neighborhood-based, are important contributors to the identity of Seattle, and the diversity and what makes it attractive to be here," explains Ken Takahashi, who works in the Office of Economic Development in Seattle, of the perspective of one city. "So we don't want to just let the market do what the market does, and we want to see if there are ways that we can intervene."

What's Affordable?

An apartment is generally considered affordable if the rent is less than 25 percent of the tenants' household income. In the commercial market, affordability is not quite as clearcut, and varies by the type of business, but a rough rule-of-thumb is that rent and other occupancy costs should total less than 10 percent of a business's gross sales. As an example, the average hardware store in the U.S. does about $150 in sales per square foot annually, and therefore should aim to keep its rent and other occupancy costs at no more than $15 a square foot. Businesses in better locations can often generate higher sales per square foot and afford higher rents. But a problem arises when a combination of speculative investment, high demand, and limited supply of space sends rents climbing faster than sales growth. Grocers and other businesses that serve the basic needs of a neighborhood are particularly vulnerable, because they often have low gross margins and therefore need to keep their occupancy costs even lower to remain viable.

Mapping Rising Retail Rents



Finding and keeping affordable space is a growing challenge for local businesses in cities across the country. Here are some of the numbers that business owners are facing citywide, and these rates are often higher in the business districts best suited to locally owned enterprises.

Percentage figures are the increase in the cost of space in the last year. All dollar figures are asking lease rates per square foot per year. For comparison, over the last year, median per capita income rose 1% and retail sales grew just 1%. Inflation was 0%.

PORTLAND, MAINE: 22%
Retail lease rates in Greater Portland jumped 22% to an average of $18. In the city's historic core, lease rates for small retail spaces are now in the $25-$35 range.

NEW YORK, NEW YORK: 10%
Retail lease rates in Manhattan shot up 10%. Some neighborhoods saw larger increases. On the Upper West Side, ground-floor rents rose 37% to an average of $390. In parts of Brooklyn, average retail rents are now close to $350.

ASHEVILLE, NORTH CAROLINA: 17%
Asheville's a smaller city, but retailers here have also seen rents jump 17%, to $21.

CHARLESTON, SOUTH CAROLINA: 26%
Citywide retail lease rates have skyrocketed 26%, to $27. In downtown Charleston, the average asking price is now $38.

CLEVELAND, OHIO: 12%
The trend isn't limited to coastal cities. In Cleveland, lease rates are up 12%, to $14.

NASHVILLE, TENNESSEE: 19%
Locally owned retailers in Nashville have had to grapple with a 19% spike in average asking rents, to $20.

NEW ORLEANS, LOUISIANA: 7%
In New Orleans, retail rents have risen 7% to $20 citywide.

DETROIT, MICHIGAN: 7%
In Detroit the average retail rent is a lower $13, but that figure is still a 7% year-over-year increase, more than rate at which retailers are generally able to grow their revenue.

MILWAUKEE, WISCONSIN: 12%
The average asking rental rate for retail space jumped 12% in Milwaukee, to nearly $15.

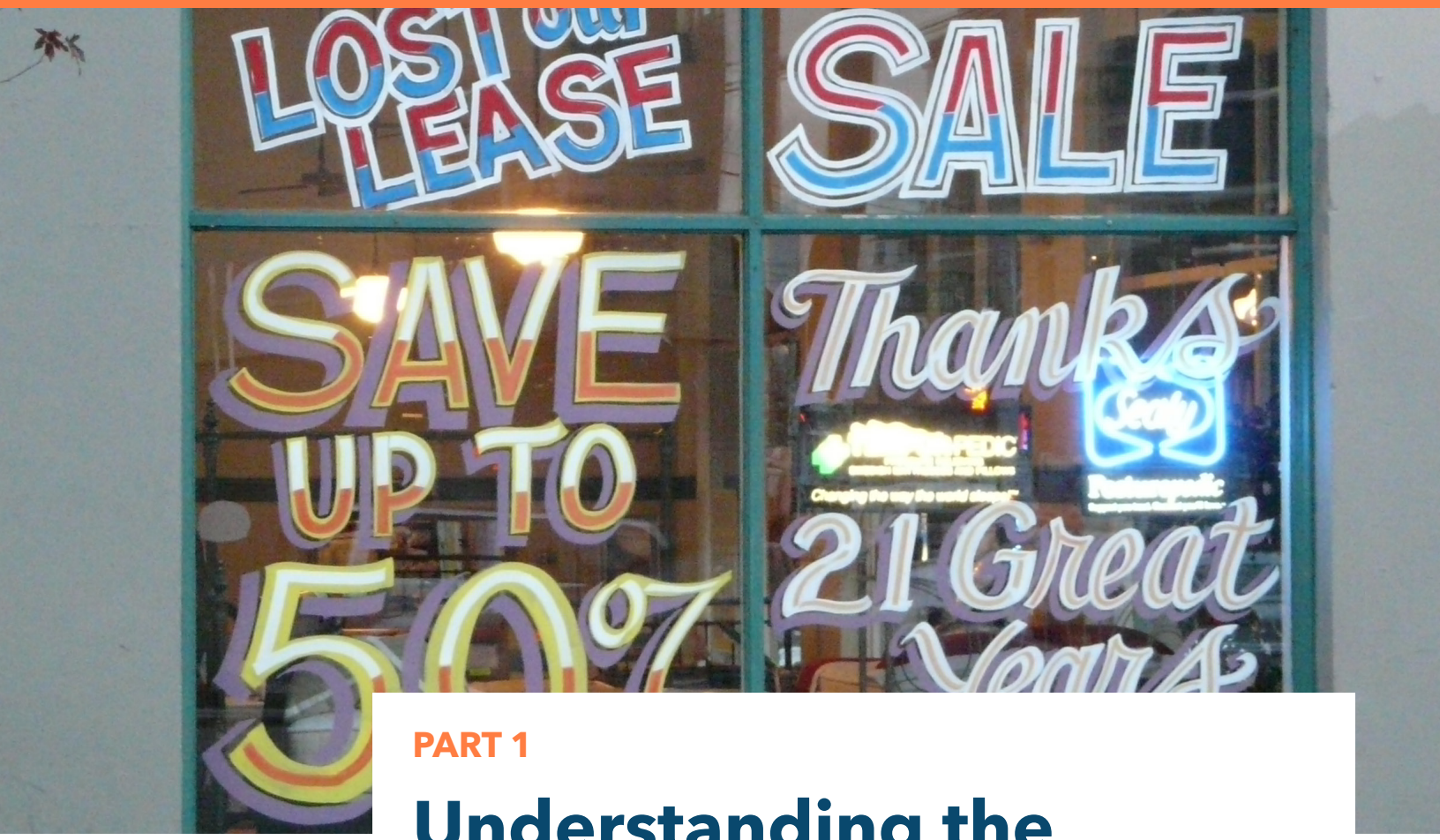
SALT LAKE CITY, UTAH: 9%
Retail lease rates have risen 9% in the last year in Salt Lake City, to an average of nearly $18.

AUSTIN, TEXAS: 10%
The average rent for retail space rose 10% in Austin, to $20, and is forecast to rise an additional 8% this year.

OAKLAND, CALIFORNIA: 16%
Oakland is one of the cities under the most pressure. Retail rents have soared 16% in the last year, to $27per square foot, and are up 42% since 2013.

SEATTLE, WASHINGTON: 8%
Retail rents in Seattle have risen 8%, to $28.

Sources: Data for most cities comes from LoopNet, accessed in April 2016. Other data sources are Cardente Real Estate (Portland, Maine), The Real Estate Board of New York (New York City), Lee & Associates (Charleston), and Marcus & Millichap (Austin).



PART 1

Understanding the Problem

"We've been priced out of a ZIP code that we've been in for the past 18 years," wrote a local retailer in Austin in the comments of ILSR's 2016 survey of independent businesses. "I don't mean rents slowly creeping up; I mean we would be paying more than double."

This business owner isn't an outlier. In that survey, which was distributed to local businesses across North America, 59 percent of retailers reported being worried about the increasing cost of rent, and one in four described it as a top challenge.[12]

"I get calls every week," says Rebecca Melançon, the executive director of the Austin Independent Business Alliance. "Our members are not seeing a 10, 15, 20 percent rise. Their rents are doubling, tripling, and quadrupling, and the economy is good, but they're not bringing in four times their revenue. It's basically forcing them out."

Some locally owned businesses, like those with multiple locations or a higher-end product, can handle those increases. "It's the older, smaller businesses that really built the city in a lot of ways that I see hurting," Melançon says. It's

also impacting who can start a business. "Austin's extremely entrepreneurial, but if you don't have deep pockets, the threshold for entry has gone way up," continues Melançon. "There isn't anyone out there it's not affecting."

The average annual rent for a 2,000-square-foot store in the U.S. increased 2 percent in 2015, according to the real estate statistics firm Reis, Inc. Start drilling into cities and towns, and the numbers climb faster. In Charleston, for instance, citywide retail rents skyrocketed 26 percent between Feb. 2015 and Feb. 2016;[13] in Cleveland that figure was 12 percent,[14] and in Nashville, 20 percent.[15] Even in smaller communities, like Grand Rapids, Mich., the retail rents are "unprecedented."[16]

Look at the rents for the kinds of walkable, mixed-use neighborhoods that have traditionally provided the best environment for locally owned businesses, and the numbers jump again. In Louisville, Ky., for instance, the lease rate for big-box retail space was $7.28-per-square-foot at the end of 2015. For "small shop" space, it was $16.68-per-square-foot, a 129 percent premium.[17] A 2012 study from the Brookings Institution found that Washington, D.C., neighborhoods that scored well on an index of walkability and urban design, called the State of Place Index, also had higher real estate values. "A one point increase in a neighborhood's State of Place was related to increases of… $0.35/sq. ft. in retail rents, [and] four percent in retail revenues," the report found. "Clusters of neighborhoods with an above average State of Place Index commanded nearly… 47 percent more in retail rents… than a neighborhood with an above average State of Place Index that 'stood alone.'"[18]

Within particular business districts, often the ones that local businesses have made vibrant and valuable through their own investment and labor, the increases in rent are the sharpest of all. In Philadelphia's downtown district, Center City, rents for prime retail space increased 87.5 percent over seven years, including 15 percent in 2015 alone. Along some streets, increases were as high as 214 percent over the last decade. "Some local merchants have been pushed off of Walnut [St.] as international and national brands move in," notes a report from the commercial real estate firm CBRE.[19] "Center City offers a unique diversity of retailers, services, and restaurants in an easily accessible, dense, walkable, safe setting… in contrast, many malls and shopping centers have grown stale."

Behind these rising rents are a complex constellation of causes that span new urbanism and global capital. On the demand side, cities are booming, and there's an increased demand for the small-scale, walkable storefronts in which independent businesses thrive. National chains, too, are entering the hunt for space in cities, drawn by rising populations and, having saturated the suburbs, seeking new markets. On the supply side, as older buildings—which were generally designed to have small-scale, ground-level retail space—are getting razed for new development, those new projects often don't replace them, instead

Rising Rents Are Putting a Damper on the Urban Manufacturing Renaissance

Although our report focuses on retailers, increasing and unaffordable rents are affecting other kinds of independent businesses too. Among them are locally owned manufacturing companies that have been taking root in the once-decaying industrial zones of some cities. In San Francisco, for instance, the nonprofit organization SFMade reports that some of the local companies it works with have been driven out of the city by rising rents. "If we don't see a cooling of the market or some other changes soon—we are truly at risk of losing a number of… companies in the next 12–18 months," the group noted in a 2015 report.[10] According to the commercial real estate firm LoopNet, the average asking rental rate for industrial properties jumped 14 percent between Feb. 2015 and Feb. 2016 in Austin, 14.8 percent in Atlanta, and 7.8 percent in Louisville.[11] Many of the strategies described in this report also apply to industrial spaces, and cities should include commercial-industrial and manufacturing districts as they examine the issue.

containing commercial space that's larger-format and designed for a national chain.

For the real estate developers behind these projects, securing a single large ground-floor tenant makes a project easier. A name-brand tenant is a faster ticket to financing for a project, especially within a banking system that's increasingly national and international in scope. "The way that projects are financed, they go to a safe way of doing development and they have large tenant spaces that make the banks happy that are lending to them," says Ken Takahashi, in the Seattle Office of Economic Development. This bias toward large spaces in new construction further skews the built environment in favor of bigger companies, and compounds the issue of rising rents. "In a lot of places, the spaces are not the right size for smaller businesses that really only need a fraction of what's available, and they can't afford to pay rent on a much larger space," Takahashi says. Another challenge is that real estate developers and the brokers they hire are often themselves national in scale. They lack knowledge of the local businesses in the market, but already have ongoing relationships with many national brands.

This bias toward large spaces in new construction further skews the built environment in favor of bigger companies, and compounds the issue of rising rents.

Similar incentives, driven by how buildings are financed, also lead property owners to favor chains. While there is a perception that national chains pay higher rents, that's not necessarily true. In some cases, it's local businesses that have to pay higher rents in order to prove themselves, while national chains are given a discount for their perceived stability and credit-worthiness. "A formula retail tenant may not be paying more per square foot, but it adds some credit-worthiness to the balance sheet for the landlord, and it makes your bank happy," says Rodney Fong, president of Fong Real Estate Company in San Francisco and a member of the San Francisco Planning Commission. Banks and other lenders often provide lower interest rates or better terms if a building owner has signed a national brand. When property owners and investors can get better terms by leasing to a business like a Target, Fong explains, "Target will win every day."

Structural incentives and geographic biases like these are further distorting the commercial real estate market for locally owned businesses, and making it difficult for them to compete on their own merits. At the same time, property values are soaring, for reasons that include financial speculation and, in the present low interest-rate climate, real estate becoming an increasingly popular place for global investors to park their capital.[20] Combined, these factors are creating rent increases that local businesses can't absorb. Many of them are forced through the expense and challenge of relocating their business, or closing altogether. In one survey of businesses along Magazine Street in New Orleans, 76 percent of local business owners reported fearing that soaring rents would force them off of the street.[21] A March 2016 report from the city of Boston found that among the city's primary gaps in its small business ecosystem, "Some gaps, such as a lack of available, affordable real estate, are pervasive and affect most small businesses in the city."[22]

PART 2

Policy Solutions

Just as there's a public stake in the availability of affordable housing, so too is there a public interest in the commercial side of the built environment. Locally owned businesses are what make a city livable, and economically healthy. But in the dynamic between local entrepreneurs and their communities, on the one hand, and developers, property owners, and lenders, as well as national chains, on the other, there exists an imbalance of power that isn't related to the merits or viability of the businesses. Addressing this imbalance is a worthy policy goal, and one that helps cities achieve many other goals as well, from environmental sustainability to economic opportunity.

Here we present a range of ideas that elected officials, business owners, and community leaders are coming up with for how to do this. So far, many of the ideas are coming from larger cities, particularly New York City and San Francisco, where rising rents have already reached crisis-level proportions, but smaller cities, which are just beginning to experience the pinch of affordable space, are also beginning to look for ways that public policy can provide solutions.

STRATEGY 1

Broaden Ownership

In stories about rising rents, there's often a handful of businesses that are able to be more resilient. One thing many of these businesses have in common is that they own their buildings.

There's the 50,000-square-foot, 94-year-old furniture store on Charleston's King Street, about which a Dec. 2015 article on the cost of space in the corridor notes, "Because he owns the building, rising rents did not push him out." There's the longtime bookstore in Brooklyn, whose owner "was able to stay as long as he did only by virtue of owning the building," the *New York Times* reported.

One flagship local business in Brooklyn, Brooklyn Brewery, first started renting commercial space for about $3-per-square-foot in 1990, for an annual lease of about $90,000, the *Associated Press* recently reported.[23] In the intervening years, rents have jumped to $30-per-square-foot, and the same lease today would cost more than $900,000 to sign. The brewery still has 10 years on its current lease, but it's already begun its search for a new space at a sustainable price. "This time, the company will protect itself from soaring rents," the *AP* reported, with brewery co-owner Steve Hindy explaining, "'We are insisting on buying any place where we'd build a brewery.'"

Or take Lisa Monson, the Salt Lake City hair salon owner who rented space for 22 years. For 10 of those years, she was searching for a new location, but stymied by the lack of small-scale commercial space and the need to stay within a one-mile radius, so as not to lose her existing clientele. Ultimately Monson, who had grappled with the uncertainty of a short-term lease, made the decision to buy a building and relocate her business there.

"The thing that's so great is of course the mortgage doesn't go up every three years," Monson says. "My hard costs are now in a place where I know exactly where they're going to be for my future, and it makes things a lot more secure." In addition, just as with owning versus renting a home, Monson's now building equity with her mortgage payments, and building wealth that will stay in the community instead of in the pockets of remote real estate investors.

One of Monson's long-time neighbors at her old location is the bookstore The King's English, owned by Betsy Burton. Burton decided to buy her space in 1980, soon after she started up, and include the real estate as part of her business plan. "The King's English would no longer be there, and would no longer exist, if we hadn't bought our building all those years ago," Burton says. "If you're in control of the property, no one's in control of you."

Seeing this hardiness, among the policy changes that local business advocates and city officials are pushing for are programs that make it easier for local businesses to own their space.[24] Roughly three-quarters of independent retailers lease their space, and a larger share would likely benefit from ownership.

In Austin, a group of local businesses that are part of the Austin Independent Business Alliance have come up with a recommendation that the City of Austin facilitate a lease-to-own program, using federal grants to make the program possible.[25] "Local and small business will not fully attain sustainability without owning the space we occupy," AIBA director Rebecca Melançon wrote in an update on the proposal.[26]

In New York City, the borough president of Manhattan, Gale A. Brewer, has proposed strategies that the city could use to encourage landlords to separate ground-level retail space in buildings they own and

sell those spaces as commercial condominiums. Once broken up from residential or office space on other floors, the ground-level spaces become more accessible for local businesses to purchase.[27] As one way to incentivize landlords to separate the space, Brewer proposes that the city could offer landlords a reduction on certain city debts, such as building fines and sewer payments, if they paid the debts using earnings from the sale of the commercial condos.[28]

Other options for businesses looking to buy their building include crowdfunding or direct public offerings, which allow unaccredited investors (i.e., people who are not wealthy) to buy shares of a business that's seeking to raise capital. As of now, many businesses have launched crowdfunding campaigns for real estate on their own,[29] but there's not yet a platform or infrastructure in place to facilitate more such transactions. "That's what is needed," says Amy Cortese, financial journalist and founder of the online publication *Locavesting*, in an e-mail.

Create a "Buy Your Building" Plan for Local Businesses

In Salt Lake City, the idea is further along. There, the city's considering creating its own "Buy Your Building" program, which would connect local businesses looking to purchase their property with city financing and a network of local partner banks.

The city's already familiar with helping its local businesses access credit. Its Economic Development Loan Fund, a $10 million pool for business development, lends to businesses that may not qualify for a traditional bank loan. Between Nov. 2014 and Dec. 2015, the fund approved $3.48 million in loans to 24 local businesses, nearly half of which went to low-income entrepreneurs.[30] The program's terms allow businesses to apply for a loan for a down payment, but even with down payment assistance, the business has to secure a bank mortgage on its own. In these times of tight credit for small businesses, that's often hard to do.

In the summer of 2015, the city released an economic development plan, "EnterpriseSLC," in which it announced its intention to go further. One promise in the plan was this: "Through our Economic Development Loan Fund, partner with lending institutions to assist local businesses in acquiring their buildings."

"We're in the exploratory phase," explains Peter Makowski, Economic Development Manager with Salt Lake City. As part of that process, the city's reaching out to local banks, assessing the need, and looking for an initial pilot loan to test the program. The crux of its question is how to leverage city resources to make the loans low-risk enough for banks, which could then use their own resources to create their own complementary "Buy Your Building" programs. The city portion might take the form of a low-interest loan through the EDLF for the down payment, or possibly a new city grant program to write down costs.

One lender with a strong local presence, Zions Bank, has been part of conversations with the city. Though interest from small businesses in buying their building has slowed as the real estate market heats up again, the demand is there, explains Lori Chillingworth, who heads the bank's Small Business Division. "Coming out of the recession, last year and the year before, we saw a lot of people wanting to buy their building," Chillingworth says.

Zions, which is a regional bank with $5.7 billion in small business loans on its books,[31] is often able to get back-up from the Small Business Administration's loan guarantee programs for small commercial real estate loans that are higher risk for the bank, but Chillingworth says that a city program could fill in other pieces of helping small businesses access capital. Bank loans are often hard to get, for instance, if a business is also seeking financing to make improvements to the property, or if it's looking to buy a larger building and rent part of it out. "I think the city could play a huge role if they write the program in a way where they can spread their dollars out as far as they can go," Chillingworth says. "They will really benefit from the economic development of more businesses buying their building."

The city's also analyzing the size of the gap it would be aiming to fill. One concern is that purchasing a building isn't right for every business, and some businesses are better served by focusing their resources on growing their inventory or increasing their cash flow. Other businesses, however, could be well-served by seeing real estate as part of their business plan. "It's going to be a specific type of situation in which the fund could be used," Makowski says.

As Salt Lake, like many cities, sees certain neighborhoods booming, increasing local business property ownership could also be a bulwark against displacement from gentrification. "I think a 'Buy Your Building' program could help keep the neighborhood fabric intact, and help avoid the unintended consequences of large-scale investment," Makowski says.

"There isn't much of a boilerplate for a program like this that we've found so far," he adds. Creating it, however, aligns with the city's larger economic development goals. "We'd like to give those local businesses that are anchors of the community the opportunity to stay and thrive and grow where they've started," says Makowski.

Foster Community Ownership of Commercial Spaces

Community ownership is another approach for making sure that commercial space offers viable opportunities for local entrepreneurs and continues to house businesses that suit the surrounding neighborhood. When customers and neighbors become the owners of a commercial building, their interests are more aligned with those of their business tenants, than when the building is owned by remote developers. This can be reflected in lease terms. One kind of lease structure, for instance, sets a rent that's a low base amount plus a percentage of the business's sales, so the property owners and the business grow and profit together. Another advantage of these ownership models, which include customer cooperatives, community-owned stores, commercial community land trusts, and real estate investment cooperatives,[32] is that they are financed by their member-investors and thus are not subject to the same limitations and biases against independent businesses built into other sources of real estate capital.

One example is the Northeast Investment Cooperative in Minneapolis, which was started by a group of neighbors who wanted to invest their money locally, and also bring more local businesses into their commercial corridor. NEIC has purchased two buildings that house three thriving businesses, and when it was looking for tenants for its new spaces, it specifically sought locally owned enterprises. NEIC was then able to work with those businesses to create the right space for them. Two of them, a brewery and a bakery, had struggled to find a workable commercial space elsewhere.[33] "I think our willingness to take the risk and do the build out and not have to charge as much as you would have to charge to make full business sense originally was pretty important," says Leslie Watson, a member of NEIC's founding board.

With this model, the businesses and the owners benefit, and so does the city. Its residents become more civically engaged and connected, and it also means that decisions about the urban landscape are being made by the people who live in it. To grow and support investment cooperatives and similar models, cities can spread information about them and review ways to steer capital to them, such as by offering tax credits for local investment or, in low-income communities particularly, investing themselves. They can also work with state governments to adopt state-level securities exemptions for member investment in cooperatives.[34] Community ownership can be an especially useful tool in neighborhoods where property values are only beginning to accelerate upward, so that buildings are still relatively affordable and residents and local business owners can benefit from future increases.

STRATEGY 2

Reduce the Power Imbalance in Landlord-Tenant Negotatiations

Commercial tenants lack many basic rights and protections. They can be given no notice that their landlord isn't renewing their lease, or start negotiating a lease with no assurance that their landlord is bargaining in good faith. Compounding this lack of protections, local businesses also create a portion of their space's value, both by making improvements to that space and by driving their customer base to that location. These sunk costs make businesses even more vulnerable in the negotiation process.

Take Angel Santos, who in March 2015, faced a choice: He could either come up with nearly double the rent money for his 600-square-foot restaurant space in New York City's Washington Heights neighborhood, $9,000 per month instead of $5,000 per month, or vacate the property by end of April. Santos had run his restaurant, Punta Cana, at this corner since 1997, but new owners, the real estate investors Coltown Properties, had bought the building as part of a $31 million real estate deal, and they were evicting seven Latino-owned establishments on the block, the *Village Voice* reported at the time.[35]

"All the attention in the press is going to the residential displacement, but what small businesses are facing in commercial rents is in essence even worse because there's far fewer protections," a New York City council member for the area, Mark Levine, told the *Voice*. "I reject the notion that bringing in higher-paying tenants equals economic development."

Levine is a co-sponsor of one proposed bill to address the issue in New York City, the Small Business Jobs Survival Act (SBJSA). It's one of many ideas that local business advocates and city officials are coming up with that are aimed at making landlords into better ones. These ideas span property tax incentives for capping rent increases, fines for landlords who keep commercial space vacant, and regulation of lease renewal, and many of them are targeted at reducing the power imbalance in landlord-tenant negotiations.

Regulate Lease Renewal

The approach that the Small Business Jobs Survival Act takes is to zero in on commercial lease renewals. "The absence of legal protection for the interests of commercial tenants in the lease renewal process has unnecessarily accelerated the closing of small businesses and resulted in lost jobs, tax revenues, and community instability," the text of the bill reads. It aims to give commercial tenants new rights in the renewal process, including a timeline for lease negotiations, a 10-year lease with a renewal option,[36] and in instances of dispute, recourse to binding arbitration.[37] The bill doesn't regulate new leases, but instead, focuses on renewals of existing commercial leases.

The bill was introduced by a council member from the Bronx in June 2014, but a version of it has been floating around the city since 1984. Supporters, however, argue that the issue has only become more urgent, and that the measure's time has come. It's attracted 28 co-sponsors on the city council and a thorough legal review, and a grassroots coalition, TakeBackNYC, has formed to support it.

"Talking to local business owners, people don't know if they'll be there in five years," explains Ahmad El-Najjar, a political consultant with TakeBackNYC. "They build their life around this business, but they don't know if they can renew their lease and they have no protections."

Some in New York argue that the city should go further, and return to the policies of commercial rent stabilization that the city enacted in the post-war years between 1945 and 1963.[38] Others, though, contend that even the SBJSA goes too far. Manhattan Borough President Gale A. Brewer, for instance, has proposed a modified version of the SBJSA, which mandates a notice period of 180 days, a schedule for the negotiation process, recourse to non-binding mediation, and, if the parties fail to agree on the terms of a new lease, a one-year extension of the tenant's current lease with up to a 15 percent increase in rent, to give the tenant time to search for a new location.[39] Brewer's proposal, however, has yet to be introduced as a bill.

Despite the dire straits facing many of the city's small businesses, the SBJSA and similar proposals have gotten caught up in the politicking of New York City, where real estate is a powerful special interest and the Real Estate Board of New York a formidable campaign donor and lobbying organization.[40] In order to move forward, the bill needs to be called for a public hearing by the chair of the Small Business Committee or by the speaker of the city council, or reach a super-majority of 34 co-sponsors. So far, however, it's been blocked by the two members who hold those positions; though New York City Council Speaker Melissa Mark-Viverito was among the bill's vocal supporters before she became speaker, now that she has the power to advance it, she's declined to schedule a hearing, calling instead for further study of the issue.[41] TakeBackNYC and its small business allies, meanwhile, are continuing to organize New Yorkers in support of legislative action.

Create a Property Tax Credit for Landlords

Local and state governments already know that tax incentives can be a powerful tool for shaping the built environment. In housing, for instance, governments are familiar with using lower property tax rates to encourage owner occupancy, favor primary residences over second and third homes, and compensate landlords who limit rent increases for vulnerable residents. In the realm of tax incentives for business, governments need to be careful to structure such policies in such a way that they don't preference big companies.[42] Nevertheless, a thoughtfully designed tax incentive for the landlords of local retail tenants could serve as a check on some of the market pressures that favor concentration, and mirror some of the values that exist in many cities' residential policies.

Depending on the state, the power to create this type of tax incentive may fit within existing economic development powers that local municipalities hold; in others, the state itself would have to create the program. In either case, within the context of the many programs that states and municipalities have devised to give tax breaks to big businesses, such a program would be an overdue addition, with the potential to bolster local entrepreneurs and reward investment in commercial spaces suitable to them.

In New York, for instance, New York City worked with the state to develop a program that encourages investment in older commercial spaces. Passed by the state in 1995, and extended many times since, the Lower Manhattan Commercial Revitalization Program (CRP) and companion Commercial Rent Tax Special Reduction (CRT),[43] create both a property tax abatement and a rent tax reduction. Property owners and their tenants apply to the program together, and in exchange for modest improvements to the building, the New York City Department of Finance offers a property tax abatement of up to $2.50-per-square-foot to the landlord, which is then passed-through to the tenant. Participants that qualify for the CRT can also receive a break in the amount of their rent that's subject to the city's commercial rent tax. The required investment and the resulting incentives are tiered based on the number of people employed by the tenant business, and only properties that are mixed use or nonresidential, built before 1975, and in a certain portion of Lower Manhattan are eligible. Though the program doesn't include explicit provisions around locally owned businesses, these types of older spaces tend to be well-suited for small and local entrepreneurs.

Another idea would create a property tax credit for landlords who voluntarily limit rent increases when they renew their leases with small businesses. In New York, where the state must authorize property tax incentives, City Council Member Robert Cornegy, who represents the Bedford-Stuyvesant neighborhood of Brooklyn and chairs the council's Small Business Committee, has introduced a city resolution calling on the state to pass legislation to this effect.[44] Down the road, a program such as this could be expanded to include a tax break for landlords who lease to locally owned businesses and agree to a schedule of modest rent increases, particularly in certain targeted locations.

Fine Landlords Who Keep Commercial Properties Vacant

In certain rapidly-growing neighborhoods, there's a growing phenomenon of landlords keeping commercial space vacant until they've attracted a tenant they perceive as the highest bidder. This kind of financial speculation impacts the character of the neighborhood, and also makes valuable commercial space unavailable to local retailers. "Since the nineteen-sixties, when Americans faced an extreme wave of urban blight, they have understood rising property values as a reliable measure of recovery. But everything can go too far, and at some point high property values may begin to destroy local economic activity," writes Columbia Law School Professor Tim Wu in *The New Yorker.*[45]

One policy solution to this issue proposed in New York City is a fine for landlords who keep properties empty for longer than six months. San Francisco's already instituted such a fine. It passed a first version for vacant buildings in 2009, and in July 2014, the Board of Supervisors strengthened the ordinance so that it applies to any vacant commercial storefront, even if other parts of the building are occupied. According to the ordinance, once a storefront is vacant for more than 270 days, the owner has to pay an annual fee and register with the city.[46] It's another landlord-targeted measure aimed at creating a more fair rental market.

STRATEGY 3

Zone for a Local Business Environment

Absent regulation, commercial space in cities is increasingly tailored to the needs of large national chains. It happens, for instance, when a chain moves in and knocks down walls to consolidate several smaller storefronts into a space better suited for its suburban business model. These spaces can expand to the full length of a city block, as much as 50,000-square-feet and above, a size format that's better suited to the latest Whole Foods than the local grocer, which is then stuck looking for ever-scarcer small retail spaces with ever-rising price tags to match.

Zoning is one of the most powerful tools that local governments have to shape the city, and it's also in the arsenal that cities are deploying to address the supply side of the affordable space imbalance. In this fight, some of the best uses for zoning and land use codes include prioritizing historic preservation, requiring a diversity of square footages in commercial spaces, preventing the consolidation of smaller commercial spaces into larger ones, and fostering a diversity of business uses within particular neighborhood corridors or business districts.

It can work the way that it did in the Upper West Side neighborhood of New York City, which around 2012, was in the throes of what some were calling the "new urban blight."[47] Unlike the old urban blight, this new wave didn't have decaying buildings or plummeting populations. Instead, it had bank branches. Their locations, and those of other national chains, were springing up across the neighborhood like impersonal billboards, instead of stores that the residents of the neighborhood needed and patronized, and bringing higher rents along with them. The chains were, additionally, changing the built environment and condensing smaller commercial spaces into larger ones.

"We cannot be successful as a neighborhood if it's all banks, and that's what it's becoming," Gale A. Brewer, then the city council member for the neighborhood, told the *New York Times* at the time. "We have to put a halt to it."[48]

In response, the city council approved a zoning change to regulate the width of new storefronts at street level, limiting bank storefronts to 25-feet along certain corridors, and storefronts to 40-feet. With the caps on store widths, the council aimed to foster a built environment friendlier to locally owned businesses, which generally thrive in smaller formats, and to limit the ability of the banks and other chains to stretch out and use storefronts as advertising.[49]

Absent regulation, commercial space in cities is increasingly tailored to the needs of large national chains.

Prioritize Historic Preservation

Older buildings are important contributors to cities' small-scale commercial environment, distinctive character, and healthy street life, and finding ways to maintain and adapt them should be among cities' top zoning priorities. Recent research has quantified the impact of older buildings on the local business environment and the health of the surrounding community; one report, from the National Trust for Historic Preservation, found that neighborhoods with a diverse mix of building ages have more startups and a higher share of jobs in businesses with fewer than 20 employees.[50] In addition to zoning, cities can consider programs to assist local businesses in adapting historic buildings, such as Phoenix's Adaptive Reuse Program, which offers permit-fee waivers and a faster timeline for eligible projects.

In Phoenix's program, spaces under 5,000-square-feet are eligible for more of the incentives, a size tier that also makes the program work for local businesses.[51] Since its launch in 2008, more than 90 entrepreneurs have started businesses in previously vacant spaces. In their preservation and reuse aims, cities should focus not only on areas with aesthetically pleasing historic buildings, but also in the kinds of older commercial-industrial districts that can provide fertile ground for such local businesses as craft breweries and new manufacturing.

Preserve and Increase the Supply of Smaller Spaces

City zoning and land use codes could, and should, encourage the creation and maintenance of smaller retail spaces, and discourage huge storefronts. Brewer, now Manhattan borough president, has suggested that one way to do this would be to require new buildings with a certain amount of commercial frontage to have a minimum number of storefront establishments, or to simply cap maximum store sizes, as the Upper West Side did. With zoning that encourages storefronts as small as 250-square-feet, or prohibits storefronts in certain neighborhoods that are larger than 2,000-square-feet,[52] cities also limit chain proliferation, as many chain formats don't work at such a small scale. With city support, individual neighborhoods may also be able to seek zoning changes specific to their needs, as the Upper West Side did. Other ideas include setting stricter limits on when developers can knock down walls to combine frontages.

Encourage Commercial Diversity

Another way that cities can use zoning to create a built environment friendly to locally owned businesses, and to residents and neighborhoods, is to encourage commercial diversity. San Francisco's formula business ordinance already incorporates this idea. The ordinance requires that any business with more than 11 locations worldwide apply for a special use permit in order to locate in the city's neighborhood commercial districts, and the criteria for securing one of the permits includes how many businesses of that type are already in the district, and whether the applicant business would add something that the neighborhood doesn't already have. Under the 10-year-old policy, the city has rejected many applications from chain stores and its neighborhoods now boast a larger share of independent businesses than most other large cities.[53]

STRATEGY 4

Set Aside Space for Local Business in New Development

The question of how to foster new development that creates a built environment hospitable to local entrepreneurs is a rich one for cities, and it's also a crucial piece of increasing the supply of appropriate and affordable spaces. Preservation of historic mixed-use buildings plays a role, as these spaces are often small and varied. Especially as historic buildings get razed or redeveloped, however, city regulation must ensure that an environment built for small business isn't replaced with one designed for formula business. Many cities have already begun taking steps to create more mixed-use and walkable development. They can take that further with additional provisions specific to businesses that are also locally owned.

To this effect, cities have a range of options. Three of the most promising are requiring that a certain portion of ground-level retail space in new developments be set aside for locally owned businesses, that a certain portion of ground-level retail be dedicated to commercial spaces that are small, and that a certain portion of ground-level retail be commercial condominiums. This last option is tied to increasing small business property ownership, and has the added advantage that storefront ownership is more likely to appeal to locally owned businesses than to national chains, which have a standard business model built around leasing.

At the Austin Independent Business Alliance's most recent local business conference, for instance, business owners were asked one question: What can the City of Austin do for local businesses? By the end of the conference attendees had settled on five goals that were their top priorities, and a handful of the business owners formed into a leadership circle to look at how to make them happen.

When the group came back with its ideas, one of its top proposals was for the city to encourage developers to set aside space in new, mixed-use developments to be sold as retail condominiums. When AIBA checked with developers and with the city's land development code, it found nothing that prevented retail condos. The city's now revising the code, and AIBA's pushing for the inclusion of language that would incentivize creating such condos. Further down the road, the city could add further incentives, such as a tax abatement for selling the condo to a business that's locally owned.

Set-asides like these have already been employed in development projects on a case-by-case basis in cities from Austin to Minneapolis.[54] When New York City released a Request for Proposals (RFP) in Dec. 2015 for a major mixed-use development in the East Harlem neighborhood, for instance, it included the specification that, of up to 700,000-square-feet of commercial space, a modest portion—50,000-square-feet—would be reserved for local retailers.[55]

A policy more effective and consistent than one-offs, however, would automatically include larger set-asides in any new development or redevelopment that includes a significant amount of commercial space, or that's located in certain business districts. One idea from the Pratt Center for Community Development incorporates set-asides both for local entrepreneurs and for smaller square-footages, which can be particularly good spaces for local businesses. "For any commercial development over 50,000-square-feet in New York City, owners should be required to include businesses at a range of sizes, going down to 250-square-feet, with targets for locally owned small businesses," reads the proposal.[56]

STRATEGY 5

Create a Preference for Local Businesses in Publicly Owned Buildings

Cities aren't just regulators. They're also market participants, and cities themselves own and invest in large amounts of real estate. Much in the way that cities create procurement policies that align their purchasing with their larger aims,[57] cities can create guidelines that make city-owned properties, or properties that receive city or county financing, more accessible to locally owned businesses.

Take Seattle, where the city recently renovated its central transportation hub, the King Street Station, and is now looking at the best way to find commercial tenants for shops inside the station and along the outdoor plaza. The city's seeking local businesses for the spaces, and is reviewing how to structure its leases to give them favorable terms, for instance, with flexible lengths, options to extend, assistance with space improvements or build-outs, and gradual rent increases. "Because we control the space, we're able to set the price in a way that's going to be affordable for local businesses," says Ken Takahashi in the city's Office of Economic Development.

Seattle is seeking local businesses for the spaces, and is reviewing how to structure its leases to give them favorable terms, for instance, with flexible lengths, options to extend, assistance with space improvements or build-outs, and gradual rent increases.

Down the road, provisions for affordable ground-floor commercial space for locally owned businesses could also be built into the agreements of developments that the city helps to finance. For businesses that align with other city goals, such as increasing access to healthy food, the lease rates could be further tiered or below-market rate.

Other examples come from New York City and Boston, and their ideas apply to cities of all sizes and in all parts of the country. In New York, the Community Development Project of the Urban Justice Center has proposed that the city rent space that it owns to local businesses at below-market rates, particularly in areas that lack neighborhood-serving and community-oriented businesses.[58] And in Boston, the city's "Small Business Plan," released in March 2016, spotlights the availability, accessibility, and affordability of small-scale commercial real estate as a central issue. One of its central initiatives reads: "Transform underutilized city properties into small business real estate with leasing priorities awarded to businesses in priority segments and/or with minority, women, immigrant owners." It also notes, "allocate space for small businesses in new publicly-owned developments."[59]

STRATEGY 6

Recognize Businesses as Cultural Landmarks

The Roxie Theater's been showing films in San Francisco's Mission District neighborhood since 1909, but in 2015, it was nearly shuttered by a landlord who wanted to more than double the theater's rent.[60] The Roxie was saved by a clause in its lease that required the rent to be comparable with that of similar properties, but its example is part of a larger phenomenon that's sweeping cities around the country: Legacy businesses being forced out by rising rents. These are longtime businesses that built the character of the neighborhood they're in, and continue to serve it, but that don't have the higher margins, outside investors or shareholders, or pull with lenders or property owners to keep up with dramatic increases to the cost of their space.

To address the issue, San Francisco's passed a two-part measure. In March 2015, in a unanimous vote, the San Francisco Board of Supervisors established the San Francisco Legacy Business Registry to track the city's historic businesses, defined as those that have been in business for 30 years or longer and contribute to the city's identity, with a provision for businesses as young as 20 years old that meet certain other criteria. To qualify for the registry, a business must be nominated by the mayor or any city supervisor, San Francisco's version of a city council member.

The second part of the measure, the Legacy Business Historic Preservation Fund, makes businesses that are in the Legacy Registry eligible for annual grants of $500 per employee, up to $50,000. It also offers an additional payment for property owners that agree to offer 10-year leases to those businesses, for $4.50-per-square-foot up to $22,500 annually. The aim is for the subsidy to sweeten the pot enough for landlords to agree to new, long-term leases.

Each year, grants will be available to 300 businesses, and the funding, estimated to start at $3 million annually, will come out of the city's general fund. This part of a measure was put to a public vote on the November ballot, and passed with 57 percent of the vote.[61] The fund is set to activate in July, at the beginning of the city's fiscal year.

As it's being implemented, questions remain about the fund's long-term viability. An analysis from the city controller found that the cost will increase by $2.1 million to $3.7 million each year, growing to between $51 million and $94 million annually over the next 25 years, as all qualifying businesses become enrolled.[62]

"If we're willing to help Twitter, why wouldn't we be willing to help the legacy business that's such an integral part of the neighborhood?" – San Francisco Supervisor David Campos

That's not a small expense, but it's also in line with the level of financial support San Francisco provides to large companies. In 2011, the city established a payroll tax break for high-tech firms, including Twitter, that locate in the Mid-Market district. That incentive cost the city about $4 million in 2013,[63] and its price tag jumped to nearly $34 million in 2014.[64] "'If we're willing to help Twitter, why wouldn't we be willing to help the legacy business that's such an integral part of the neighborhood?'" Supervisor David Campos told *Next City*.[65]

To get the most out of the city's investment, the program may, in the future, expand to include assistance for businesses seeking to buy their building. The legislation anticipates this, assigning the city's Small Business Commission to survey businesses that have been added to the registry and make recommendations for programs to support them, which "may include… lease renewal and acquisition assistance."[66]

San Francisco's not alone in implementing a program to safeguard its longtime businesses.[67] Internationally, Paris, London, and Rome also have protections in place for historic or culturally significant businesses. In Paris, for instance, the city has been buying the properties of culturally significant businesses, including booksellers, arthouse cinemas, and independent art galleries, or negotiating rent caps with their landlords, since 2004. The program has helped about 650 businesses and this year has a budget equal to about $45 million.[68]

All of these cities have recognized that their locally owned businesses are a vital part of what makes them competitive, and that just as they work to retain larger companies, it's in their best interest as a city to keep them.

Conclusion

The strategies described above represent a range of solutions to an increasingly pressing problem. In many cities, these ideas are in the early stages, but they represent an important shift in how local governments are approaching the issue. In Seattle, for instance, the process is just beginning, and in the coming weeks, Mayor Ed Murray will convene for the first time an advisory committee on commercial affordability in the city.

Even without rising commercial rents and a changing built environment, strengthening its independent business sector is in a city's best interests. Indeed, in cities where real estate is currently less expensive, cities could begin to employ some of these ideas proactively, and use them to encourage development and grow a strong local economy.

What will it take for this to happen? First, advocates need to establish a framework in their city that connects strengthening the independent business sector with achieving other city goals and priorities. Second, advocates need to mobilize the existing constituency of residents who care about their neighborhoods and their local businesses, and connect their concerns with a platform of policy proposals. Across the country, local business advocacy groups are already starting to effect this change.

Many of these strategies will work best when deployed in combination with each other, and with other proven tools for nurturing the local economy, such as formula business ordinances and community impact reviews. Combined, they represent a broader shift in how cities can work with their locally owned businesses. A mix of these policies will create a built environment conducive to a healthy independent business community, and therefore, a healthy city.

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