Business Areas Study:

Mt. Baker and 23rd & Jackson Business Districts

January 12, 2009

prepared for:
City of Seattle

STRATEGICECONOMICS

EXECUTIVE SUMMARY OF KEY FINDINGS & STRATEGIC RECOMMENDATIONS

23RD & JACKSON BUSINESS DISTRICT

District Strengths

- High Traffic Location: 23rd Ave & Jackson Street are thoroughfares that carry significant car traffic; potential for great business visibility & convenient access
- Walkable Jackson St. Streetscape: Jackson is a pleasant 2 lane pedestrian shopping street with quality existing improvements
- Good Business Mix: low vacancies, good business mix, basic neighborhood shopping district anchors including supermarket and drugstore
- Growing Potential Local Customer Base: trade area population growing faster than city
- Small African-American & African Business Niche: there are currently six businesses that have a distinct African-American or African cultural orientiation
- Current Development Activity: two higher density mixed-use projects are currently underway 3 blocks from the intersection
- Active Neighborhood & Business Development Organizations: local CDC participating in development (CADA) but focused on housing, business support services nearby (CCD)

District Weaknesses

- Poor Visibility of Promenade South Businesses: currently poor visibility of Promenade South businesses, difficult access from 23rd
- No Defining Street Wall, Poor Proximity of Businesses: large surface parking lots separate businesses, degrade walking environment & make area unattractive to customers
- Significant Business Revenues Decrease, Small Businesses Struggling: significant decline in food store sales since 2000, small businesses in Promenade struggling even w/low rents
- Underperforming Anchor: Red Apple supermarket not currently meeting market potential due, in part, to poor siting and design, and challenges in serving trade area with rapidly changing demographics
- Insufficient Immediate Housing Density: the district's trade area is largely made up of single family homes; the district needs more households within shopping walking distance (i.e. ¼ mile)
- Future Competition: Dearborn project will increase competition, trade area to shrink by 1/3rd

Strategic Recommendations

- Create a property-based BIA for 23rd Street
  - Create common vision for development/tenanting
  - Support common streetscape elements along thoroughfare
  - Clean & safe programs
  - Events & promotions

- Redevelop Promenade South to a more urban format:
  - Build to the street on 23rd & Jackson; allow small set-back for outdoor seating on Jackson

- Parking in rear, if not structured, with good signage
- Include significant housing to build in customers
- Reformat Red Apple, or attract new grocery that serves neighborhood & anchors center
    - With the increased competition from the Dearborn grocery, the revenue potential from the Red Apple primary trade area decreases from $14 million to $8.5 million; this is sufficient for a smaller supermarket (i.e. 25,000 square feet or less), but a higher proportion of local households will have to be attracted for that level of revenues to be achieved
- Critical issue: gap between current rent ($19/SF) & construction threshold ($24-25/SF) risks displacement of existing small businesses
    - If businesses pay $21/SF given better space, approximate upfront gap for 10,000 square feet is $500,000
    - Non-profit development participant could get below-market debt (CRA) & fundraise to own/operate subsidized space for viable long-standing businesses; existing entities may or may not be up to this innovative approach (see *Appendix A: Briefs of Development Projects Including Affordable Retail Space)*

- Densify ¼ mile radius walkable shopping-supportive area as opportunities arise:
    - Evaluate existing zoning
    - Monitoring on-going property disposition (Promenades South and North, VU auto, Franz baking)

- Target and attract new businesses with redevelopment & turnover: postal store (UPS, Mail Boxes, etc.), pet food/accessories store, full service restaurants, bike store, spa, specialty bakery, additional niche African-American and African stores

MT BAKER BUSINESS DISTRICT

District Strengths

- Excellent Vehicle & Transit Access & Visibility: Rainier carries an average of 35,000 vehicles a day and a number of bus routes and the Mt Baker Light Rail Station should open next year
- Successful District Anchors: QFC, drugstores & Me Kong are great business anchors, intermittent synergies w/Asian businesses at south end, Starbucks across from light rail
- Commuter Customer Base: commute traffic augments local trade area
- Significant Redevelopment Opportunity Sites: the Lowe's, QFC/Rite Aid and U-Haul properties have major redevelopment potential

District Weaknesses

- Dangerous & Inadequate Pedestrian Access Across Rainier: there is currently no at-grade pedestrian crossing at the intersection of MLK and Rainier, nor is there any such crossing south of Forest until Walden (1/3rd mile)
- Hostile Public Realm/Streetscape: Rainier is a 5-lane, highly trafficked, relatively fast-paced traffic arterial with narrow sidewalks, no defining street wall, frequent curbcuts and surface parking lots, few pedestrian crossings and virtually no pedestrian amenities (i.e. bulb-outs, raised crosswalks, seating, etc.). The construction of the light rail station, which should generate significant pedestrian traffic, was accompanied by only one significant improvement, the signalized crosswalk installed at Forest.
- Lacks Foundation for a Neighborhood Shopping District: the business mix and layout does not support cohesive daily/weekly shopping, the largest group of businesses are auto/manufacturing/business to business, only half are shopping businesses

- Slow Growth in Local Trade Area: the Mt. Baker trade area consists largely of the immediate commercial corridor, which has few households, and surrounding single family neighborhoods
- Lack of Walking Customer Base: the realistic walking radius to the district is limited by the intense change in grade and lack of through streets to Beacon hill, the intimidation of crossing Rainier & the lack of dense housing in close proximity

Strategic Recommendations

- Focus on physical transformation of Bayview to Winthrop, i.e. ¼ mile walking distance from McClellan and Rainier intersection, given existing shopping anchor's location (i.e. QFC), light rail station, ped safety/access issues, existing land uses' incompatibility w/light rail & presence of major opportunity sites.

- Develop heart of general community shopping district on flat two-block portion of McClellan at Rainier intersection and newly created blocks on Lowe's parcel, given limitations on permissible change to Rainier

- Encourage expansion of existing small Asian business cluster at south end of study area, as distinct specialty business district; support creation of stabilized/affordable retail space as small properties redevelop over time

- Introduce significant amounts of mixed-use housing to transform corridor
  - 1,200 households needed within ¼ mile walking radius of McClellan/Rainier intersection for realistic chance at successful community-oriented business district
  - Major opportunity sites: QFC/drugstores site, WorkSource Affiliates, U-Haul, & Lowe's. Perform capacity analysis of opportunity sites to determine whether sufficient households can locate within area

- Develop intensive urban design guidelines/transportation analysis/parking management strategy for entirety of Bayview to Winthrop area. Guidelines should include specifications for massing, building/pedestrian realm/street interface, storefront design & use requirements re glazing, door orientation, ceiling height, and ground floor retail requirement. Transportation analysis should consider opportunities for street re-alignment through Lowe's site. Goals for this work:
  - Transition area to urban commercial district from auto-corridor
  - Improve pedestrian access and walkability
  - Break-up existing mega-parcels (Lowe's) into human-scaled blocks with through streets
  - Eliminate surface parking on corridor while maintaining sufficient, convenient parking to serve drive-by traffic. Parking should be at rear of properties, structured, or underground, to ensure the safety and attractiveness of streetscape and bring businesses closer together
  - Design corridor housing prototype for MLK appropriate to traffic levels

- Critical pedestrian realm investments (professional urban design/transportation analysis to recommend detailed improvements, as described above):
  - At-grade Rainier pedestrian crossing at MLK
  - Bulb-outs at McClellan/Rainier
  - Widen sidewalks on McClellan, Rainier as possible
  - Signage for vehicles regarding pedestrian area
  - Explore possible creation of Local Improvement District to fund improvements

- Target businesses to attract to new projects in core general shopping area at McClellan:

- Community shopping anchors: additional financial services, general merchandiser, additional grocery, major pet store, mid-size hardware, major fabric/craft store, office supply
- Other stores: sit-down restaurants, coffeehouse, taqueria, deli/bakery near light rail, copy store, eyewear, home furnishings/décor, clothing, etc.

IMPACTS OF PROPOSED DEARBORN PROJECT ON SUPERMARKET ANCHOR TRADE AREAS

Impacts on 23rd & Jackson

- With development of Dearborn supermarket, the Red Apple (supermarket anchor at Promenade South shopping center) primary trade area shrinks by approximately 1/3rd; primary trade area is the surrounding area in which a conventional supermarket has the greatest market share of daily/weekly grocery purchases

- Revenue potential from Red Apple primary trade area projected to decrease from $14 million to $8.5 million, a significant decrease

- However, the current trade area and $14 million in potential revenues are excessive for a 25,000 SF supermarket like the Red Apple; $8.5M is sufficient to support a smaller supermarket (i.e. 10 – 25,000 SF), but Red Apple will have to attract a higher proportion of local households than it is currently doing to survive

- Red Apple has competitive disadvantages due to siting and design; revenues have been falling since 2000

- Redevelopment of the Promenade South center to a more urban format is necessary for success of the store and district, even without the Dearborn project; Dearborn project makes necessity more imminent

Impacts on Mt Baker

- With development of Dearborn supermarket, McClellan QFC's primary trade area potential revenues decrease by $850,000, or 15%

- Because of its location on Rainier and the inadequate supply of supermarkets further south in Rainier Valley, more of QFC's sales come from customers who live outside of the PTA, but drive by the store than is typical

- Likely effect on total revenues from both the primary trade area and drive-by customers (estimated at $15.6M) is a decrease of 5.4%

- Modest decrease should not undermine revitalization/transformation efforts in larger district; redevelopment of QFC/Rite-Aid site to mixed-use format should maintain convenience and accessibility of retail parking for drive-by customers to ensure success of anchor tenants

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I. INTRODUCTION

This report evaluates the current state and potential future direction of two, very different business districts in central Seattle: the neighborhood business district at 23rd Avenue S and S Jackson Street (23rd & Jackson) and the Mt. Baker business corridor on Rainier Avenue surrounding the new McClellan light rail station (Mt. Baker). While these commercial districts are significantly different in business composition, physical environment, and customer base, they are similar in that each is not meeting it's full potential as an active, safe, attractive, community-serving shopping area. With strategic effort, the city, local community and private land-owners can do much to improve and strengthen each district.

In each of the neighborhood plans for the areas including these commercial areas, the North Rainier Neighborhood Plan (1999) and Central Area Action Plan II, each district is envisioned as the shopping and socializing center of surrounding residential areas; "the heart of the neighborhood; the place where people will gather, shop, stroll and enjoy community life."[1] This vision is simultaneously urban, locally-oriented and walkable; neighborhood business districts that succeed in providing this type of experience generally have the following characteristics:

• Businesses that meet the daily/weekly shopping needs of the local community
• Anchor business that attracts customers for smaller stores
• Synergy & proximity among businesses
• Accessible/visible by car/foot/transit
• Street & buildings in scale
• Attractive, safe pedestrian realm
• Spaces for social interaction, hanging out
• Surrounding or upper floor housing

The following two sections of this report evaluate the extent to which each of these characteristics are present, or have potential, in each district, as well as any other special assets or challenges present. The research and analyses performed include: mapping and assessment of business mix and distribution, interviews with local business owners, business revenue trend analyses, customer base demographic assessment and physical realm evaluation. The final portion of each section presents a summary of findings and strategic recommendations for strengthening and growing each district toward the community visions laid out in each pre-existing neighborhood plan.

The fourth section investigates the potential impact of the proposed Dearborn shopping center on each district, in particular the impact on the anchor supermarkets. Finally, *Appendix A* includes three case study briefs that describe recent real estate development projects providing affordable, or stabilized, retail space for small businesses. These are provided as examples of one recommended retail stabilization strategy that was of particular interest to City staff and community members. The results of both the case studies and the impact analysis are taken into consideration in the strategic recommendations made at the conclusions of sections two and three.[2]

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[1] "North Rainier Neighborhood Plan,' North Rainier Planning Committee, prepared by Urban Works, February 1999, pg 36.

[2] Appended are three briefs of development projects including stabilized retail space for small, independent businesses, as well as findings from this research. The development of such space, and the cultivation of non-profits that can produce such projects, is one potential strategy for stabilizing business districts where rapid change is displacing existing businesses. These briefs were requested as a supplementary task and are included to provide further information for anyone interested in this approach.

II. 23^{RD} & JACKSON BUSINESS DISTRICT: CONDITIONS, TRENDS & RECOMMENDATIONS

23^{rd} & Jackson is a medium-sized, local-serving, daily needs-oriented shopping district concentrated on Jackson Street between 22^{nd} Ave and MLK, Jr Way (see map of business inventory, following page); it is dominated by two in-line shopping centers on either side of Jackson, just east of 23^{rd} Ave. These two centers include most of the typical anchors critical to local business districts, and a good mix of smaller retailers, personal services and restaurants.

However, the performance of the key anchor, Red Apple Promenade supermarket, has declined significantly over the past ten years and is not doing as well as it should, given its location, size and surrounding trade area. This has negative implications both for the surrounding neighborhood, which is underserved, and the smaller business that depend on the supermarket to draw customers.

The declining performance of Red Apple is, in part, due to the unfortunate physical layout of the center; it has a large surface parking lot at the front of the site, distancing the store from the street, and in-line retail on 23^{rd}, blocking the visibility of the store. The Walgreens-anchored center on the north side of Jackson Street has a similar layout, although the Walgreens does meet the street, and has an easily accessible door. The two large surface parking lots are unattractive, distance stores on either side of the street from one another and greatly decrease the walkability and appeal of the district. Otherwise, the district has significant physical assets; the city has already made great strides in improving Jackson Street, which has great potential as a pedestrian-oriented, mixed-use shopping corridor.

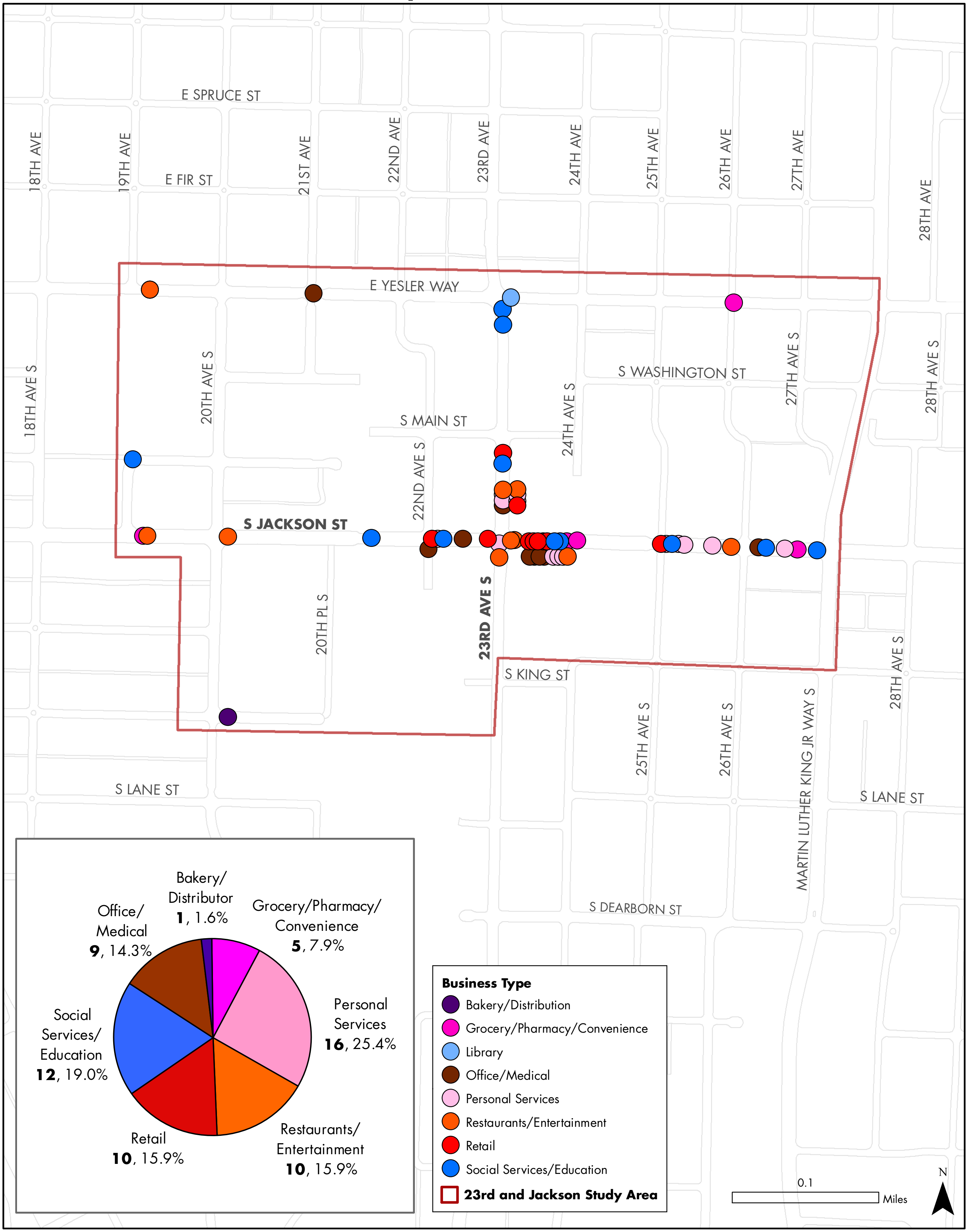
The following discussion of the 23^{rd} & Jackson district is divided into six sections: current business mix and distribution, business revenue trends, customer base, physical realm, retail real estate conditions and a summary of findings and strategic recommendations (pg 24).

CURRENT BUSINESS MIX & DISTRIBUTION

There are 65 different businesses within the 23^{rd} & Jackson commercial district, roughly defined as between E Yesler Way to the north, Lane and King Streets to the south, 19^{th} Avenue S to the west and MLK, Jr. Way to the east (see **Business Inventory,** following page). These businesses are strongly clustered within the two shopping centers on either side of Jackson Street, with additional businesses scattered along Jackson to the east. The business inventory map shows the distribution of different business types within the district: pink, orange & red dots represent the shopping businesses that are the mainstay of business districts, including hot pink which represents conventional anchor tenants and light pink with are personal services businesses, predominantly banking and nail/hair salons/barbers in this area.

23^{rd} & Jackson is a true neighborhood-serving shopping district: 42 of the total business are retail (65%), the majority are within immediate walking proximity of each other and most fulfill daily or weekly needs and are not specialty stores. The district has two traditional anchors: the Red Apple supermarket and the Walgreens drugstore; additionally, several small business owners remarked that the Bank of America drives foot traffic to businesses in the southeast corner of the intersection. There are also four schools and several government or social service offices that bring additional daytime population, and potential customers, into the area.

23rd and Jackson Business Inventory



Sources: City of Seattle 2007, Strategic Economics 2007

Exceptionally, there were no obvious vacancies at the time of the survey, although it could not be ascertained whether one business was active. There is good synergy amongst the types of businesses in the area: there is little duplication and most stores are complimentary daily or weekly needs retailers or personal services businesses. Most of the basic types of stores desirable in a neighborhood center are present: supermarket, drugstore, 99 cent store (variety), chain coffee shop, independent coffee shop/café, four quick service restaurants, four ethnic restaurants, video, bakery, gym, laundromat/drycleaners, florist, two banks (one cash advance), two bookstores, wireless, two clothing stores, and jewelry.[3] The few specialty stores in the area, such as Toure Apparel (hip-hop clothing), Two Big Blondes (plus size consignment) and East African Imports, focus on niches appropriate to the local community and add great variety to the mix. While all of the stores in the district may not be providing the level of services or quality of goods desired by the neighborhood (see next section), there is generally a good balance of retail (15 outlets – 23.1%), restaurant/entertainment (11 outlets – 16.9%) and personal services businesses (16 outlets – 24.6%).

Non-Shopping Businesses

While the mix of businesses is generally well balanced, **a few uses do not contribute to the local neighborhood shopping district experience**, although they do have an economic or retail service role in the community. Two blocks west of the main intersection, a large baking facility, distribution center and baked goods outlet for Franz Baking is located on an approximately five-acre parcel on the south side of Jackson Avenue (2006 S Weller St). Franz Outlet is not negatively impacting the district, as the shopping area effectively stops at 22nd Ave S, with a school on either side of Jackson Avenue, before reaching Franz. The business also provides local jobs and might generate some daytime foot traffic; however, the size of the parcel could support a significant number of housing units, bringing many more households, or shoppers, into the immediate area. Strategic Economics does not recommend actively encouraging the bakery to relocate; **at some point, land values in the area will become sufficiently high that Franz will choose to sell the property, or redevelop it. When this occurs, city staff and the existing community of residents and property owners should work with the developer/owner to ensure that the redevelopment of the property has sufficient density and quality of design to support the shopping district.**

More detrimentally, VU Auto Services (2615 S Jackson St), located a block and a half east of the main intersection on the north side of Jackson Street, interrupts the shopping synergy and physical cohesiveness of the district, going east. Situated on an approximately 1/3rd of an acre site, the parcel is largely chain-link fenced surface parking lot. **While auto services are needed in the community, the shopping district could extend further east on Jackson Street if this site were more intensely developed with housing and retail. Both this and the Franz lot should be considered future redevelopment sites.**

Finally, there are three different military recruitment offices in the Promenade shopping center. Recruitment services can provide local community members with employment; at the same time, three offices in one center dilutes the concentration of retail and personal services that makes the district vital. **The retail district would be stronger if the recruitment offices were more dispersed.**

BUSINESS REVENUE TRENDS

In order to better understand how existing businesses are performing, Strategic Economics analyzed business revenue trends between 1997 and 2006, and interviewed selected small business owners.

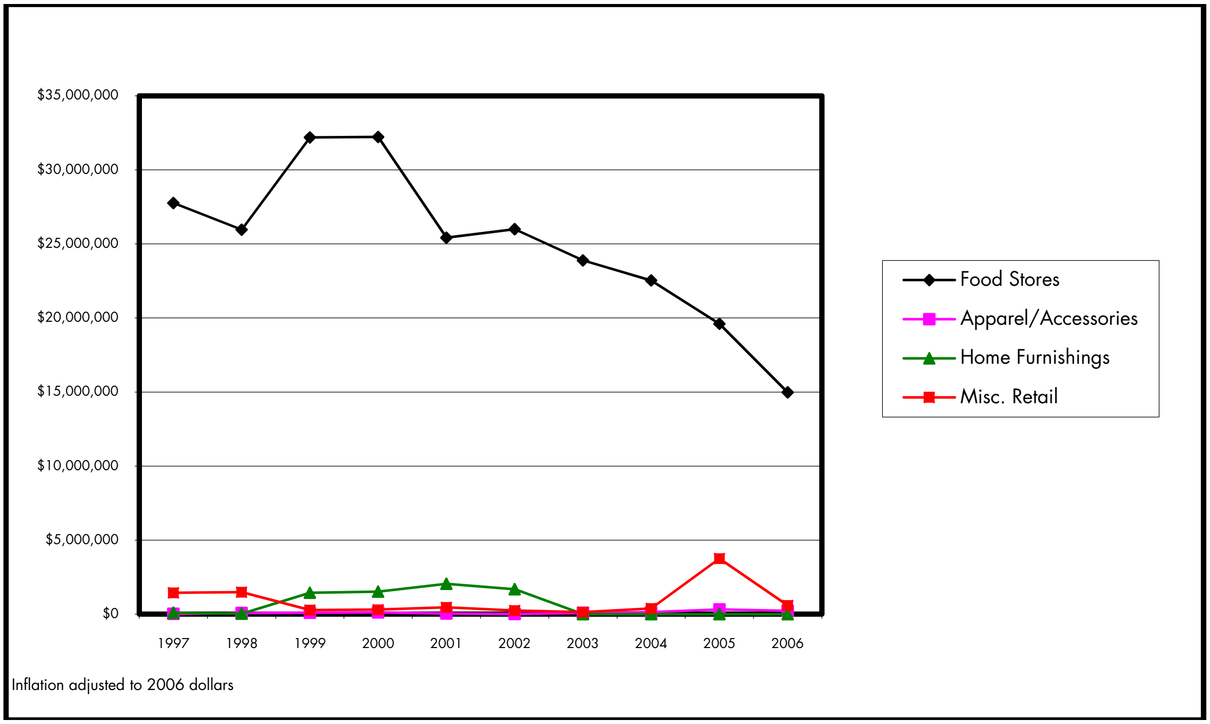
[3] This is largely because the majority of businesses are located within one of the two shopping centers, which are managed to avoid replication. See *Appendix A* for complete business inventory.

The charts that follow summarize inflation-adjusted revenue trends for retailers and service businesses, the majority of local businesses & those most critical to a shopping district.[4]

Retail Revenues

As can be seen below in **Chart 1**, the most critical retail category for a grocery-anchored neighborhood business district, food stores, has been generally declining since 2000, with accelerated decline since 2004, when the Madison Safeway opened. In 2000, inflation-adjusted food store revenues were $32.2 million; in 2006, they were $15 million. According to the business inventory, in addition to the Red Apple Promenade, this category includes three convenience stores. For a supermarket of its size (approximately 25,000 square feet) and three convenience stores, this represents very healthy sales (see *Section IV*, pg. 40 for further discussion); it may be that this figure includes sales for multiple Red Apple stores and is not limited to the project area.[5]

CHART 1: 23rd & Jackson, Retail Revenues, 1997 – 2006



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[4] The source of this information is business license data from the Department of Executive Administration at the City of Seattle, organized by Standard Industry Classification at the four-digit level (for more information on SIC, go to *http://www.osha.gov/pls/imis/sic_manual.html*). Individual firm revenues are not available due to confidentiality issues; Strategic Economics was therefore not able to parse obvious discrepancies in category trends. For this reason, eating and drinking establishment trends were not included in the chart or discussion, as reported revenues were not reasonable (i.e. $1.4 billion in 2006). This may be because businesses with multiple locations aggregate revenues and report from only one headquarters location, although it is unlikely that any of the local restaurants are headquarters. This is also the reason no drugstore revenues were reported; Walgreen's likely posts revenues through some other location.

[5] As described above, revenues for businesses with multiple locations are reported via one location. As the owner of the Red Apple Promenade also owns the Beacon Hill Hilltop Red Apple and the Union Street Red Apple, it may be that this revenue total includes the revenues for those stores, as well.

Regardless, the decline in food store sales is a negative indicator of over-all performance. As described in detail in **Section IV: Supermarket Trade Area Analysis**, the trade area for this supermarket location has sufficient households to support a 25,000 square foot supermarket; however, if the Red Apple is not meeting the changing needs of surrounding households, or if its format has become obsolete, and recent and proposed supermarkets at the edge of it trade area are more appealing, the store may not succeed in drawing in the number of customers an anchor tenant should generate for the health of the district. **The declining revenues indicate that the Red Apple may not be as competitive with area stores as it could be** (see site discussion, pg 16-17, in *Physical Realm* section).

The other trends shown in **Chart 1** represent considerably less revenue: apparel and accessories stores sales have grown steadily from $26,746 in 1997 to $225,238 in 2006 (Toure Apparel opened in 2003 and expanded in 2005); home furnishing sales have dropped off entirely with the closure of the Promenade Rent-A-Center; and miscellaneous retail store sales (including used merchandise, books, gifts & novelties, and florists) have fluctuated over time, but generally grown since 1999 from $275,331 to $594,297 in 2006. **While these categories of revenues could be higher, the generally stable trends are encouraging, especially given the downward anchor food stores trend, and the poor visibility of many of the businesses in these categories** (see *Physical Realm*, pg 16).

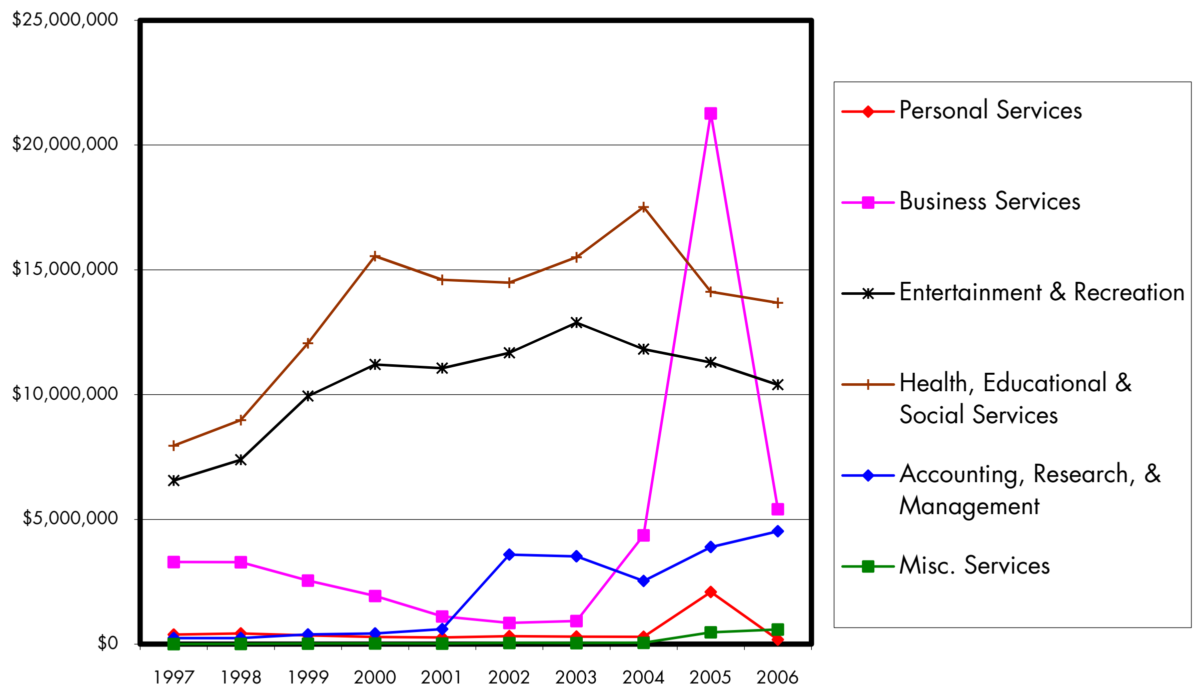
Anecdotally, not all of the smaller businesses in the area are doing well, unfortunately. Strategic Economics interviewed three business owners in the 23rd & Jackson district: the owner of a clothing store, a realtor and a bookstore owner; two of three reported significant struggles. Not coincidentally, the two owners who reported difficulty are located within the in-line portion of the Promenade shopping center and are invisible from the street, nor do they have street-oriented signage. Both pay below-market rent & do not feel that they could afford better space. The business that is flourishing is located on Jackson Street, and has an on-line business component that the owner describes as integral to its success.

Service Revenues

Chart 2, following page, shows the 10-year revenue trends of service businesses in the district. While only the entertainment and recreation revenues trend and personal services revenues trend include shopping businesses, the other trends reveal how non-retail businesses or non-profit entities that might bring customers into the district are doing. [6]

[6] The health, educational & social services revenue trend is largely comprised of individual and family services revenues. There are a number of social service agencies in the district, including Catholic Community Services, that may be headquarter locations and report income for the entire agency, explaining the large figures. Business services revenue is comprised almost entirely of income from employment agencies; if this business is conducted largely over the phone, it may not bring potential customers into the area. It is likely that the 2005 spike is an anomalous error in the data. Finally, the accounting, research & management revenue trend shows stable moderate growth & should reflect an increase in the employees of these firms, a positive outcome for the shopping district.

CHART 2: 23rd & Jackson, Service Revenues, 1997 – 2006



Inflation adjusted to 2006 dollars
Source: City of Seattle (Department of Executive Administration), Strategic Economics, 2007

Entertainment and recreation store revenues is comprised almost entirely of video tape rental; given the magnitude of the figures ($9.98 million in 2006), it is likely that a local store is a headquarters location, making it difficult to ascertain the health of the local stores. The personal services stores revenue trend, comprised of barber and beauty salons, garment pressing and other laundry, is modest in scale ($179,678 in 2006) and shows a moderate long-term decline. **This downward trend is in keeping with the food store retail revenue trend and indicates that local retail services stores are not serving the local neighborhood as well as they used to.**

CUSTOMER BASE

Because the mix of businesses in the district is distinctly local-serving, with just a few specialty stores, its customer base can most accurately be gauged by looking at the demographic characteristics of households that reside within the local *trade area* for its supermarket anchor, the Red Apple. A trade area is the surrounding geographic area from which a retailer draws the majority of its customers; it is limited by the trade areas of other competitive stores. For a detailed discussion and map of the Red Apple trade area, please see *Section IV*, page 40**.** Based on this analysis, the majority of the existing customers for the district reside between Lake Washington to the east, I-90 to the south, 12th Avenue to the west, then curving east at Yesler Way to meet Cherry Street to the north, at 23rd Avenue.

In addition to the local customer base, which patronizes 23rd & Jackson largely due to convenience, there are also a few specialty businesses whose customer base is majority African-American or African immigrants. Trends in each of these customer bases are discussed below.

23rd Jackson Business District, Existing Trade Area Demographics

Table 1: Growth Trends

	1990	2000	Growth	*Seattle Growth 1990 - 2000*	2007 Estimate
Households	4,771	5,420	13.6%	*9.1%*	6,044
Population	11,638	13,166	13.1%	*9.2%*	14,375

Table 2: Household Size & Composition

	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
Average Household Size[1]	2.32	N/A	*2.08*	2.29	N/A	N/A
Household Composition[1]						
Single Householder	1,973	36.4%	*40.8%*	2289	37.9%	1.5%
Married-Couple Family, with children	594	11.0%	*12.5%*	655	10.8%	-0.1%
Married-Couple Family, no children	840	15.5%	*20.2%*	917	15.2%	-0.3%
Male or Female Householder, with children	659	12.2%	*5.5%*	744	12.3%	0.1%
Male or Female Householder, no children	538	9.9%	*5.7%*	604	10.0%	0.1%
Nonfamily Male or Female Householder	816	15.1%	*15.3%*	836	13.8%	-1.2%
Total	5,420	100.0%	*100.0%*	6,045	100.0%	N/A

Table 3: Income & Educational Attainment

	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
Median Household Income[2]	$36,797	N/A	*$45,736*	$42,396	N/A	N/A
Educational Attainment, 25years+[1]						
High School	3,387	37.1%	*25.8%*	3,891	37.8%	0.7%
Associate Degree/Some college	2,442	26.8%	*27.0%*	2,820	27.4%	0.6%
Bachelor's Degree	2,002	21.9%	*29.9%*	2,212	21.5%	-0.5%
Master's Degree and Beyond	1,296	14.2%	*17.3%*	1,381	13.4%	-0.8%
Total	9127	100.0%	*100.0%*	10304	100.0%	N/A

Table 4: Housing Tenure

Occupied Housing Units	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
Owner Occupied	2,420	66.3%	*48.4%*	2,638	67.9%	1.7%
Renter Occupied	2,999	33.7%	*51.6%*	3,407	32.1%	-1.7%
Total	5,419	100.0%	*100.0%*	6,045	100.0%	N/A

Table 5: Race & Ethnicity Trends

Race or Ethnicity	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
White	4,920	37.4%	*70.1%*	6,072	42.2%	4.9%
Black or African American	4,851	36.8%	*8.4%*	4,059	28.2%	-8.6%
American Indian and Alaska Native	128	1.0%	*1.0%*	170	1.2%	0.2%
Asian	1,767	13.4%	*13.1%*	2,073	14.4%	1.0%
Native Hawaiian/Pacific Islander	45	0.3%	*0.5%*	41	0.3%	-0.1%
Some Other Race	634	4.8%	*2.4%*	917	6.4%	1.6%
Two or More Races	821	6.2%	*4.5%*	1,044	7.3%	1.0%
Total	13,166	100.0%	*100.0%*	14,376	100.0%	N/A
Latino of Any Race(s)	1,269	9.6%	*5.4%*	1,957	13.6%	4.0%

[1] 2007 "smoothed" data items are Census 2000 tables made consistent with current year estimated base counts.

[2] Current dollar values.

Source: Claritas, 2007 and US Census, 2000, Strategic Economics

Local Customer Base

The five tables on the previous page show the key demographic trends in the local customer base for the 23rd & Jackson business district. The data sources for these trends include the 1990 and 2000 US Census, as well as 2007 estimates from Claritas, Inc., a demographics research firm.[7] The following bullets summarize the critical implications of these trends:

- *Good Population & Household Growth in Trade Area; Large Local Customer Base*

The total population and number of households in the district's existing trade area is growing significantly faster than the city as a whole: between 1990 and 2000, the population grew by 13.1%, in comparison to the city-wide growth rate of 9.2%. The estimated 2007 population of the area is 14,375, while the estimated number of households is 6,044. **This is a very large local customer base for a supermarket the size of the Red Apple, or a small to medium-size business district like 23rd & Jackson**; a major, full-service supermarket of approximately 45,000 square feet (almost twice the size of the Red Apple) generally requires a primary trade area of 10,000 people.

This underserved local customer base, and its on-going growth, are the major reason that the greater area is attracting additional supermarkets (i.e. Madison Safeway, 2004, M Street Grocery, 2007, & proposed Dearborn supermarket). As discussed in detail in Section IV, even though the addition of another supermarket in the proposed Dearborn project would shrink the Red Apple's local trade area customer base from 6,044 households to 3,671, or 8,512 people (given current household size), **this should be sufficient population to support a grocery of the Red Apple's size, providing it is serving its customers well** (based on service, quality and price).

- *More Households Needed Within Walking Distance of District*

While the number of households within the trade area is sufficient to support the anchors and smaller stores at 23rd and Jackson, **the commercial district would be more stable if it had a greater density of households within walking distance**. Other than the higher density projects located on either side of Jackson, on the west side of 23rd, and attached townhome projects north along the west side of 23rd and public housing just behind these townhomes, the majority of surrounding neighborhood fabric is single family. **Because single family homes take up more space, rapidly increasing the distance between housing units and the commercial center, the number of households that live within walking distance of the district is more limited than is typical of an area that looks and feels as urban as the Central District.**

The walking catchment area for 23rd & Jackson extends roughly from 18th Ave to the west, Dearborn St to the south, 31st Ave, or Frink Park to the east, and Fir St to the north; this is a ¼ mile walking radius from the core of the district, a five-block stretch along Jackson St from 22nd to MLK.[8] **While the majority of this area is built out as single family homes, and will not be redeveloped, there are good redevelopment opportunity sites for multi-unit housing within this area, including most immediately, Promenade South and VU Auto Services, and over time, Franz Baking, the assembled parcels at the northwest corner of the intersection, and Promenade North.** These sites are discussed in greater detail in the sections entitled *Non-Shopping Businesses*, pg. 9, and *New Development Activity*, pg 20.

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[7] Due to differences in the base survey counts for different years, some of the figures had to be corrected, or "smoothed," in keeping with their proportion to the total population, in order to be comparable.

[8] The realistic walking distance for a neighborhood business district, particularly one which provides largely daily/weekly shopping needs such as 23rd & Jackson, is approximately ¼ mile, as it is unlikely that shoppers will be willing or able to transport groceries, etc. for longer distances. This is more limited than the ½ mile commute walking radius associated with transit hubs, or employment destinations.

- *Larger Households, More Single Parents, Fewer Married Couples Than City-wide*

As can be seen in *Table 2: Household Size & Composition*, local households were larger than the city-wide average in 2000 due to the presence of more households with children, with an average size of 2.29 in 2007. The area also had a greater proportion of single parent households in 2000, 12.2% vs. 5.5% city-wide and fewer married couples, 26.5% vs. 32.7% city-wide. These characteristics are estimated to have changed very little between 2000 and 2007, as can be seen in the "Change in Distribution" column.

Families with children, both couples and single parents, spend a greater proportion of their total food spending on groceries versus restaurants, though single parents spend less overall than couple households of any type.[9] **This indicates a strong local market for a value-oriented supermarket, such as the Red Apple, and more of a challenge for restaurants, especially fine dining.**

- *Household Incomes Lower than City-Wide, but Growing Rapidly*

In 2000, the local median household income was $36,797, only 80% of the city-wide median. However, by 2007, the median household income was estimated at $42,396, a rapid 15% increase over the 2000 median.[10] The speed of this increase reflects the accelerated turn-over of housing units during the recent housing value boom. Atypically, there has been little change in the distribution of educational attainment, which generally accompanies changes in income.[11]

Upward changes in income characteristics can make neighborhoods attractive to retailers that previously passed them by; however, the median area income is still lower than the city as a whole, and it is unlikely that significant up-market retail will be interested in 23rd & Jackson for some time to come. However, small higher-end restaurants and stores, in combination with new upper-floor condominium development, is currently viable on Jackson Street.

- *Rapidly Changing Racial Balance: Decreasing African-American Population, Increasing White and Latino Populations*

As can be seen in *Table 5: Race & Ethnicity Trends*, there was a significant decrease in the African-American population in the district's trade area between 2000 and 2007: approximately 808 people. At the same time, the white population increased by approximately 1,152 people and the Latino population, of any race, by 688 people. The area, part of the historically African-American Central District, is now less than one third African-American.

Niche Customer Base

As mentioned, 23rd & Jackson currently has several niche businesses oriented towards African-Americans or African immigrants: Toure Apparel, Two Big Blondes, Hidmo Eritrean Cuisine, Dallas BBQ Soul Food and Catering, Jackson Street Books, and East African Imports. While these specialty businesses appeal to many people regardless of race, their niche orientation has attracted a customer base that is, at least, half African-American. These businesses originally located at 23rd & Jackson in order to serve this population or because the owners lived in the area, or over time, began to specialize in order to better serve local customers. These businesses give the district special character and provide variety to a mix that is otherwise a typical neighborhood business district. However, as

[9] "Food Expenditure in Canada," Statistics Canada, Minister of Industry: 2003, pg 10.

[10] All dollar figures are inflation-adjusted and reported in 2007 values.

[11] 2007 figures from Claritas are estimates, based on earlier trends in the decentennial census, updated by figures from the less extensive two-year American Communities survey, and should not be considered as accurate as the 1990 and 2000 Census figures.

the trade area, and the Central District as a whole, has lost African-American residents, these businesses have lost customers; unfortunately, this demographic trend is very likely to continue. With the exception of Two Big Blondes, which has a significant internet business, these niche businesses face a significant challenge as the neighborhood continues to change.

As the Central District continues to lose African-American population, 23rd and Jackson can continue to support African-American and African niche stores, given both the historic appeal of the area for African-Americans living in Seattle and beyond and its regionally central location. However, depending on the type of business, these stores will either have to look beyond the local area for customers, or, they will need to make their stores more accessible and appealing to the general public.[12]

For those businesses that can, as a practical matter, go beyond the local customer base (i.e. specialty clothing, books, gifts, etc.), developing a regional or national clientele will require sophisticated marketing efforts that are geographically broad, but culturally targeted. The internet is an ideal medium for such advertising; a couple of these businesses already have good internet presence, it is recommended that these efforts be expanded.

For those that cannot realistically reach customers beyond a certain distance (ie. restaurants) the best route lies in maintaining the specialty of their businesses, while making their venues more accessible and appealing to local residents of any ethnicity. This includes English language signs, menus and English-conversant and friendly staff, welcoming entrances and easily negotiated floor design, and impeccable sanitary conditions both in and around the store.

PHYSICAL REALM

Of the eight qualities described in the introduction as characteristic of successful neighborhood business districts, five have key physical aspects: accessible/visible by car/foot/transit, street & buildings in scale, attractive, safe pedestrian realm, spaces for social interaction and proximity among businesses. This section discusses and evaluates each of these characteristics within the 23rd & Jackson district.

Access & Visibility

Both the Promenade South and North, the two central shopping centers, have distinct vehicle site access and visibility problems despite being located at the intersection of two well-trafficked thoroughfares. Jackson St. carries an average of 10,300 vehicles daily and 23rd Avenue carries an average of 15,100 vehicles daily[13]; **their intersection is a strong retail location for local-serving businesses that profit from this convenience to potential customers**. Jackson Street is also a strong bike, transit (Rte 14) and pedestrian walking corridor with bus pull-outs, bike lanes and mid-block crossings on either side of the intersection. 23rd Ave also has two bus lines that stop at the intersection (Rtes 4 & 48), though it is not a quality biking or walking street.

Unfortunately, the siting and design of both shopping centers, but in particular the Promenade South, take poor advantage of this superior access. As can be seen in the photos on the following pages, the Red Apple, the key anchor in the Promenade South, is located at the back of the site, with a large surface parking lot fronting Jackson, and small one-story shopping center along 23rd.

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[12] While not a shopping business, one African-American realtor who's been serving the Central District for 35 years described increasing difficulty finding clients as the local home-buying market becomes more white, and he receives fewer referrals.

[13] Annual Average Daily Traffic (5 day, 24 hour), 2006, Seattle Department of Transportation.

View of Promenade South Red Apple Grocery from Jackson Street, looking south.

View of Promenade South from 23rd Avenue, looking southeast across Jackson Street intersection.

View of Promenade South from 23rd Avenue, looking northeast.

Anchor tenant visibility is critical to attracting the attention of potential customers, getting them to stop, shop at the anchor and potentially shop at smaller, ancillary stores. **Unfortunately, the Red Apple is largely invisible from 23rd Avenue, and not visible from Jackson Street until drivers are just in front of the store, due to the layout of the site. Furthermore, the small shopping center that fronts on 23rd has largely non-retail stores with indistinct signage and few doors on 23rd, while the retailers are at the back of the center, visible only from the surface parking lot (see below).**

Small retailers at back of Promenade South center, viewed from Jackson Street parking lot.

These small stores do not have additional signage, such as in the existing large marquee sign, announcing their presence.

Finally, to compound the visibility issue, **there is very poor access from 23rd, the more heavily trafficked corridor.** Access from 23rd is from the very south end of the site, before any of the stores can be recognized and without a clear route to the Red Apple, or main parking area.

Stores in the Promenade North center have better visibility and access (see below), due to topography, a two-story Hollywood Video, and the location of its critical anchors, Walgreens and Starbucks, fronting directly on the street. However, the Starbucks, which stands alone at the corner, is disconnected from the rest of the center, and does not drive foot traffic to other stores.

View of the Promenade North from 23rd Avenue, looking north, just north of the intersection.

Scale, Proximity & Pedestrianism

- *Promenade South – surface parking lots are convenient, but separate small businesses from supermarket anchor, and buildings from sidewalks*

The two buildings at the Promenade South (grocery store and in-line retail) are separated by the surface parking lot, so that the small businesses are less likely to benefit from the foot traffic to the Red Apple. None of the small business owners interviewed in the Promenade South center felt they derived customers from the Red Apple. Both the Red Apple in the Promenade South and the majority of small businesses in the Promenade North are set-back significantly from the street; this distances the businesses from the pedestrian realm and passing car traffic.

- *Shopping centers, newer projects & older historic storefronts on Jackson vary in scale*

There is a great deal of variety in the street wall created by the buildings on Jackson Street. The new mixed use projects at the intersection are six+ stories tall and set back approximately 10-20 feet from the street, portions of the shopping centers are set back behind large surface lots, while other parts are built at the street at different heights, and the older historic storefronts east of the shopping centers are one to two stories tall and built to the street. The unevenness of development undermines the coherence of the district, making it difficult to distinguish a distinct shopping node and discouraging passersby from stopping to shop, or going from the centers to the rest of the district.

- *Jackson is a comfortable 2-3 lane shopping street with adequate sidewalks, bike lanes, & bus pull-outs*

This portion of Jackson Street, from Rainier east, is a two-to-three lane street with parallel parking, bike lanes & bus pull-outs easily accommodated in an 80 foot right-of-way. The lanes are adequate to accommodate the moderate amount of traffic (10,300 ADT) and are easily traversed for shopping on either side of the street.

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- *Two mid-block crossings on Jackson are well-used & transform street*

The district has already benefitted from considerable streetscape improvements, including sidewalk widening, mid-block pedestrian crossings and street trees and pedestrian lighting in some areas. These changes greatly improve the pedestrian environment and encourage walking across the street from one shopping center to the other.

RETAIL REAL ESTATE MARKET CONDITIONS

This section summarizes the current rent and vacancy levels for retailers in 23rd & Jackson, new development activity in the area, and describes the outcome of back-of-the-envelope financial analysis to determine the gap between retail rents needed for new construction and what existing businesses can pay. Strategic Economics performed this analysis because strategic redevelopment of targeted properties is critical to the survival and success of the district, as discussed above, and many of the tenant businesses pay rent that is insufficient to support new construction. This puts these businesses at risk of displacement by redevelopment unless construction is subsidized. This analysis was also prompted by city staff interest in the possibility of non-profit development of affordable small business space as part of larger mixed-use projects, as a strategy for stabilizing existing small businesses. Briefs of exemplary development projects from other regions, as well as findings from this research, can be found in *Appendix A.*

Rents & Vacancy

Based on interviews with area retail brokers, the median rent for retail space in the district is approximately $19 per square foot, annually, a figure supported by the rents reported by surveyed business. As described previously, there is little to no vacancy in the area, an indicator of minimal business turnover.

Rent levels are modest in comparison with adjacent commercial districts[14] and given the district's central location; this reflects the obsolescence and poor visibility of much of the space in the area, a lack of re-investment in existing properties and the perception of safety issues. It is also insufficient to support new construction, which places existing business at risk if properties are redeveloped as needed to support the growth of the district.

New Development Activity

Just four blocks east of the intersection, two significant mixed-use development projects are currently under construction:

- *17th & Jackson, Community Area Development Association (CADA)*

CADA, a Central District community development corporation, is developing a five-story mixed- use project on the north side of Jackson Avenue between 17th and 18th Avenues. The project will have 59 rental apartments, 51% of which will be affordable to households at 70 to 80 percent of area median income, 6,000 square feet of ground floor retail, 5,000 square feet of office and two floors of underground parking. The parcel was previously a vacant lot; the project is currently under construction and should be completed soon.

- *Legacy at Pratt Park, Legacy Partners, 1800 Jackson Street*

Legacy Partners is developing a five to six story mixed-use project on the north side of Jackson Street between 18th and 19th Avenues. The project will have 246 housing units, 6,500 square feet of ground floor retail and 369 parking spaces. The site was previously a production facility for Wonderbread Bakery and had been vacant since 1999. The project is currently under construction and is slated to be completed in spring of 2009.

Both of these projects will have positive impacts on the shopping district: foremost, they bring many more households, or customers, within walking distance of the 23rd and Jackson intersection, second, they bring significant physical improvement over the sites' previous uses, making the corridor more attractive and demonstrating that investment is being made in the area, and finally, they bring a total of 12,500 additional square feet of storefront space into the retail real estate supply. The leasing agent for both of these projects states that they are looking for small tenants (i.e. 600 – 1,300 square feet) that will bring variety and new types of businesses in the area. Restaurants are being targeted, in particular, a cafe with outdoor seating is desired, as well as a deli, and a small spa/massage business and a wine store are also under consideration. For the Legacy project, asking rent is approximately $24 to $25 per square foot for warm grey shell, with tenant improvement allowances of $20 to $25 per square foot, and the general tenant orientation is more upscale than the existing business mix at 23rd and Jackson, with the goal of providing residents with desirable retail amenities.

The development of these two sites as major mixed-use projects exhausts the available obvious soft sites (i.e. vacant or empty industrial buildings) within walking distance of the 23rd & Jackson shopping district. This is a significant milestone in the development of the corridor and demonstrates its potential as a significant mixed-use shopping corridor for the Central District. The inclusion of underground parking, which is quite expensive and is often the component that makes a project financially infeasible, also shows the strength of the underlying residential real estate market fundamentals.

The next phase of development on the corridor will be more challenging: redevelopment of sites that have existing, income-producing uses, such as the Promenade South or VU Auto Services, however under capacity or low-performing, is much more complex and less obviously

[14] For example, Little Saigon rents are closer to $24/SF, approximately.

advantageous for property owners. Existing tenants in old buildings provide owners with income on properties that may have little to no debt service; it may take some time before the increasing expense of maintaining a deteriorating property that is past its life span, as well as the ultimately greater upside on more intense development, outweighs the steady income stream from a tenanted property. Redevelopment is further complicated by lease terms for existing tenants, the great inconvenience of interruption of service for desirable tenants that wish to remain in the new building (a major issue for supermarkets), and potentially, family disagreement over the management of income-producing property.

Subsidy Needed to Maintain Existing Businesses In New Buildings

As discussed previously, the current lay-out of both of the shopping centers on either side of Jackson Street detracts from the cohesion of the district. In particular, the design of the Promenade South is obsolete, unattractive and creates real challenges for all of the businesses operating in it. For the district to prosper, both of these properties should ultimately be redeveloped as mixed use projects, as discussed. However, the Promenade South is now 29 years old, almost at the end of the typical 30-year lifespan for a commercial building, and is far more likely to redevelop in the near future. This center also currently includes many small, independent businesses with lease rates that could not support the costs of new development, making them vulnerable to displacement should redevelopment occur.

One strategy, used in other cities facing the challenge of maintaining the small, independent business character of neighborhood districts that are experiencing development pressure, is the participation of non-profit development entities that can attract grant funding and develop and operate the retail portion of the project in a mission-driven manner. The goal of such projects is the provision of stable, affordable retail space in order to assist struggling small businesses in becoming successful, a small business economic development strategy accomplished via real estate development (detailed discussion of this model can be found in *Appendix B*).

In order to get a general sense of the amount of subsidy that would be necessary to develop such a project at 23rd & Jackson, Strategic Economics performed a back of the envelope financial analysis with the following assumptions and outcomes:

- *Increase in lease rate from $19/SF to $21/SF*

As described, the average lease rate for area businesses is $19 per square foot per year, which is in keeping with individual rents reported by businesses in the Promenade center. This rent level is low given the site's locational advantages (i.e. high average daily traffic) and reflects the poor design and invisibility of the retail spaces. Existing businesses should do much better in new, well-designed storefront space that faces the street and should be able to afford some increase in rent. A 10% increase in rent would be $21 per square foot, the exemplary rent used in the analysis.

- *Development costs that require $25/SF in retail rent to pencil*

New mixed-use development in the area anticipates lease rates of $24-25 per square foot; this is in keeping with the threshold level of ground-floor retail rents Strategic Economics has found for financial feasibility in recent analysis of other mixed-use projects. This leaves an approximate gap of $4 per square foot annually to subsidize the space and make it affordable to existing businesses.

- *Financial & operating assumptions*

The analysis assumes current, standard operating and financial terms for retail real estate: 8% vacancy rate, 5% operating costs, and a commercial capitalization rate of 7%.

- *10,000 SF of subsidized space would require $500,000 in up-front subsidy*

A $4 per square foot rent gap for 10,000 square feet of space results in a $40,000 loss in gross operating income, minus $5,200 in operating expenses and vacancy allowance, is $34,800 in annual net operating income. The capitalized value of this income stream is approximately $497,000 under current financial conditions. **To provide 10,000 square feet of affordable retail space to existing businesses, a non-profit development entity, or other non-profit participant, would need to raise approximately $500,000 in development grant funds, or donations**.

Up-front grants are not the only means of subsidizing development; below market debt or on-going operating subsidy are alternative, or more likely, supplementary, means to up-front grant funding. [15] The above back-of-the-envelope figures are intended to give city staff, and other readers, a realistic sense of the cost of pursuing a subsidized rent strategy for stabilizing at-risk businesses at 23rd & Jackson, should redevelopment occur.

[15] Please see *Appendix A* for detailed discussion.

SUMMARY OF KEY FINDINGS & STRATEGIC RECOMMENDATIONS

This section summarizes the findings discussed in detail in previous sections and makes strategic recommendations for strengthening the district, including economic development/small business organization and enhancement programs, real estate redevelopment, and capital improvements.

District Strengths

- High Traffic Location: 23rd Ave & Jackson Street are thoroughfares that carry significant car traffic; potential for great business visibility & convenient access
- Walkable Jackson St. Streetscape: Jackson is a pleasant 2 lane pedestrian shopping street with quality existing improvements
- Good Business Mix: low vacancies, good business mix, basic neighborhood shopping district anchors including supermarket and drugstore
- Growing Potential Local Customer Base: trade area population growing faster than city
- Small African-American & African Business Niche: there are currently six businesses that have a distinct African-American or African cultural orientiation
- Current Development Activity: two higher density mixed-use projects are currently underway 3 blocks from the intersection
- Active Neighborhood & Business Development Organizations: local CDC participating in development (CADA) but focused on housing, business support services nearby (CCD)

District Weaknesses

- Poor Visibility of Promenade South Businesses: currently poor visibility of Promenade South businesses, difficult access from 23rd
- No Defining Street Wall, Poor Proximity of Businesses: large surface parking lots separate businesses, degrade walking environment & make area unattractive to customers
- Significant Business Revenues Decrease, Small Businesses Struggling: significant decline in food store sales since 2000, small businesses in Promenade struggling even w/low rents
- Underperforming Anchor: Red Apple supermarket not currently meeting market potential due, in part, to poor siting and design, and challenges in serving trade area with rapidly changing demographics
- Insufficient Immediate Housing Density: the district's trade area is largely made up of single family homes; the district needs more households within shopping walking distance (i.e. ¼ mile)
- Future Competition: Dearborn project will increase competition, trade area to shrink by 1/3rd

Strategic Recommendations

- Create a property-based BIA for 23rd Street
  - Create common vision for development/tenanting
  - Support common streetscape elements along thoroughfare
  - Clean & safe programs
  - Events & promotions

- Redevelop Promenade South to a more urban format:
  - Build to the street on 23rd & Jackson; allow small set-back for outdoor seating on Jackson
  - Parking in rear, if not structured, with good signage
  - Include significant housing to build in customers
  - Reformat Red Apple, or attract new grocery that serves neighborhood & anchors center

    - With the increased competition from the Dearborn grocery, the revenue potential from the Red Apple primary trade area decreases from $14 million to $8.5 million; this is sufficient for a smaller supermarket (i.e. 25,000 square feet or less), but a higher proportion of local households will have to be attracted for that level of revenues to be achieved
- Concern: gap between current rent of small businesses ($19/SF) & construction threshold ($24-25/SF) risks displacement
    - If businesses pay $21/SF given better space, approximate upfront gap for 10,000 square feet is $500,000
    - Non-profit development participant could get below-market debt (CRA) & fundraise to own/operate subsidized space for viable long-standing businesses; existing entities may or may not be up to this innovative approach (see Appendix A)

- Densify ¼ mile radius walkable shopping-supportive area as opportunities arise (distinct from ½ mile radius for transit-supportive area):
    - Evaluate existing zoning
    - Monitoring on-going property disposition (Promenades South and North, VU auto, Franz baking)

- Target and attract new businesses with redevelopment & turnover: postal store (UPS, Mail Boxes, etc.), pet food/accessories store, full service restaurants, bike store, spa, specialty bakery, additional niche African-American and African stores

III. MT BAKER BUSINESS DISTRICT: CONDITIONS, TRENDS & RECOMMENDATIONS

This study analyzed the approximately one mile length of Rainier between Plum Street and Walden Street, as well as those sections of side streets, including McClellan Street and Martin Luther King Jr Way, that have clusters of businesses (see map on following page). Because the Mt Baker business district is not a distinct retail district, but a portion of the Rainier Avenue commercial corridor, and because the development of the Mt Baker light rail station will change the district's orientation, the area designated for analysis is large.

This strictly commercial and light industrial development in this area grew up along with the growth of the Rainier arterial, accounting for its auto orientation. Buildings have individual surface parking lots at the street, or between buildings, providing convenient parking for customers who will stop to shop at one single store, rather than walking from store to store for multiple shopping purposes, or walking to the area from surrounding neighborhoods. This orientation is key to understanding the area and the degree of change necessary to fulfill the walkable, mixed use vision of a town center articulated in the North Rainier Neighborhood Plan (February, 1999) and more recent documents intended to help implement this vision. It affects the physical character of the area, its customer base, and the types of businesses interested in locating there. The area will not fundamentally change to foster this community vision if the interface between the street network, in particular Rainier and McClellan, and surrounding development isn't improved.

The third section, physical realm, discusses these issues in detail, as well as implications for future development. Additional sections include current business mix & distribution, customer base, retail real estate conditions and a summary of findings and strategic recommendations (pg. 38).[16]

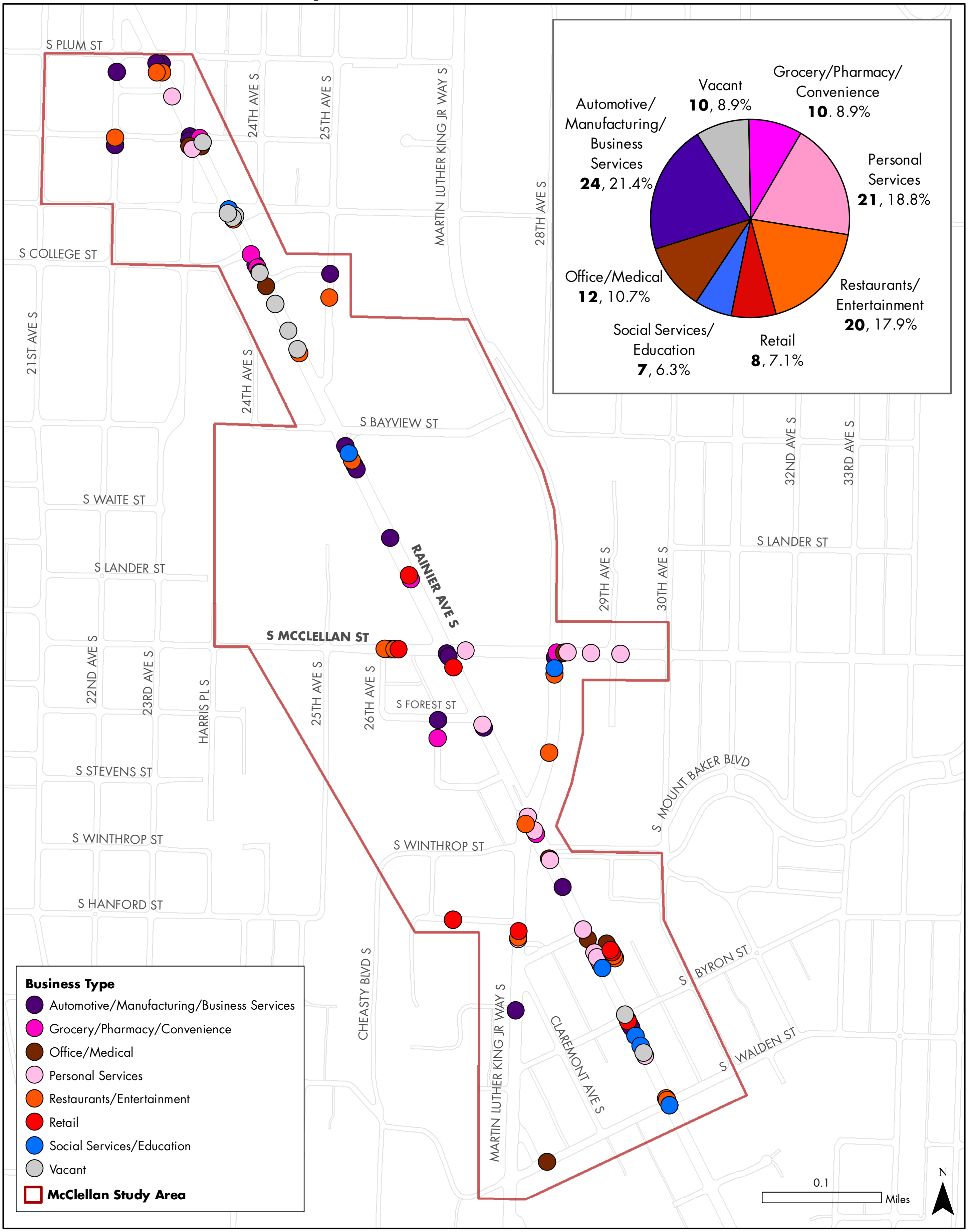
CURRENT BUSINESS MIX & DISTRIBUTION

As described above, the study area is large in order to see where business clusters lay. The map and pie chart on the following page shows the distribution of the 112 businesses on the corridor, as well as their type (the full business inventory can be found in *Appendix A)*. **The dominant types of businesses indicate the corridor's broader commercial and auto-orientation: there are 24 auto, light industrial and business-to-business outlets (shown in dark blue), none of which contribute to a walkable shopping district**.[17] Only approximately half (59) of the businesses are retail (shown in red, pink and orange), and one of these is a major large-format retailer with no entrance or glazing on the street and an approximately three acre surface parking lot. The study area has 20 restaurants, eight of which are formula-based and five of which have drive-throughs. At the same time, however, **the area also has multiple successful supermarkets and drugstores, the backbone of any successful locally-oriented business district, as well as intermittent synergies among clusters of businesses that invite walking from store to store.** There are also 20 southeast Asian-oriented businesses, most of which are clustered south of Byron St.

[16] Unfortunately, business revenue trends could not be analyzed as the revenue data obtained from the City (derived from business licensing records) included too many unlikely anomalies to be considered accurate.

[17] The 12 auto uses include rental, repair, stores and gas stations.

McClellan Business Inventory



Sources: City of Seattle 2007, Strategic Economics 2007

The area had ten vacancies at the time of the survey, or 8.9% vacancy. Half of these appeared to be due to landlord neglect, rather than lack of demand for space. **As an indicator of demand, an approximately 5% vacancy rate is healthy and points to the desirability of a location on Rainier**.

The area can be divided into three sections with distinct physical and business character:

- *North of Bayview*

The portion of Rainier stretching north of Bayview to Plum Street generally has less retail appeal than the areas to the south. It has a greater concentration of vacancies and neglected properties, as well as the majority of wholesale/light manufacturing firms, business-to-business outlets, and quick service restaurants/drive-throughs.

It also has a couple of long-standing specialty food businesses with customer bases that extend beyond the local area: Mutual Fish Company (both retail and wholesale) and Remo Borracchini's Bakery and Mediterranean Deli. Drugstores bracket the area, with Bartell's at the south end and Nyugen Pharmacy at the north end. While all four of these businesses have the potential to drive foot traffic to other stores and contribute to a synergistic business district, they are not near one another, but are spread out over approximately 1/3rd of mile of Rainier. **Given the minimal amount of shopping stores currently in this area, many new retailers would have to be attracted and a great deal of redevelopment would need to occur before it could support walkable shopping.**

Finally, **properties in this area are generally smaller than those around the McClellan/Rainier intersection and significant assembly would need to occur for redevelopment to proceed.** There are few immediate catalyst sites in the north end of the corridor. For the above reasons, **it is recommended that redevelopment and revitalization efforts be concentrated below Bayview Street.**

- *Bayview to Winthrop/MLK*

The section of the corridor that lies between Bayview and the Rainier/MLK/Winthrop intersection includes both of the major intersections in the study area (MLK and McClellan), the Mt Baker light rail station, multiple major redevelopment opportunity sites and potential anchor retailers. It also includes several auto and light industrial uses that do not have retail synergies. **There were no vacancies at the time of the survey, indicating the high level of demand for space in this area.**

Anchor retailers between Winthrop and Bayview include the QFC, Rite Aid, Grocery Outlet and Starbucks. While Lowe's brings customers into the area from all over the city, home improvement shopping trips are usually one-stop trips, as they are often prolonged and include the purchase of bulky items; the retailer is unlikely to drive foot traffic to other stores. Should the Lowe's relocate, however, as is under discussion, its site provides an unparalleled redevelopment opportunity.

The QFC is highly successful, as it serves a broader trade area than normal, benefitting from the high level of traffic on Rainier and the lack of supermarkets further south (see Section IV, pg. 40). In co-location with the Rite Aid at the intersection of McClellan, it has great potential to anchor a daily/weekly needs, Rainier Valley-serving shopping district. The small in-line retail center on the south side of McClellan derives customers from its proximity to the QFC; businesses include a sit-down restaurant, quick service/take-out restaurant, hair salon and wedding/tuxedo rental, all of which are typical of such a district. **With the redevelopment of the QFC and Lowe's sites to mixed-use, street-oriented formats that include more storefronts, many more small businesses could thrive at this intersection.**

The Starbucks, located across from the light rail station, also has potential to attract and support additional surrounding business, although the triangular parcel on which it sits will be challenging to redevelop and is unlikely to be a catalyst redevelopment site. **The planned public space in front of the light rail station should also be considered for kiosk, cart or other flexible retail incubator space to be occupied by start-up businesses.**

- *South of MLK/Winthrop*

The diagonal intersection of MLK with Rainier, the frontage of the Franklin HS athletic field on Rainier, intersections of Winthrop/Mt Baker Blvd with Rainier, and the undevelopable triangular point of the parcel created by these intersections results in an approximately 300 foot break in the possible retail frontage on Rainier.[18] **This length of interruption is unlikely to be walked by shoppers going from store to store. It also separates the more general community shopping portion of the study area from the smaller, more specialty stores at the south end, creating a natural break between what could develop into distinct shopping districts.**

The south end of the study area contains the majority of its small businesses and social services, as well as most of its Southeast Asian specialty businesses. There are 12 Southeast Asian-oriented retail

[18] The business inventory map is deceptive at this intersection. Address mapping results in the location of four retail businesses at Rainier/MLK, whereas these businesses are all actually found either further north or further south.

and personal services firms, most clustered between Byron and Walden. **Me-Kong Grocery, a busy and recently remodeled Southeast Asian supermarket, brings customers shopping for Southeast Asian-oriented goods and services into the area and could provide an anchor for additional specialty businesses.**

Properties in the south end are smaller, ranging from 5,000 to 20,000 square feet. While the finer grain of parcelization and property ownership offers more modest redevelopment opportunities than those at McClellan, the area has few vacancies, a more walkable streetscape than other parts of the corridor, and may see development activity in the near future (see *Retail Real Estate Conditions*, pg. 36). **Over time, redevelopment of the smaller individual parcels could yield a street wall with great variety and interest for pedestrians. Given the number of Southeast Asian businesses already present, the area has potential to evolve into a distinctive Southeast Asian specialty district.**

CUSTOMER BASE

The mix of businesses in the study area serve many different customer bases, as Rainier is a significant traffic corridor that makes the area convenient for households that reside well beyond a typical local customer base. However, because the vision for the area includes expanding its services to local neighborhoods and making it more of a community center, Strategic Economics analyzed the demographic characteristics of households within the existing local *trade area* for the major supermarket anchor, the QFC. A trade area is the surrounding geographic area from which a retailer normally draws the majority of its customers; it is limited by the trade areas of other competitive stores. For a detailed discussion and map of the trade area, please see *Section IV***,** pg. 40.

Local Customer Base

The seven tables on the following two pages show the key demographic trends in the customer base for local-serving stores in the study area. The data sources for these trends include the 1990 and 2000 US Census, as well as 2007 estimates from Claritas, Inc., a demographics research firm.[19] The bullets that follow summarize the critical implications of these trends.

[19] Due to differences in the base survey counts for different years, some of the figures had to be corrected, or "smoothed," in keeping with their proportion to the total population, in order to be comparable.

Mt Baker Business District, Existing Trade Area Demographics

Table 1: Growth Trends

	1990	2000	Growth	*Growth 1990 -*	2007 Estimate
Households	2,035	2,208	8.5%	*9.1%*	2,339
Population	5,383	5,757	6.9%	*9.2%*	6,037

Table 2: Household Size & Composition

	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
Average Household Size[1]	2.56	N/A	*2.08*	2.53	N/A	N/A
Household Composition[1]						
Single Householder (Male or Female)	595	26.9%	*40.8%*	619	28.0%	1.1%
Married-Couple Family, with children	405	18.3%	*12.5%*	405	18.4%	0.0%
Married-Couple Family, no children	515	23.3%	*20.2%*	515	23.3%	0.0%
Male or Female Householder, with children	195	8.8%	*5.5%*	197	8.9%	0.1%
Male or Female Householder, no children	238	10.8%	*5.7%*	237	10.7%	0.0%
Nonfamily Male or Female Householder	260	11.8%	*15.3%*	234	10.6%	-1.2%
Total	2,208	100.0%	*100.0%*	2,207	100.0%	N/A

Table 3: Income & Educational Attainment

	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
Median Household Income[2]	$46,271	N/A	*$45,736*	$51,386	N/A	N/A
Educational Attainment, 25years+[1]						
High School	1704	40.7%	*25.8%*	1711	41.1%	0.4%
Associate Degree/Some college	955	22.8%	*27.0%*	952	22.9%	0.1%
Bachelor's Degree	876	20.9%	*29.9%*	862	20.7%	-0.2%
Master's Degree and Beyond	647	15.5%	*17.3%*	633	15.2%	-0.2%
Total	4182	100.0%	*100.0%*	4158	100.0%	N/A

Table 4: Housing Tenure

Occupied Housing Units	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
Owner Occupied	1,463	66.3%	*48.4%*	1,242	67.9%	1.7%
Renter Occupied	745	33.7%	*51.6%*	587	32.1%	-1.7%
Total	2,208	100.0%	*100.0%*	1,829	100.0%	N/A

Table 5: Race & Ethnicity Trends

Race or Ethnicity	2000	% of Total	*Seattle 2000*	2007	% of Total	Change in Distribution
White	2,226	38.7%	*70.1%*	2,406	42.4%	3.8%
Black or African American	1,141	19.8%	*8.4%*	856	15.1%	-4.7%
American Indian and Alaska Native	59	1.0%	*1.0%*	62	1.1%	0.1%
Asian	1,887	32.8%	*13.1%*	1,872	33.0%	0.2%
Native Hawaiian/Pacific Islander	20	0.3%	*0.5%*	17	0.3%	0.0%
Some Other Race	108	1.9%	*2.4%*	120	2.1%	0.2%
Two or More Races	317	5.5%	*4.5%*	340	6.0%	0.5%
Total	5,758	100.0%	*100.0%*	5,673	100.0%	N/A
Latino of Any Race(s)	216	3.8%	*5.4%*	273	4.8%	1.1%

[1] 2007 "smoothed" data items are Census 2000 tables made consistent with current year estimated base counts.

[2] Current dollar values.

Source: Claritas, 2007 and US Census, 2000, Strategic Economics

Mt Baker Business District, Existing Trade Area Demographics

Table 6: Asian by Category[1]

	2007	Distribution
Chinese, except Taiwanese	631	33.7%
Vietnamese	418	22.3%
Filipino	314	16.8%
Japanese	185	9.9%
Cambodian	129	6.9%
Laotian	76	4.1%
Korean	25	1.3%
Asian Indian	14	0.7%
Thai	7	0.4%
Hmong	1	0.1%
Other Asian	21	1.1%
Two or more Asian categories	52	2.8%
Total Asian Population	1,873	100.0%

Table 7: Language Spoken At Home[1]

Population Age 5+	2007	Distribution	*Seattle 2006*
Speak Only English	3,393	63.0%	
Speak Asian/Pacific Islander Language	1,605	29.8%	
Speak IndoEuropean Language	129	2.4%	
Speak Spanish	218	4.0%	
Speak Other Language	43	0.8%	
Total	5,388	100.0%	

[1] 2007 "smoothed" data items are Census 2000 tables made consistent with current year estimated base counts.

[2] Current dollar values.

Source: Claritas, 2007 and US Census, 2000, Strategic Economics

- *Local customer base insufficient to support supermarket anchor or smaller ancillary stores; trade area population growing more slowly than city-wide trend*

The existing local trade area includes 2,339 households and 6,037 people (2007); **this is insufficient to support a full-service grocery such as the QFC, which typically require a local base of 10,000 people. As the QFC is quite successful, this figure makes it clear that a large part of the QFC's customer base is derived from drive-by traffic.** Furthermore, the local trade area population is growing more slowly than the city as a whole, its 1990 to 2000 growth rate was 6.9 percent, while the city-wide rate was 9.1%. This is partially due to the predominantly single-family housing character of surrounding neighborhoods, which have seen relatively little recent densification in comparison with other parts of the city. **If the district is to become more locally oriented, considerable housing will need to be built in the immediate corridor as surrounding areas are unlikely to change considerably. Even so, redevelopment plans for existing properties will need to be sensitive to the necessity of drive-by customers to existing businesses and allow for appropriate amounts and accessibility of parking.**

- *Household composition attractive to daily/weekly needs stores such as supermarkets and drugstores*

The trade area has larger households, more married couples, more children, and fewer single & non-family householders than does the city as a whole. Supermarkets and other stores that serve daily and weekly shopping needs typically prefer trade areas rich in such households, as they are larger, eat-in more and spend more on groceries and household goods.

- *Household -income level in keeping with city as a whole, growing steadily; lower educational attainment*

In 2007, the median household income was $51,386, with 11.1 percent growth since 2000 (1.6% annual growth); both the median and the rate of growth is in keeping with city-wide figures. However, educational attainment in the area is lower than the city as a whole, with a lower proportion of the population having Bachelor's degrees, or some amount of college: 43.7 percent versus 56.9 percent, respectively, in 2000, with little change since that time. These characteristics may make the area unattractive to retailers who orient towards higher income, or more educated populations, such as Whole Foods (which seeks higher incomes & highly educated populations) or Trader Joe's (which seeks moderate income, but highly educated populations).

- *1/3rd of population is Asian*

The trade area remained steadily one third Asian between 2000 and 2007; this is a high proportion in comparison with the city as a whole. Almost a third of the population (29.8%) also speaks an Asian or Pacific Islander language at home, which indicates likely cultural integrity. This population provides a strong customer base for the Asian specialty businesses in the southern part of the study area and bodes well for the expansion of this node.

PHYSICAL REALM

As mentioned in the previous section, five of the eight factors contributing to the success of neighborhood business districts, or any walkable business district, relate to the physical environment.[20] These are discussed below.

[20] Accessible/visible by car/foot/transit, street & buildings in scale, attractive, safe pedestrian realm, spaces for social interaction and proximity among businesses.

Access, Visibility & Streetscape

Both good access and high visibility to vehicles *and* pedestrians are critical to the success of any commercial node. The average number of vehicles on a road is an indicator of its attractiveness to retailers; the higher the number the greater the exposure and convenience, ensuring a steady stream of customers. On an average weekday in 2004, **Rainier Avenue carried 37,880 vehicles north of MLK, and 25,040 vehicles south of MLK, while MLK carried 22,500 vehicles**.[21] From a retail perspective, these are robust numbers: 30,000 in average daily traffic is sufficient to attract large format and quick service restaurants. **This ensures that any future intensification of the commercial space in the area is likely to succeed in attracting retail tenants.** At the same time, however, this level of traffic can create unpleasant and unsafe conditions for pedestrians, transit users and bicyclists, and discourage customers from shopping in more than one store, unless the streetscape is designed to protect and beautify non-motorized areas and promote conflict-free intersection of vehicular and pedestrian traffic.

Since 1998, eight intersections and two mid-block locations in the study area have been designated as either vehicular or pedestrian/bicycle High Collision Locations.[22] Many factors contribute to the high number of collisions and create generally hazardous and unpleasant conditions for both drivers and pedestrians:

- *Narrow sidewalks and traffic lanes south of McClellan; recommendation: visually buffer pedestrian realm*

Rainier is narrow for an arterial of its traffic level; it is only 80 feet wide, and includes five or six lanes of traffic (six lanes between McClellan and MLK). While the five lanes north of McClellan allow moderately wide sidewalks and mature street trees, the narrowness of the six vehicle lanes and sidewalks between McClellan and MLK puts both vehicles and pedestrians in close proximity to one another, making the street dangerous and uncomfortable.

Along high traffic arterials, the pedestrian realm is often improved by expanding sidewalks and adding planting strips or parallel parking lanes. At 80 feet wide, however, it will be challenging to take space from vehicle traffic and convert it to walking, planting or parking space unless the number of lanes can be reduced. If this is not possible, creative visual approaches to buffering the sidewalk area should be considered.

- *Insufficient pedestrian crossings; recommendation: at-grade crossings of Rainier at MLK*

There is currently no at-grade pedestrian crossing of Rainier south of Forest until Walden St (1/3rd of a mile). This encourages jaywalking, in particular at the intersection of MLK and Rainier where the skybridge is inconvenient and rarely used. Jaywalking is likely to increase with the opening of the Mt Baker Light Rail Station as riders attempt to make boardings.

The current list of capital improvement projects for Seattle DOT includes the reconfiguration of the Rainier/MLK intersection to allow at-grade crossings on all approaches (there is currently a dedicated south-bound free right turn lane that prohibits the creation of a cross-walk). **It is critical that this improvement be implemented as soon as possible (i.e. before the opening of the Mt Baker Station) for the safety and convenience of shoppers and transit users.**

[21] Southeast Transportation Study, Seattle Department of Transportation (SDOT), Underhill Company LLC, May 8, 2008, pg. 28.

[22] A vehicular HCL is defined as a signalized intersection with ten+ collisions per year, a stop sign intersection with five+, or a mid-block location with two+. A pedestrian or bicycle HCL is a location with four+ collisions in six years. Southeast Transportation Study, SDOT, May 8, 2008, pg 27.

- *Individual surface parking lots; numerous curb cuts; recommendation: develop lots, consolidate parking, limit vehicle entrances/exits*

Many of the buildings on Rainier have their own individual surface parking lots, rather than consolidated parking. The lots are in front of the building, creating distance between sidewalks and businesses, or between buildings, creating separation between buildings. This discourages shopping on foot, and in the case of those buildings set back from the street, but adjacent to those at the street, decreases the visibility of businesses. Additionally, the many individual surface lots create multiple curb cuts and increase pedestrian and vehicle conflict.

While the individual surface parking lots are a major barrier to walkability, **they also offer redevelopment opportunity if joint parking can be built and managed at the rear of properties, or in structured parking lined with or above retail. It is recommended that a parking study be performed to determine the appropriate amount, locations and strategy for management/financing of joint parking.**

Two additional factors influence pedestrian access to the area:

- *Excellent transit access; recommendation: market local businesses to transit users*

The completion of construction of the Mt Baker light rail station and the start of service on the Rainier Valley Link Rail line is estimated for mid-2009. By 2020, Sound Transit estimates that the station will have 3,500 boardings daily. In addition, both Rainier and MLK are significant bus transit corridors; McClellan also carries bus lines. This level of high frequency bus service provides excellent transit access to and from the area, as well as connections between routes, a shopping opportunity.

To ensure that local businesses benefit from this potential customer base and transit users take advantage of this convenience, the station and bus shelters could offer advertising space at a discount to local merchants (see *Customer Base* section, pg 30).

- *Topography of Beacon Hill and Mt Baker; limited east/west through streets; recommendation: create heart of district on McClellan and new streets through Lowe's site*

Throughout much of the study area, and in particular at McClellan St, a significant grade change starts approximately one block west of Rainier. The rise of Beacon Hill is sufficiently steep as to limit existing and potential development on the hillside and discourage pedestrian travel from Beacon Hill down to the area. Due to the topography, there are also few through streets up Beacon Hill, further limiting access. Pedestrian access to the east is easier, as the drop-off from Mt Baker doesn't begin for several blocks; however, there are, again, few through streets, due to the large parcels accommodating the Lowe's and its parking lot and the Franklin High School.

Given these challenges, as well as the difficulty of making Rainier welcoming to pedestrian shoppers, it is recommended that redevelopment efforts focus on the flat two blocks of McClellan, as well as the creation of new streets through the Lowe's parcel. This block's current frontage on Rainier is over 1,000 feet long, while the ideal for walkable blocks, such as those found in downtown Portland, is 200 feet. The block is also quite deep and could reasonably be divided east/west as well. Unfortunately, existing surrounding residential development makes it unlikely that new streets could continue through; while the new streets would be very pleasant for walking, shopping, eating and socializing, they would not carry much vehicle traffic, a potential disadvantage for retailers. **A careful assessment of potential street network and block layouts is necessary to determine what arrangement would be most advantageous.**

- *Lack of social space; recommendation: encourage sidewalk cafes on side streets, create pocket park in Lowe's super-block*

Whether public or private, outdoor space for informal socializing is critical to the street life of a walkable business district. Such space can be created in the right-of-way, through expansion and improvement of sidewalks. Division of the Lowe's super-block also offers the opportunity to site a pocket park, providing space for recreation and people-watching.

Scale & Proximity

Successful walkable business districts have buildings and streets that are in appropriate scale to one another: buildings are at such a height and distance from the right-of-way that the width of the street is framed. Buildings are also in sufficient proximity to one another to provide convenient shopping access between stores and create a consistent street wall that maintains the interest of pedestrians and contributes to the framing of the street, bringing buildings on either side of the street together. Currently, the scale and commercial density of the Mt Baker area is that of an auto-oriented corridor, rather than a shopping district:

- *Inconsistent and insufficient street wall; recommendation: bring development to the street and increase height*

Buildings along this portion of Rainier are one to two stories; this is not tall enough to frame a street of Rainier's width or traffic volume. Buildings are also inconsistently set back from the street: some have parking on the side and are built to the street, while others are set back behind surface parking lots at varying distances. The lack of street wall degrades the pedestrian environment, forcing pedestrians to walk back and forth from the street and expanding the distance between businesses across the street from one another.

- *Separation of buildings/businesses; recommendation: eliminate surface parking lot and concentrate retail*

Due to the number of individual surface parking lots and the lack of side streets (which decrease the density of businesses), buildings and businesses are too far from one another to invite customers from one store to walk to surrounding businesses. Redevelopment of existing single-story surface-parked commercial properties to mixed use, higher intensity development will bring businesses closer together.

- *Development not to zoning envelope; recommendation: significant redevelopment opportunity without rezoning of height*

Existing zoning along Rainier in the study area, a mix of C1, C2 and NC3, consistently allows development to 65 feet. While Strategic Economics has not performed financial analysis as part of this study, **it is likely that the existing zoning envelope is sufficient to incentivize redevelopment with recovery from the current recession**. While it is recommended that the zoning be amended to mandate mixed use residential uses and to concentrate retail uses, it may not be necessary, or desirable, to increase the height limit in this area if sufficient households can be added to the customer base at 65 feet in height.

Strategic Economics recommends that urban design analyses (such as shadow studies), be performed before raising the height limit in this area, to ensure that taller building do not create a canyon effect, overwhelming the street and blocking the sun. At 80 feet wide, **Rainier is sufficiently wide to require four to five-story buildings** (woodframe construction), but it is still relatively narrow for an arterial (more typically 100 feet, at minimum). For development over six stories (steel or concrete-frame) to be financially feasible, it is likely that much taller heights of approximately 120 feet, and well out of proportion to the street, would need to be allowed in order for development to be feasible.

RETAIL REAL ESTATE MARKET CONDITIONS

This section summarizes current lease rates and vacancy for retailers in the study area, as well as new development activity. It also discusses those opportunity sites with the most immediate redevelopment appeal and ability to catalyze change in keeping with the community's vision for the area.

Rents & Vacancy

Retail lease rates in the study area vary widely depending on the location and condition of the property, from $20 per square foot annually for older space in the north and south ends to $35/SF annually for newer space at the key central intersections. As discussed under *Current Business Mix and Distribution*, the over-all study area had ten retail vacancies at the time of the business survey. Discounting the unadvertised spaces yields a 5% vacancy rate, indicating healthy demand for retail storefronts. Most of the vacancies are concentrated at the north end of the study area, with a couple of empty dilapidated buildings at the south end.

New Development Activity

The only recent development activity in the study area consists of the new Bartell's and Safari Wireless buildings developed just north of Bayview in 2007. Both are one-story, single store buildings, built to the street with surface parking on the side, in keeping with surrounding existing development. **There has not yet been any contemporary multi-story or mixed use development in the study area; the first such project will be establishing a new development type and proving that a market for such space on this portion of the Rainier corridor exists.**[23] As is often the case in places transitioning from commercial/light industrial to mixed uses, the first project in is likely to include affordable, rather than market-rate housing. The former Chubby & Tubby's, at the far south end of the study area, is slated for redevelopment in 2009 by Southeast Effective Development (SEED) to a five-story mixed use affordable housing project. **While the development of affordable housing units will not establish demand for market-rate housing, it can help to change the character of the area, making it more attractive and acting as a catalyst for future market-rate *and* affordable projects.**

The nearest recent higher density mixed-use project is Rainier Court, located two blocks south of the study area, just north of the Rainier Valley Square shopping center. A former brownfield, the 2005 – 2008 phases of the project included significant subsidy for environmental clean-up and affordable senior and family housing. The projects consist of five stories of apartments over ground floor retail, and angle away from Rainier, so that the retail and housing is buffered from the corridor by an intermediary parcel. No subsequent market-rate development has occurred around the project.

Just three blocks west of the corridor on McClellan, a three-story duplex townhome project was completed in 2008. This demonstrates demand for attached housing in the general area; however, housing on Rainier will have the disadvantage of exposure to heavy levels of arterial traffic. Recovery from the current recession may be necessary before lenders can tolerate the level of risk inherent in pioneering development project. **Corridor housing, whether mixed-use or single-use multi-story will need to be carefully designed to be quickly absorbed by the marketplace; urban design guidelines that ensure high quality and location-sensitive design will greatly improve the likelihood that pioneering projects succeed and catalyze further development**.

[23] Based on information provided to Strategic Economics, while City staff is in discussion with various major property owners regarding redevelopment of their properties, none of these conversations are far enough along to have permit applications. They are unlikely to do so until further planning for the area is complete.

Catalyst Opportunity Sites

Given the number of underdeveloped properties with single-story buildings and large surface parking lots, there are many possible redevelopment opportunity sites in the corridor. Differences in market demand and the distribution of existing retail businesses, described previously, as well as the relative size of different sites, points to focusing primarily on the major opportunity sites at McClellan and Rainier. The **Lowe's**, **QFC/Rite Aid** and **U-Haul properties** are large enough to accommodate significant mixed use projects without requiring assembly. Given their location at McClellan and Rainier, and the potential for transforming the flat two to three blocks of McClellan into a walkable shopping street, the QFC/Rite Aid and Lowe's sites have particular potential.

With appropriate site planning, the Lowe's site alone can support multiple new blocks of development, greatly increasing the number of households within walking distance of the district and bringing the intensity of retail to a critical mass sufficient to entice foot traffic. As discussed previously, this is possible at the currently allowed zoning envelope; however, more directive zoning, such as urban design guidelines, will be necessary to achieve the appropriate massing, mix (i.e. housing requirement), and orientation of development. The opportunity to design several blocks from "whole cloth," also makes it possible to include key mid-size retail tenants (i.e. 20,000 square feet), such as a modest general merchandiser, or specialty grocer, while separating critical loading operations from access to upper-floor housing.[24]

While the properties are more modest, the possible redevelopment of the Chubby & Tubby's site by SEED, the more fine-grained, walkable quality of the streetscape, and the clustering of southeast Asian stores makes potential sites in the southern part of the corridor worthy of attention as well. Projects will have less impact, as the properties are smaller, but over time the development of a number of smaller individual projects will give the area more character and encourage the creation of a pedestrian-oriented shopping district. More modest mixed-use projects will also necessarily contain small storefronts appropriate for small businesses, such as those already locating in the area.

The presence of SEED and its interest and capacity for mission-driven commercial development makes this area a potential location for stabilized or affordable retail space for struggling small business owners (see *Appendix A*). There is significantly less threat of small business displacement than with redevelopment of the Promenade South at 23rd & Jackson (see pg. 22 for discussion): while Strategic Economics has not researched property ownership as part of this study, those properties most likely to turn over and redevelop first are those that are untenanted or undeveloped as they are not providing the owners with an income stream. Additionally, the small size of the properties in the area means that redevelopment will occur slowly over time. Both of these factors give existing businesses more of an opportunity to benefit from the area's improvement, expanding and strengthening their businesses as the area changes. Nonetheless**, a non-profit developer/property owner & manager could help ensure that the nascent Southeast Asian business cluster continues to flourish by specifically targeting such businesses as tenants and by structuring their financing so that retail rents are stable and reasonable over time.**[25]

It is recommended that any such subsidized retail efforts focus on expanding and strengthening the emerging cluster of Southeast Asian businesses south of Hanford, rather than trying to introduce such businesses into the more general community shopping area at McClellan and Rainier. The modest

[24] Conflicts in access is a major challenge when combining housing with mid-size retailers.

[25] Finding a development entity interested and capable of such projects is challenging. As SEED has already built several successful projects that accomplish economic development goals via real estate development and is committed to the Rainier Valley, it is ideally positioned to undertake such projects in the study area.

existing cluster has emerged because such businesses prosper together and benefit from proximity *to one another,* rather than adjacency to traditional shopping anchors, such as a mainstream supermarket.

SUMMARY OF KEY FINDINGS & STRATEGIC RECOMMENDATIONS

District Strengths

- Excellent Vehicle & Transit Access & Visibility: Rainier carries an average of 35,000 vehicles a day and a number of bus routes and the Mt Baker Light Rail Station should open this year
- Successful District Anchors: QFC, drugstores & Me Kong are great business anchors, intermittent synergies w/Asian businesses at south end, Starbucks across from light rail
- Commuter Customer Base: commute traffic augments local trade area
- Significant Redevelopment Opportunity Sites: the Lowe's, QFC/Rite Aid and U-Haul properties have major redevelopment potential

District Weaknesses

- Dangerous & Inadequate Pedestrian Access Across Rainier: there is currently no at-grade pedestrian crossing at the intersection of MLK and Rainier, nor is there any such crossing south of Forest until Walden (1/3rd mile)
- Hostile Public Realm/Streetscape: Rainier is a 5-lane, highly trafficked, relatively fast-paced traffic arterial with narrow sidewalks, no defining street wall, frequent curbcuts and surface parking lots, few pedestrian crossings and virtually no pedestrian amenities (i.e. bulb-outs, raised crosswalks, seating, etc.). The construction of the light rail station, which should generate significant pedestrian traffic, was accompanied by only one significant improvement, the signalized crosswalk installed at Forest.
- Lacks Foundation for a Neighborhood Shopping District: the business mix and layout does not support cohesive daily/weekly shopping, the largest group of businesses are auto/manufacturing/business to business, only half are shopping businesses
- Slow Growth in Local Trade Area: the Mt. Baker trade area consists largely of the immediate commercial corridor, which has few households, and surrounding single family neighborhoods
- Lack of Walking Customer Base: the realistic walking radius to the district is limited by the intense change in grade and lack of through streets to Beacon hill, the intimidation of crossing Rainier & the lack of dense housing in close proximity

Strategic Recommendations

Based on review of previous community-based plans, discussions with City staff, and evaluation of the area's potential, the overall goals for future development and enhancement of the Mt Baker business area should be to transition the area from a strictly auto-oriented commercial corridor to a walkable shopping district, while maintaining its convenience for drive-through customers, intensifying commercial and social activity, expanding residential life and better serving surrounding neighborhoods. Given all of the factors discussed in previous sections, Strategic Economics recommends the following general approach and specific actions to achieve these goals:

- Focus on physical transformation of Bayview to Winthrop, i.e. ¼ mile walking distance from McClellan and Rainier intersection, given existing shopping anchor's location (i.e. QFC), light rail station, ped safety/access issues, existing land uses' incompatibility w/light rail & presence of major opportunity sites.

- Develop heart of general community shopping district on flat two-block portion of McClellan at Rainier intersection and newly created blocks on Lowe's parcel, given limitations on permissible change to Rainier

- Encourage expansion of existing small Asian business cluster at south end of study area, as distinct specialty business district; support creation of stabilized/affordable retail space as small properties redevelop over time

- Introduce significant amounts of mixed-use housing to transform corridor
  - 1,200 households needed within ¼ mile walking radius of McClellan/Rainier intersection for realistic chance at successful community-oriented business district
  - Major opportunity sites: QFC/drugstores site, WorkSource Affiliates, U-Haul, & Lowe's. Perform capacity analysis of opportunity sites to determine whether sufficient households can locate within area

- Develop intensive urban design guidelines/transportation analysis/parking management strategy for entirety of Bayview to Winthrop area. Guidelines should include specifications for massing, building/pedestrian realm/street interface, storefront design & use requirements re glazing, door orientation, ceiling height, and ground floor retail requirement. Transportation analysis should consider opportunities for street re-alignment through Lowe's site. Goals for this work:
  - Transition area to urban commercial district from auto-corridor
  - Improve pedestrian access and walkability
  - Break-up existing mega-parcels (Lowe's) into human-scaled blocks with through streets
  - Eliminate surface parking on corridor while maintaining sufficient, convenient parking to serve drive-by traffic. Parking should be at rear of properties, structured, or underground, to ensure the safety and attractiveness of streetscape and bring businesses closer together
  - Design corridor housing prototype for MLK appropriate to traffic levels

- Critical pedestrian realm investments (professional urban design/transportation analysis to recommend detailed improvements, as described above):
  - At-grade Rainier pedestrian crossing at MLK
  - Bulb-outs at McClellan/Rainier
  - Widen sidewalks on McClellan, Rainier as possible
  - Signage for vehicles regarding pedestrian area
  - Explore possible creation of Local Improvement District to fund improvements

- Target businesses to attract to new projects in core general shopping area at McClellan:
  - Community shopping anchors: additional financial services, general merchandiser, additional grocery, major pet store, mid-size hardware, major fabric/craft store, office supply
  - Other stores: sit-down restaurants, coffeehouse, taqueria, deli/bakery near light rail, copy store, eyewear, home furnishings/décor, clothing, etc.

IV. IMPACTS OF PROPOSED DEARBORN PROJECT ON SUPERMARKET ANCHOR TRADE AREAS

As part of this study, Strategic Economics analyzed the current and potential future trade areas of the two key supermarkets anchoring each business area (QFC and Red Apple: Promenade, respectively). The current scenario looks at the probable local trade area (or local area from which the majority of the supermarket's customers are drawn) for each store given the existing surrounding supermarkets; the potential future scenario projects the trade area of each supermarket with the addition of a 50,000 square foot supermarket in the proposed Dearborn project and a 25,000 supermarket in the proposed Qwest Field north lot project, as well as pipeline residential growth in the area. This section addresses the trade area analysis and aspects of other analytic tasks that pertain to potential impacts from the proposed new projects, in order to assist with assessment of those projects.

This analysis focuses on the major supermarkets as the best gauge of potential impacts from the proposed Dearborn project for two reasons: major supermarkets are critical anchors for local-serving business districts, driving foot traffic to smaller, surrounding stores, and a significant loss of customers at the anchor supermarket will negatively affect ancillary stores; and, the 23rd & Jackson District and McClellan Area are otherwise different in business composition and orientation than the proposed Dearborn project and are not likely to compete with the proposed project. This section describes the results of the trade area analysis & likely implications for each store, as well as the methodology used in performing the analysis.

Before discussing the findings of the trade area analysis, two general issues should be noted:

- *Evaluation of Sites & Locations, Not Store Operators*

This analysis evaluates each supermarket's potential based on its site and location, *not* the operator itself. The trade area analysis evaluates each store's local revenue potential based on its size, proximity to other stores, accessibility, parking convenience and whether the grocery is stand-alone or part of a larger center. Individual store operators may exceed or fail to meet this potential due to in-store performance (based on service, quality and price). From a city policy perspective, this is the best approach: the question is whether existing store locations & sizes are sufficient to meet existing and future demand and additional or expanded stores will undermine economic development and land use goals for existing business districts, or, alternately, existing stores are insufficient and additional grocery services are needed to serve local households.[26]

- *Increasing Consumer Selectivity & Grocery Specialization*

Recent fundamental and on-going changes in the grocery industry pose challenges to this type of study. With the rise of "supercenter" and wholesale food distributors such as Wal-Mart and Costco over the past 20 years, as well as the increasing prominence of natural foods and ethnic niche specialty stores, conventional local-serving supermarkets such as those analyzed in this study have seen rising competition and decreasing market share.[27] Because of this, conventional supermarkets

[26] Unfortunately, non-performing stores can result in underserved neighborhoods, despite a sufficient number of supermarket locations and square footage. Under normal market conditions, however, where property owners seek to maximize rents, non-performing stores will be replaced over time by more competitive operator tenants that better serve the local market and can, therefore, afford to pay higher rent.

[27] In 2005, non-traditional groceries, which include wholesale, supercenter and dollar stores, accounted for a third of total grocery and consumables sales, nationally ("The Future of Food Retailing", Willard Bishop, a consumer

attract a diminishing portion of total grocery and consumables expenditures within their primary trade areas. Additionally, in response to increased competition from specialized groceries, conventional supermarkets, most prominently Safeway, have begun to target and cultivate particular consumer market segments both within and beyond their traditional primary trade area. In addition to monthly or bi-monthly trips to a food wholesaler such as Costco and specialty groceries, consumers may now choose to travel beyond their closest conventional supermarket for weekly/daily purchases to a further supermarket that better provides the shopping experience and brands they prefer.

Strategic Economics has taken the above industry and consumer trends into consideration in both the methodological approach to the trade area analysis and the interpretation of its results. However, because the grocery industry is experiencing on-going increasing specialization, or "channelization," it is difficult to predict how these larger changes may affect the dynamics of consumer grocery shopping trends in the study area five years from now.

SUPERMARKETS AND NON-CONVENTIONAL/SPECIALTY GROCERIES IN STUDY AREA

The study area analyzed by Strategic Economics extends from Thomas St.[28] south to Alaska St. (see **Map 1: Study Area Grocery Stores, >5,000 SF**, following page), and from Elliott Bay east to Lake Washington. The study area was made large enough to encompass all surrounding supermarkets that would limit the primary trade areas of the Rainier/McClellan QFC and Red Apple: Promenade. While both of these supermarkets, as well as the proposed supermarkets, are local-serving conventional supermarkets and, therefore, the trade area analysis focuses on conventional supermarkets, Strategic Economics visited all conventional and specialty groceries over 5,000 square feet within this area to better understand the dynamics of the total grocery market.

For purposes of this study, to identify groceries that would be competitive with the Red Apple: Promenade and Rainier/McClellan QFC, conventional supermarkets are defined as offering a full line of groceries, meat, produce and service deli, having a general, local market, non-specialty orientation and being over 5,000 square feet. As can be seen in **Map 1** and **Table 1** below, there are seven conventional supermarkets within the study area. While these stores vary in size and other attributes that contribute to their relative attractiveness, they all carry a broad range of groceries, including ethnic cooking specialty items, and aim to provide daily/weekly groceries and consumables to surrounding households.

TABLE 1: Study Area Existing Supermarkets >5,000 SF

Groceries	Address
M Street Grocery	801 Madison St
QFC	2707 Rainier Ave S
QFC	1401 Broadway
Red Apple Markets: Hilltop	2701 Beacon Ave S
Red Apple Markets: Promenade	2301 S Jackson St
Safeway Food & Drug: Grocery	3820 Rainier Ave S
Safeway Food & Drug: Grocery	2201 E Madison St

Sources: Yellowpages, Google Local, survey: Strategic Economics, 2007

and retail market research consulting firm specializing in the grocery industry, 2006). Willard Bishop predicts that by 2012, non-traditional groceries will become the dominant format in food retailing.

[28] Two blocks north of Denny Way.

Map 1: Study Area Grocery Stores, >5,000 SF

Sources: City of Seattle 2007, Strategic Economics 2007

The two additional proposed supermarkets are an approximately 50,000 square foot conventional supermarket within the proposed Dearborn project at Dearborn Street and Rainier Avenue and an approximately 25,000 square foot grocery in the Qwest Field north lot project at 2nd Avenue S and King Street.[29]

In addition to these conventional supermarkets, there are approximately 10 significant (larger than 5,000 square feet) non-conventional or specialty groceries within the study area (see **Table 2**, below). These include the 168,000 square foot wholesale food distributor, Costco, four Asian groceries, three limited assortment stores, and two natural foods groceries. While all of these groceries serve some study area households that fall within their niche market and therefore absorb a portion of local grocery expenditures, their primary trade areas are larger than those of the conventional supermarkets, as customers are willing to travel further for specialty/discount goods. These stores do not generally compete for local, mass-market daily/weekly grocery sales, but focus on their target niche markets.

TABLE 2: Study Area Non-conventional or Specialty Groceries >5,000 SF

Groceries	Address	Type
ABC Supermarket	2500 Beacon Ave S	Ethnic Specialty - Asian
Costco	4401 4th Ave S	Wholesale
Grocery Outlet	2929 27th Ave S # C	Limited Assortment
Grocery Outlet	1126 Martin Luther King Jr Way	Limited Assortment
Madison Market	1600 E Madison St	Fresh Format Co-op
Me-Kong Oriental Groceries and Gifts	3400 Rainier Ave S	Ethnic Specialty - SE Asian
Seattle Supermarket Inc	4801 Beacon Ave S	Ethnic Specialty - Chinese
Trader Joe's	1700 E Madison St	Limited Assortment
Uwajimaya	600 5th Ave S	Ethnic Specialty - Asian
Whole Foods	2200 Westlake Ave	Fresh Format

Sources: Yellowpages, Google Local, survey: Strategic Economics, 2007

TRADE AREA ANALYSIS

In order to determine the supermarkets' primary trade areas, and potential local revenue expectations, both currently and after the proposed Dearborn & Qwest Field north lot projects, Strategic Economics used the Huff Model, a gravity model. The Huff Model calculates the probability that local households will shop at various stores, taking into account inter-store competition and the location and characteristics of each store site to weight its attractiveness vis a vis other stores. Strategic Economics included the following characteristics of customer attraction in the Huff Model: store size, amount & type of parking (i.e. surface vs. structured), accessibility (based on the level of drive-by traffic & the stores situation on its site), and whether the store is part of a shopping center or stand-alone.

The model produces a continuous grid showing the probability that a household living in a given location would patronize the nearest store, or likely market capture rate (**Maps 2: Existing Supermarkets'**

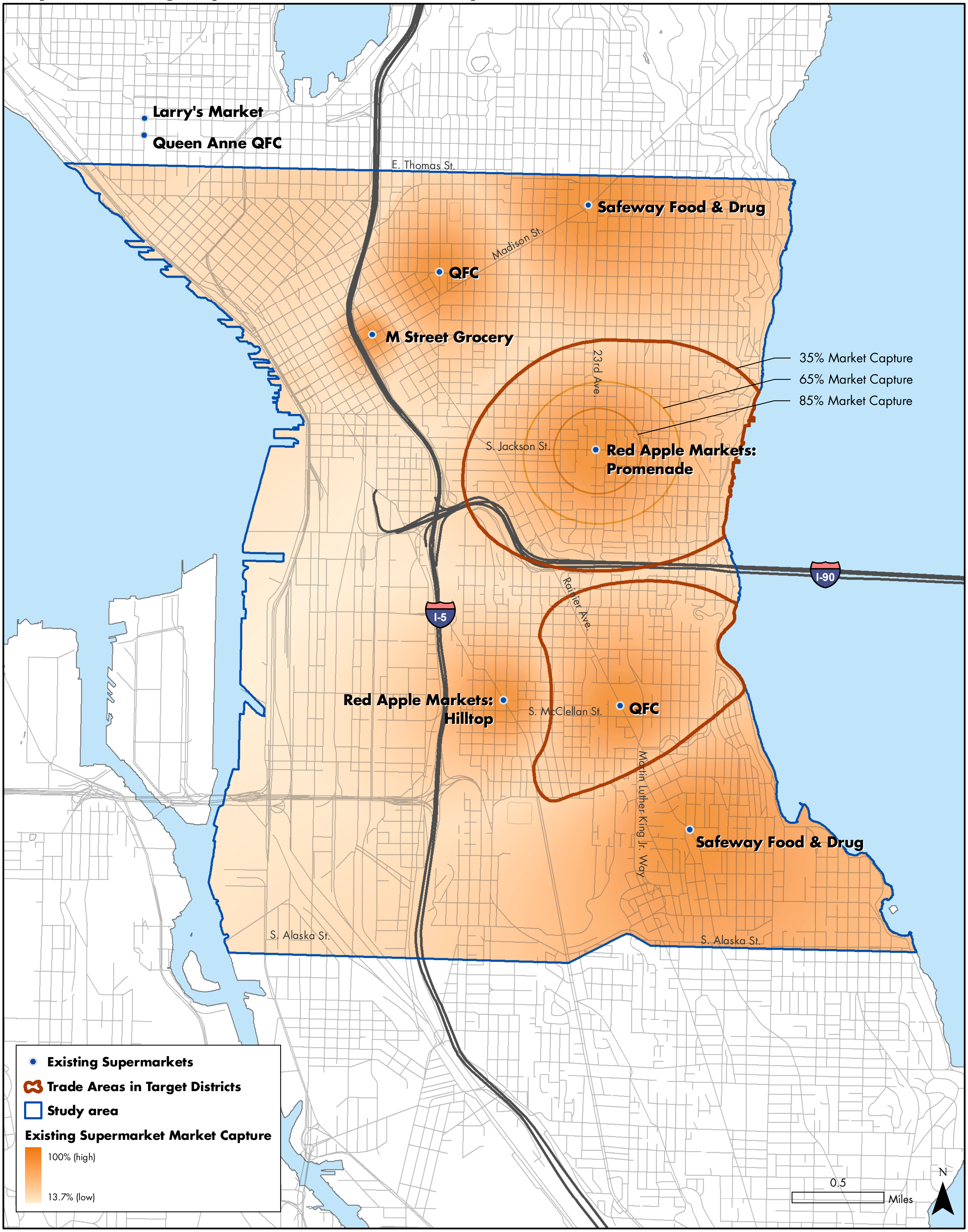
[29] Neither project has a committed supermarket tenant; the developer of the Dearborn project, Darrell Vange of TRF Pacific, LLC, intends to lease to a mid-market conventional supermarket, such as a QFC, or Safeway (via telephone, 9/27/07), while Kevin Daniels, of Nitze-Stagen, has described the Qwest Field grocery as a full-service, locally-based, neighborhood grocery (Seattle Times, 6/5/07, Seattle P-I, 5/25/07). Since performing the trade area analysis, Strategic Economics has been informed that there is a potential third conventional supermarket coming into downtown, a proposed 18,000 square foot IGA in the basement of the Kress building at 1423 Third Ave. If the project is realized, the store is likely to affect the primary trade areas of the M Street Grocery at 8th and Madison and the QFC at Broadway and Pike, and potentially limit the PTA of the Qwest Field supermarket should it be built. It is quite unlikely to substantially affect the Red Apple Promenade or Rainier/McClellan QFC trade areas.

Market Capture and **Map 3: Existing and Proposed Supermarkets' Market Capture,** following pages). Strategic Economics used MapInfo Vertical Mapper, a GIS mapping and analysis software product to generate the Huff Model probability grids.

Primary trade areas, as shown in **Map 4: Primary Trade Areas, Existing and Proposed Scenarios**, were extracted from these grids. Given the increasing selectivity of consumers, as described previously, Strategic Economics conservatively defined the primary trade area by 35 percent or greater probability of patronage. While households in the areas beyond the 35 percent probability boundary are still more likely to shop at their nearest supermarket (depending on store size, etc.), as can be seen in **Maps 2 & 3**, the probability is considered too low to overcome consumer preferences based on shopping experience and brand preferences.

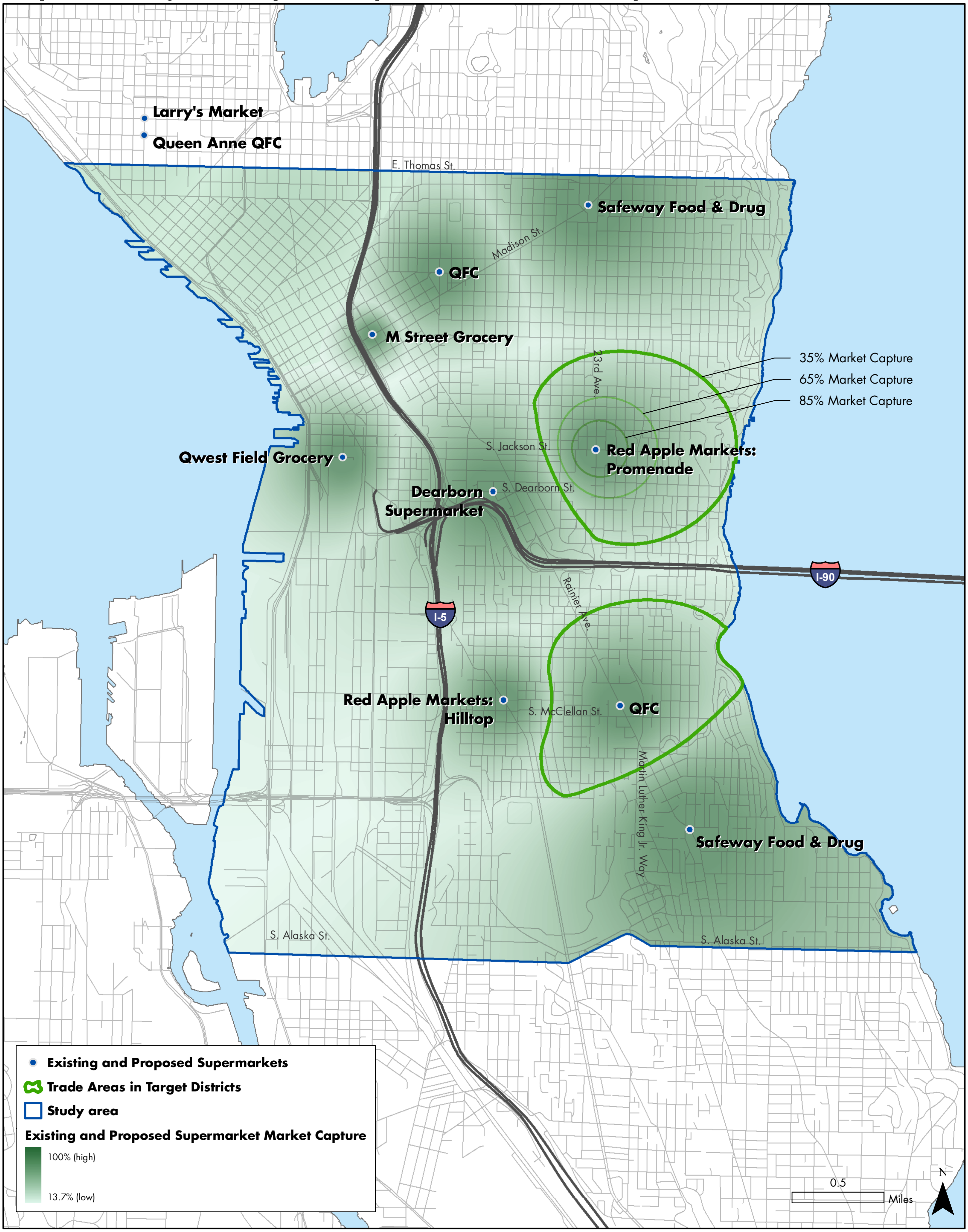
As can be seen in **Map 4**, while the proposed Qwest Field supermarket has minimal impact on the trade areas of surrounding stores & doesn't overlap with any existing store's current trade area, the proposed Dearborn project supermarket does affect the trade areas of surrounding supermarkets, in particular the Red Apple: Promenade. The Dearborn project supermarket's trade area will overlap approximately one third of the Red Apple's current trade area on its western edge.

Map 2: Existing Supermarkets' Market Capture



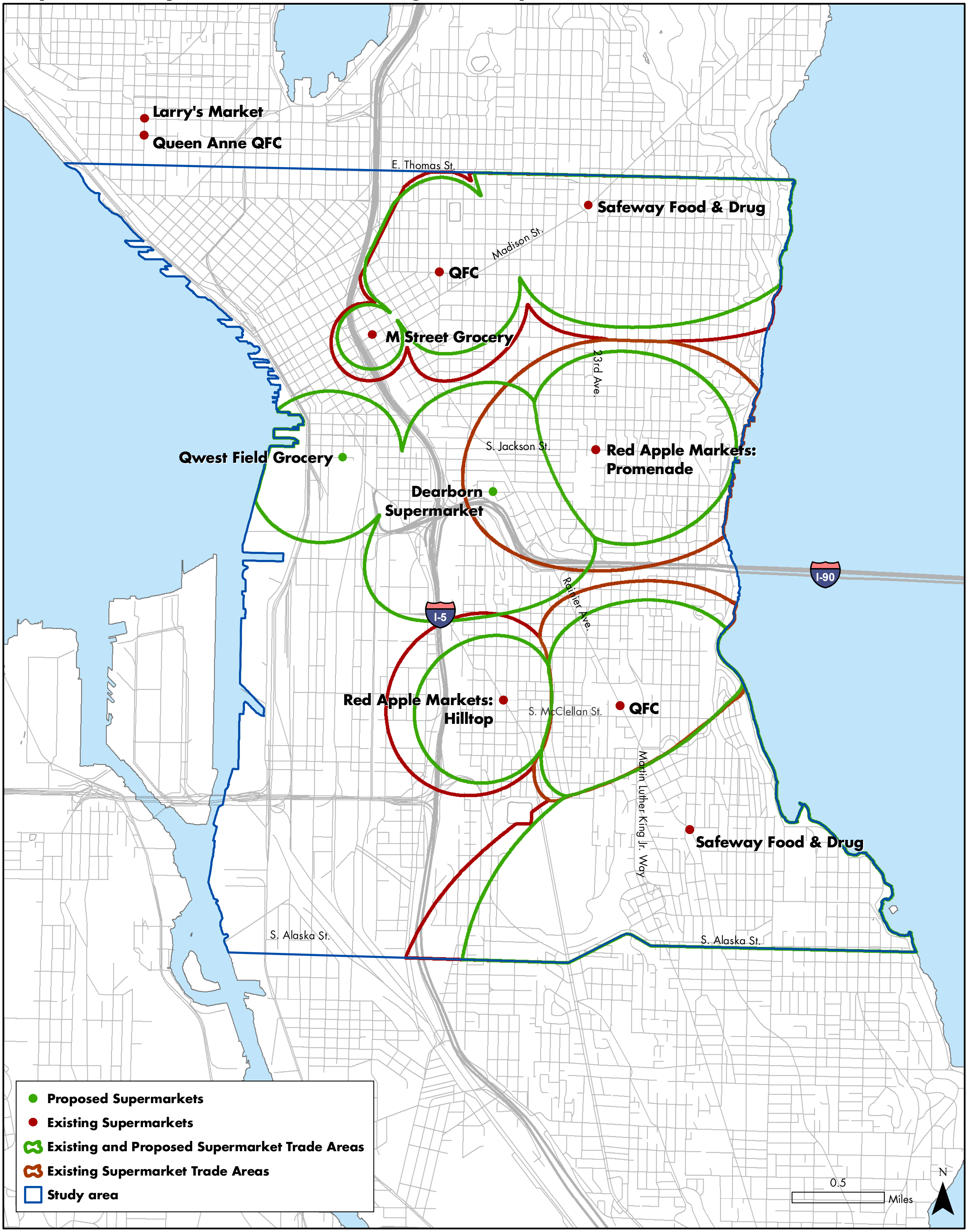
Sources: City of Seattle 2007, Strategic Economics 2007

Map 3: Existing and Proposed Supermarkets' Market Capture



Sources: City of Seattle 2007, Strategic Economics 2007

Map 4: Primary Trade Areas, Existing and Proposed Scenarios



Sources: City of Seattle 2007, Strategic Economics 2007

PRIMARY TRADE AREA REVENUE EXPECTATIONS

In order to determine the affect of the shift in primary trade areas on the probable revenue expectations for the Red Apple: Promenade and Rainier/McClellan QFC, Strategic Economics analyzed the total grocery expenditures of households at different income levels within the trade area, before and after the additional proposed stores.

Strategic Economics (SE) calculated the number of households in each income level within the primary trade area boundaries, based on data from 2007 estimates by Claritas, Inc., a market research and demographic data firm.[30] For the proposed scenarios, SE also included additional households at median income representing future growth from analysis of pipeline project data from the Department of Planning and Development, City of Seattle. Then, household spending by income level from the Consumer Expenditure Survey was used to calculate expenditures within each trade area. Estimated grocery expenditures by income were obtained from the 2005 Consumer Expenditure Survey (Bureau of Labor Statistics) and adjusted for inflation.[31]

A supermarket will not absorb 100 percent of grocery expenditures within its primary trade area, given expenditures at non-conventional and specialty stores and leakage to other supermarkets, as described. Using the probability ranges employed in the Huff model and number of households within each trade area, Strategic Economics derived blended capture rates for each trade area in each scenario. The blended capture rate is 58.4% and 55.4% for the current and future Red Apple: Promenade trade areas, respectively, and 59.7% and 59.1% for the current and future Rainier/McClellan QFC, respectively.[32] These capture rates were then applied to the estimated grocery expenditures to derive potential local revenues at each store before and after the proposed additional supermarket projects.

Red Apple: Promenade

The primary trade area (PTA) potential revenue calculation for the Red Apple: Promenade is summarized in **Table 3**, below.

TABLE 3: PTA Revenue Potential, Red Apple: Promenade (Existing and Proposed Scenarios)

	Households in PTA			Expenditures		Capture Rate		Grocery Expenditures	
Household Income category	Existing	Proposed	Pipeline	2005	2007	Existing	Proposed	Existing	Proposed
Income Less than $15,000	1,326	674		$2,148	$2,277	58.4%	55.4%	$1,763,453	$850,310
Income $15,000 - $24,999	637	353		$2,632	$2,790	58.4%	55.4%	$1,037,873	$545,602
Income $25,000 - $34,999	667	410		$2,910	$3,084	58.4%	55.4%	$1,201,486	$700,606
Income $35,000 - $49,999	795	545	146	$3,192	$3,383	58.4%	55.4%	$1,570,778	$1,295,157
Income $50,000 - $74,999	981	670		$4,814	$5,103	58.4%	55.4%	$2,923,286	$1,893,974
Income $75,000 - $99,999	552	337		$5,459	$5,787	58.4%	55.4%	$1,865,481	$1,080,385
Income $100,000 - $149,999	526	333		$5,459	$5,787	58.4%	55.4%	$1,777,614	$1,067,561
Income $150,000 - $249,999	333	211		$5,459	$5,787	58.4%	55.4%	$1,125,372	$676,443
Income $250,000 - $499,999	117	72		$5,459	$5,787	58.4%	55.4%	$395,401	$230,824
Income $500,000 and more	110	66		$5,459	$5,787	58.4%	55.4%	$371,744	$211,589
Total	6,044	3,671	146					$14,032,487	$8,552,451

Source: Claritas 2007, Consumer Expenditure Survey 2005 & inflation measure 2005 - 2007 (Bureau of Labor Statistics), City of Seattle (pipeline units), Vertical Mapper (MapInfo), Strategic Economics 2007.

[30] Claritas current year income estimates are based on survey data from the American Communities Survey (2006), the US Census (2000), Equifax Consumer Marketing database and TotalSource consumer household database.

[31] Consumer expenditure categories or portions thereof included in the calculation are food at home, laundry and cleaning supplies, other household products and personal care products and services.

[32] This capture rate is higher than those used by supermarkets that assume trade areas abut one another. Because the primary trade areas were drawn conservatively to 100 - 35% probability, the blended capture rate is higher than if the entirety of the probability grid from 100 – 13.7% were included.

The primary trade area revenue potential for the Red Apple: Promenade store is approximately $14 million under current conditions, and approximately $8.5 million with the proposed supermarkets. It is unlikely, however, that the Red Apple: Promenade actually grosses $14 million, a very large amount for a store of its size. In 2005, the average conventional supermarket of the same size as the Red Apple: Promenade (approximately 25,000 square feet), grossed $129,691 per week, or $6.7 million per year.[33] A local grocery industry expert familiar with this market area, Pete Ferren, estimated that the store currently grosses between $150,000 and $200,000 per week, or $7.8 to $10.4 million per year.[34]

While the proposed Dearborn supermarket will significantly decrease the Red Apple: Promenade's current primary trade area and therefore total potential revenues from grocery expenditures in this area, the impacted primary trade and potential local revenues are still sufficient to support a supermarket of the Red Apple: Promenade's size. The location at 23rd and Jackson will continue to be the most convenient for households in the Central area and a portion of Madrona Park (approximately 3,800 households). To maintain its current level of gross revenues, the store will have to attract a greater proportion of these customers and their expenditures than it does currently.

In its current configuration, however, the Red Apple: Promenade may have difficulty attracting these households and achieving the site's market potential. The existing store is located at the back of a sloping site, with site lines blocked by the Taco Del Mar at the corner of the intersection. While the large surface lot in front of the store provides convenient parking, it is only easily accessible from Jackson Street, undercutting the considerable advantage of its corner location. For both the store and the smaller surrounding businesses to thrive, redevelopment of the site to a more visible urban format that takes advantage of the corner location is strongly recommended, even without the development of a supermarket at Dearborn and Rainier. This recommendation will be explored at greater length in Phase II of the Business Areas Study.

Rainier/McClellan QFC

Table 4, following page, summarizes the potential revenue calculation of the change in the Rainier/McClellan QFC primary trade area.

The potential revenue estimate from the QFC PTA is $5.6 million under the current scenario and $4.7 million under the proposed scenario, an approximately 15% decrease. These figures are below QFC's likely actual gross revenues; however, they do demonstrate the likely impact of the Dearborn project supermarket on the QFC's local revenue potential. It is likely that the QFC's actual total gross revenues are significantly higher; Pete Ferren, who worked on the development of this store, estimates that its current revenues are at least $300,000 per week, or $15.6 million.

The PTA potential revenue estimate is well below the QFC's likely gross revenues for two reasons. First, the estimate of number of households in the PTA is low. The 2007 current year estimate for the total number of households (by income) in the existing trade area is 2,007; this is one household less than the US Census 2000 total of 2,008 households and is not in keeping with the 8.5% growth rate in the area between 1990 and 2000. The 2007 estimate for the proposed PTA is equally problematic.[35] It is likely

[33] Willard Bishop, 2006.

[34] By phone interview, 10/4/2007. Mr Ferren worked in new store location and development at both QFC and PCC. He now owns and operates a small Snoqualmie Falls grocery (Village Foods IGA) in partnership and consults regarding new grocery development. He helped locate and develop the Rainier/McClellan QFC during his tenure at QFC and did extensive research on the Central area market when PCC was considering a location near Rainier and Dearborn in the early 2000s.

[35] The 2007 estimate for the proposed PTA is 1819, while the 2000 US Census figure is 1829, a loss of 10 households and not in keeping with the 1990-2000 growth rate of 7.3%.

that the 2007 figures underestimate the total number of households in the current and existing PTAs by approximately 131 and 94 households, respectively, based on the previous 10-year growth trends.[36] An additional 100 households would augment local conventional supermarket spending by approximately $300,000.

TABLE 4: PTA Revenue Potential, Rainier/McClellan QFC (Existing and Proposed Scenarios)

	Households in PTA*			Expenditures		Capture Rate		Grocery Expenditures	
Household Income category	Existing	Proposed	Pipeline	2005	2007	Existing	Proposed	Existing	Proposed
Income Less than $15,000	379	297		$2,148	$2,277	59.7%	59.1%	$515,254	$399,716
Income $15,000 - $24,999	161	161		$2,632	$2,790	59.7%	59.1%	$268,159	$265,464
Income $25,000 - $34,999	189	152		$2,910	$3,084	59.7%	59.1%	$348,030	$277,084
Income $35,000 - $49,999	351	284		$3,192	$3,383	59.7%	59.1%	$708,951	$567,859
Income $50,000 - $74,999	432	376	28	$4,814	$5,103	59.7%	59.1%	$1,315,975	$1,218,311
Income $75,000 - $99,999	278	226		$5,459	$5,787	59.7%	59.1%	$960,413	$772,920
Income $100,000 - $149,999	219	177		$5,459	$5,787	59.7%	59.1%	$756,584	$605,340
Income $150,000 - $249,999	146	131		$5,459	$5,787	59.7%	59.1%	$504,389	$448,020
Income $250,000 - $499,999	39	34		$5,459	$5,787	59.7%	59.1%	$134,734	$116,280
Income $500,000 and more	13	12		$5,459	$5,787	59.7%	59.1%	$44,911	$41,040
Total	2,207	1,850	28					$5,557,400	$4,712,035

*As described in detail in the text, the number of households estimated for both the existing and proposed Rainier PTAs by Claritas are low when compared to the 1990 - 2000 US Census growth trend. This makes the QFC PTA grocery expenditures unrealistically small; however, the proportional difference in the existing and proposed PTAs is still reliable: there is a 15% decrease in the revenue potential of the QFC's PTA.

Source: Claritas 2007, Consumer Expenditure Survey 2005 & inflation measure 2005 - 2007 (Bureau of Labor Statistics), City of Seattle (pipeline units), Vertical Mapper (MapInfo), Strategic Economics 2007.

More importantly, the gap between the existing PTA-derived revenue potential and the estimated actual current revenues is likely due to the number of the QFC's customers who live outside of the PTA, but stop to shop during their commute, or other travel. In this area, Rainier Avenue averages 34,800 cars daily, while Martin Luther King Jr Way, one block east of the Rainier/McClellan intersection, averages 13,600 cars daily. McClellan Street, while carrying less traffic, is also an important connector for the Mount Baker and Beacon Hill neighborhoods. Because the area south of the study area (i.e. central Rainier Valley & Columbia City) has few major supermarkets other than Safeway,[37] southeast Seattle residents who work in the central city and do not want to shop at Safeway are likely to shop at the QFC given its convenient location. For south-bound evening commuters on Rainier, the QFC is an easy right-hand turn.[38]

The proposed Dearborn project supermarket is likely to decrease the Rainier/McClellan QFC's potential PTA-derived sales by approximately $850,000, or 15%. However, the greater portion of the QFC's total sales (estimated at approximately $15.6 million, annually) are estimated to come from beyond the PTA, due to its highly convenient location. The likely impact on the Rainier/McClellan QFC's total revenues is approximately 5.4%, a modest decrease in business that should not substantially undermine revitalization efforts in the Mt Baker business district.

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[36]Strategic Economics uses Claritas current year estimates and has had similar issues with apparent underestimates in other urban neighborhoods. These estimates are based on several sources, including the American Communities Survey (2006), which is a smaller and more frequent survey undertaken by the US Census Bureau. Unfortunately, the underlying problem with the current year estimates originates with the ACS survey, and is difficult to rectify.

[37] In particular, since the closing of the QFC at Henderson and Rainier.

[38] Right-hand turn access is highly desirable when locating daily/weekly needs retailers. In the 1990s, the Rainier/McClellan RiteAid co-located with the QFC was the top-grossing Rite Aid in the region (Pete Ferren, by telephone, 10/4/2007).

APPENDIX A: BRIEFS OF DEVELOPMENT PROJECTS INCLUDING AFFORDABLE RETAIL SPACE

As a supplementary task to the business districts studies, Strategic Economics developed briefs of recent real estate development projects that include stabilized retail space for small, struggling, independent businesses. These briefs, and conclusions regarding the best approaches for creating such space, were presented to City staff on May 1, 2008. This section appends those conclusions and briefs to the business districts studies because encouraging the development of such projects is a potential strategy for the City in seeking to stabilize existing small business and support the creation of new small businesses in Seattle neighborhood business districts such as Mt Baker or 23rd & Jackson. Summary conclusions, or “lessons learned”, can be found on page 60.

Briefs of Development Projects Including Affordable Retail Space

I. INTRODUCTION

Many Seattle commercial districts (23rd & Jackson, Mt Baker, Little Saigon, the International District) face or need redevelopment, or significant building rehabilitation, to survive and prosper. These districts have dilapidated or obsolete buildings that serve tenants poorly, and repel potential customers; additionally, many districts would greatly benefit from adding housing units and expanding the immediate local customer base via new mixed-use development.

Unfortunately, redevelopment, or rehabilitation, of existing buildings threatens small business tenants that benefit from the low rents in old, debt-free buildings that are not feasible in new, or significantly refurbished, projects due to development costs.

One strategy is development by non-profit entities that include affordable, or stabilized, storefront space with the goal of supporting small retailers that enhance the business district. The following three briefs describe recent development projects that provide such space. Conclusions regarding the best approaches to encouraging and building such projects follow the briefs.

II. FRUITVALE PUBLIC MARKET (2007), OAKLAND, CA

Part of Fruitvale Transit Village (1999 – ongoing), Unity Council Community Development Corporation

34th Ave (Fruitvale BART), 1999 → Plaza De La Fuente, 2005

- **Fruitvale Transit Village**

The village is a multi-phase, mixed-use transit village being built on former BART parking lots adjacent to Fruitvale BART Station in Oakland, CA, by a development subsidiary of the Unity Council Community Development Corporation. The project connects the BART station to International Boulevard, a major Latino business district, via a pedestrianized street (formerly 34th Avenue, see photos, previous page). The Public Market (2007) is the most recently built interim phase of the on-going development of the Village and consists of stalls and smaller stores intended to serve as incubator space for growing small, local businesses.

- **Unity Council CDC**

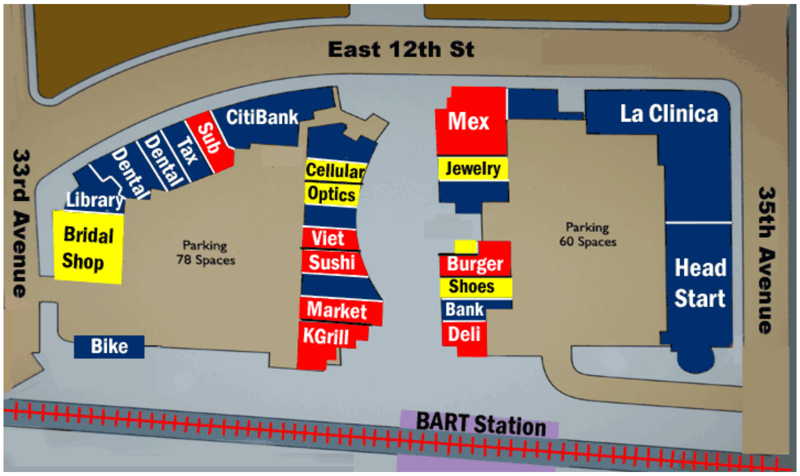
Founded in 1965, the Unity Council is a community development corporation that has built considerable affordable housing, but has roots in PAC and then social service provision, and continues to envision itself as community-based service organization, rather than a project-driven development corporation. Critically, the Council had a visionary executive director, Arabella Martinez, who led it during its first 10 years, left for the Carter administration, and returned in the 1980s when the Council was struggling with transition.

Transit Village Context & Background

The Village is in the heart of a historically Latino neighborhood, 4.5 miles south of Downtown Oakland, that is currently becoming more diverse. The concept for the project initiated with community resistance to BART plans to build garage between station and main business street in 1991. The project has had major support from both the FTA and the City of Oakland regarding planning/pre-development, land acquisition and entitlements.

- **Phase I** (1999 – 2004, see picture below)

The first phase of development included 47 mixed income rental housing units (10 affordable), 114,000 SF of community services (library, clinic, childcare, senior center) and office, 40,000 SF of retail and 150 parking spaces within the buildings. The retail in this phase of development did not have a small business support mission, rather it was intended to bring in new retailers that would be attractive to commuters. These spaces have struggled to find and keep tenants, as they are entirely pedestrian-oriented and the rents were initially too high for the local market. This phase also included the construction of a 2-block pedestrianized connector and plaza between the BART station and International Boulevard and a 600 space parking garage for BART commuters on the far side of the station.



Fruitvale Transit Village, Phase I Ground Floor Retail Tenants

- **Phase II** (pre-development)

The second major phase of the Village will be 450 condominiums aimed at the "workforce" market, on additional parking lots south of Phase I, to be developed by Signature Properties for the Unity Council. To break ground 2009.

Fruitvale Public Market (2007, interim phase)

The Market is supportive incubator space for immigrant entrepreneur businesses that were largely previously home-based. It includes 17 different stalls and smaller store spaces (70 – 200 SF) totaling 3,600 SF that are arranged around 3,000 SF of common in-door and out-door area; the building is a rehabilitated Masonic Temple that was originally purchased by the Council for use during construction of Phase I (see photos below).

Masonic Temple, 2004 → Public Market, 2007

- **Project Background**

The effort grew out of the Council's business assistance program, which provides training and technical assistance to local small businesses. This economic development program is an outgrowth of organizing work done during the 1990's through a Main Street project on International Boulevard (one of the first, nationally). The Main Street project area covers 350 local merchants and includes façade improvement, trash pick-up, graffiti clean up, and group marketing.

- **Tenant Application Process**

The Public Market had an extensive tenant application and selection process in order to identify those businesses that would most benefit from the space and business assistance provided through the Market. There was 1 year of monthly meetings with approximately 30-35 entrepreneurs per meeting; over the year, the Council provided attendees with basic business planning instruction, as well as individually interviewing approximately 175 interested business owners. The final criteria for selection included having a clearly defined business concept, some business experience or training, some start-up funds, and a willingness to follow the program. That effort started in the middle of 2005; it took 2 years total for the process to be vetted and the vendors selected and confirmed.

- **Business Mix, Business Assistance & Rent**

The current mix of businesses includes arts & crafts, food stands, flowers, gifts and jewelry. Two of the businesses are expansions, another entrepreneur owned a business in the neighborhood, but started something completely new at the Public Market, and the remainder were home-based; all owners are immigrant entrepreneurs. Tenants are in daily contact with the Market Director, who operates the facility and can help channel general business support and specific technical assistance resources from the Unity Council to individual businesses. Business support is provided as part of the lease; per SF, rents are higher than the local market, but because the spaces are so small, they are still more affordable. Thus far, the tenant base has been stable, with no turnover.

- **Financing**

The $720,000 rehabilitation and remodel was entirely grant funded and has no debt; all rental income goes toward operations, hence the project is very stable. Development took 22 months, including planning and predevelopment. Funding sources were as follows:

- $250,000 – Direct Federal capital grant from the Office of Community Services (US Dept of Health and Human Services). This grant was the first secured and was paid in reimbursement for capital costs.
- $270,000 – Both capital and operations funds from Neighbor Works America, an agency that funnels neighborhood development funds to community development organization for low-income communities.
- $200,000 – Grant for both development and operating costs from Ford Foundation.
- $150,000 – Local grant from Haas Jr. foundation.
- $20,000 - Oakland Façade Improvement Program, this is the only City resource into this specific project after years of nurturing the Village.
- $40,000 - other sources: PMI, Union Bank, and individuals.

III. NEIGHBORHOOD DEVELOPMENT CENTER, REAL ESTATE INITIATIVE (2002 – ONGOING), TWIN CITIES, MINNESOTA

Multiple real estate rehabilitation projects w/rent-stabilized small business spaces, undertaken as the most recent new initiative of the Neighborhood Development Center [NDC], an economic development corporation focused on "building neighborhood economies from within."

Neighborhood Development Center

Unlike most small business-oriented EDCs, the NDC is focused not just on individual businesses, but the neighborhood commercial district as a whole. Its mission: "Helping emerging entrepreneurs develop successful businesses that serve their community, and community groups build a stronger neighborhood economy." The NDC approach combines neighborhood development, microenterprise and small business support, community organizing, and most recently real estate development.

NDC was started as a community development initiative of a local bank, Western Bank, which has provided ongoing resources, TA and guidance to NDC. Organizational development timeline regarding program offerings:

- 1993 – started providing business training
- 1994 – financing
- 1996 – ongoing business support (TA)
- 1997 – business incubation
- 2002 – real estate development

NDC targets 26 low income, diverse corridors/business districts within greater Minneapolis/St Paul. It works w/existing local neighborhood-based or ethnic organizations on all projects/programs. Currently has 18 different partners. NDC provides resources; local partner markets/hosts training program or participates in development in some way.

To qualify for subsidized classes, participants must be at less than 80% of local average family income. Training, lending & support is now culturally competent for Hmong, Somali, Oromo, Native American and Spanish-speakers. Loan programs include the Reba Free Financing mechanism for Muslim entrepreneurs who cannot pay interest (buy/sell agreements with delayed payment).

Real Estate Development Initiative (REDI)

By the early 2000s, NDC found that there were two significant challenges to the success of their entrepreneur clients and the improvement of the targeted commercial districts that were beyond the scope of NDC's business support services:

- Significant older, decaying buildings that detract from each district/corridors' vitality
- Problem landlords who do not provide stable business environments

Both of these issues were inhibiting NDC and its partners in helping small business succeed; they also represented an opportunity. By going into property rehabilitation, operation and ownership, NDC could provide a more stable environment for their clients, making their support programs more effective & simultaneously, helping to change the "tone" of the districts so that small businesses could thrive.

The Real Estate Initiative commenced with two components:

- Supporting client entrepreneurs in purchasing property
- Working with local groups to carry out key real estate rehabilitation projects that provide space for disadvantaged entrepreneurs & community services (see projects description, next section)

The entrepreneur fund was used to provide well-below market commercial real estate loans to existing client entrepreneurs with strong businesses who had developed a niche and built capacity over time, but did not qualify for SBA financing. In addition to low-income loans, NDC also played a critical technical assistance role in structuring the financing deal; their participation gave traditional lenders confidence in the projects. NDC also imposed a requirement regarding occupation (notes were due immediately with the sale of the property) and required a commitment of personal assets.

Tortelleria La Perla

Tortelleria La Perla was one of two businesses helped through the pilot. Started as part of the Mercado Central in 1999 (a latino incubator created by NDC graduates w/NDC assistance), La Perla first leased a factory location with financing from NDC in 2001. In 2006, through the Real Estate Initiative, NDC helped the owner buy a factory/warehouse space that allows production of 2,300 tortillas per hour and the addition of flour tortillas. The project didn't meet criteria for SBA loan and wouldn't otherwise have been possible; last year's revenues - $2million.

The individual entrepreneur real estate projects were ultimately discontinued because the pilot loan fund was not recapitalized by NDC's partner in the project (Payne Lake Community Partners). Finding funding for these projects were more difficult than community-oriented projects (discussed below), because support went directly to individual entrepreneurs, rather than a larger project held by a non-profit; nonetheless, these projects were quite successful from NDC's perspective – loans were sufficiently near equity to meet lender criteria & get businesses commercial loans.

Major Rehabilitation Projects with Community Partners (REDI)

Since 2002, through the Real Estate Development Initiative, NDC has purchased and rehabilitated six buildings with various community partners, including four projects discussed in detail below.

- **Plaza Verde (2005)**

Includes 42,000 square feet of commercial & community services.

Antiques Minneapolis Bldg - 2003 Plaza Verde - 2005

NDC partnered with Heart of the Beast Puppet and Mask Theatre, Cooperativa Mercado Central, and the Latino Economic Development Center to rehabilitate the Antiques Minneapolis Building, which had previously been standing vacant. Plaza Verde includes storefront retail spaces for members of the Cooperativa to expand into, 2nd floor office space for non-retail Latino businesses, a business & career center operated by NDC, and a performing arts space.

NDC is a 15% owner, along with the other non-profits described above, & operates the building. The project cost $4.3 million; financing included New Market Tax Credits (the 1st NMTC project in Minnesota), Historic Tax Credits, and below-market loans and grants from foundations & the public sector (i.e. the city, local empowerment zone, & metropolitan council).

- **Dale Street Village/Frogtown Entrepreneur Center (2006)**

New development including senior apartments, condominiums, 12,000 square feet of street front retail and a small business assistance center.

NDC partnered with the Greater Frogtown Community Development Corporation, a local CDC which led the housing component of the project, and Model Cities St Paul, with which it developed 12,000 square feet of storefront retail for client entrepreneurs, or local businesses that meet the same criteria as their clients. Located in two new buildings, the spaces are 1,400 – 6,000 square feet. NDC also contributed $200,000 in training, lending & technical assistance for African-American businesses.

- **Midtown Global Market (2006)**

The Midtown Global Market is a large multi-ethnic public market built on the first floor of the renovated Sears Building in Minneapolis, a massive mixed-use rehabilitation of a landmark building. The total project includes a major hotel, the headquarters of a healthcare provider and other office, and 350 housing units. The Market itself features 60 incubator booths or stalls for a variety of sizes of ethnic restaurants, groceries & retailers. The current mix includes 21 ethnic handicraft retailers, 9 specialty grocers, 3 meat markets, 4 produce stands, 7 bakeries, 3 coffee stands, 1 florist, 14 restaurants, and 2 bars.

NDC partnered with the Latino Economic Development Corporation, African Development Center and the Powderhorn Phillips Cultural Wellness Center to develop the Market. NDC is an equal partner (25% owner) & operates the Market and ground floor space it occupies.

Exterior Renovated Sears Building

Interior Midtown Global Market

Financing for the project included a massive $5 million capital campaign that raised more than $250,000 each from 15 different funders (including the City of Minneapolis), more than $100,000 each from another eight funders and an additional $50,000 each from seven funders. Despite the significant amount of grant funding contributed to the project, the initial rents charged for spaces (& needed to keep the project afloat), were too high and many tenants struggled to make their rent payments. Ultimately, lease rates were restructured and lowered, after the state legislature passed an emergency line item subsidy to the project. Lease rates for the non-cooking stalls are $30 per square foot per year and $35 per square foot per year for the cooking stalls. While these rates are high on a per square foot basis, in comparison with area commercial lease rates, the small size of the spaces makes them relatively affordable.

Unfortunately, although the project has attracted more visitors per day than projected (3,800 per day) and has been deemed a success from an area revitalization perspective, individual customers are buying less than expected & many tenants continue to struggle. NDC attributes this to problems with tenant mix. Originally, 1/3 of the tenants were supposed to be pre-existing businesses, but ultimately only three were installed. Additionally, the tenant mix was flawed by the inclusion of businesses that were not compatible. NDC is currently developing a strategic operating plan that includes targeting a balanced and synergistic mix of business types and lengths of tenure. The project must break even by 2010 to continue.

- **Swedish Bank/Eastside Financial Center (2008)**

Rehabilitation of long vacant historic building in East St Paul; includes a financial center anchor tenant and five smaller retail tenants. The $2.5 million project was developed by the Eastside Neighborhood Development Center and NDC and is operated by NDC. The historic Swedish bank, one of the more prominent buildings in the Eastside commercial district, had sat empty since 1999. Working with ENDC and building on the experience gained from its previous projects, NDC attracted a conventional US Federal credit union to act as the heart of a community financial center providing money management education and counseling as well as traditional credit services. The center also acts as the anchor tenant for the project, driving foot traffic to the other five small businesses located in the building.

IV. SWAN'S MARKETPLACE (2000), EAST BAY ASIAN LOCAL DEVELOPMENT CORPORATION, OAKLAND

Adaptive re-use of entire block of eight buildings in downtown Oakland. $21.7 million mixed use project including co-housing, affordable housing, office, cultural uses and Swan's Marketplace. Swan's Marketplace is 26,800 square feet market of retail and restaurants, including 6 businesses retained from the nearby historic Housewives' Market, which was being simultaneously re-developed.

The project was developed by the East Bay Asian Local Development Corporation (EBALDC), but initiated by the City, which assembled the site and 2 adjacent blocks in 1989, after the Loma Prieta earthquake and 5 years of vacancy. The City viewed the project as a key downtown revitalization and preservation project.

East Bay Asian Local Development Corporation

EBALDC is an Oakland-based community development corporation primarily devoted to development of affordable housing, especially for low-income Asian and Pacific Islander populations. Started in 1975, EBALDC was initially formed to preserve an historic warehouse in Chinatown, which became the Asian Resource Center. Since then, EBALDC has developed 1000 units of housing and 230,000 square feet of commercial space, as well as considerable social support and community organizing programs intended to serve residents and target communities. The CDC also has a neighborhood economic development program (1999), but this is focused on financial literacy, job support and childcare for residents. Unlike the Unity Council and the Neighborhood Development Center (previous briefs), EBALDC has no direct business support mission.

Swan's Market

The project was initiated by the City of Oakland Redevelopment Authority (ORA), which controlled the land and included attempting retention of the nearby Housewives Market tenants as a requirement of the Request for Proposal (RFP). The ORA's main goal for the project was initially strongly focused on housing, in keeping with then-mayor Jerry Brown's promise to bring 10,000 units and "elegant density" to downtown. The original RFP to which EBALDC responded was intended to include 3 blocks, rather than the 1block ultimately re-developed; EBALC's more mixed-use & preservation-oriented proposal proved controversial and the City Council intervened to allow EBALDC's proposal to be selected, but only for 1 block. This proved challenging for EBALDC, which was still required to include all of the uses initially proposed for a 3 block program in the final 1 block footprint, albeit at a smaller scale. The smaller size decreased the project's economies of scale and complicated its financing.

Co-housing, Swan's Market

Swan's Market, Facade

Swan's Market, Facade

The project includes adaptive re-use of 8 original buildings, including development of 20 co-housing units, 18 low and moderate income affordable apartments, 18,000 square feet of office, the Oakland Children's Museum, and Swan's Market: 26,800 square feet of 17 retail and restaurant tenants. 6 of these businesses were retained from the nearby original Housewives' Market, built in 1907. Each of these uses was complex in its own right, including the co-housing component, which was the first of its kind in Oakland, or attempted by EBALDC.

Financing

The financing of the project was complex & played a key role in determining what was possible. 3 different LLPs and separate air-rights parcels were created for the different uses to make it possible to qualify for dedicated types of financing and funding and meet conflicting requirements imposed by lenders. Financing for the commercial LP comprised the bulk of the project and totaled $13.5 million, while the affordable rental residential LP required $3.6 million and the co-housing affiliate $4.6 million. Financing for the commercial LP, which included all non-housing uses, was comprised of the following sources:

- *Conventional debt – $6,850,000*. Loans from Stancorp Mortgage Investors and Wells Fargo ($3,350,000 short term loan, not included in total).
- *Grant/equity - $5,450,000*. $2.1M in Historic Tax Credits (California Equity Fund), $1.7M grant from the Economic Development Authority, $1,150,000 capital campaign, and $500,000 Dept of Health & Human Services/Office of Community Services grant. The Oakland Redevelopment Agency also contributed the land and existing structures for $5.
- *Tenant Improvements - $3.4M*. $1.7M in subsidized pre-paid tenant improvements from ORA and $1.7M in pre-paid rents toward tenant improvements.
- *Below market debt - $1,150,000*. 3% simple 30-year deferred loan from the Oakland Redevelopment Agency.

The capital campaign undertaken for Swan's Market was the first of its kind for EBALDC; it took 5 years to complete and launched the CDC's fundraising department.

Relocation & Retention of Housewives' Tenants

In addition to the challenges created by the shrinking of the project and number of lenders and deals involved, the developers faced a significant challenge regarding the feasibility of the retail portion of the project, which took 5 years to pencil, and the retention of Housewives' Market tenants. Acquired by ORA and redeveloped separately as housing, Housewives' Market tenants were to be either relocated into Swan's Market or given relocation grants directly. Most tenants took the relocation grants, but 6 choose to move to Swan's Market on the condition of unusually long-term leases. While this approach originally seemed in keeping with the overall goal of retaining and supporting the original Housewives' Market tenants, limitations have emerged as the businesses have changed hands and some businesses are no longer appropriate for the neighborhood.

The 6 businesses relocated from Housewives' Market include Taylor's Sausage, Sam's Liquor, Swan's grocery (which primarily sells cigarettes), a fishmonger that has changed ownership twice, a deli that has changed hands once and a vegetable vendor that went out of business. In retrospect, the project manager feels that shorter leases would have allowed EBALDC to better manage the tenant mix; the rents are also insulated from fluctuations in local market conditions, originally an advantage for tenants as Downtown rents ran up in the early 2000s, but currently a disadvantage as local retail rents have more recently stagnated and declined.

V. LESSONS LEARNED

The City of Seattle can gain valuable lessons from the experiences of these organizations in encouraging the development of retail space that is supportive of existing and new small businesses:

- **Organizational capacity-building**: Focus on building an organization capable of and committed to creating and operating supportive retail space, rather than individual real estate projects.

For the City of Seattle, and Staff, the major challenge is figuring out how the city can identify & nurture existing non-profit development organizations that would have the capacity and interest in developing small business retail space and support systems (i.e. technical assistance, main street programs, etc.) that would help these businesses flourish over time, or, alternately, existing small business economic development entities with the potential to develop real estate. This approach is recommended because there is currently no existing entity that has the necessary expertise to successfully *build and operate* supportive retail space. Existing non-profit development entities, primarily devoted to creation of affordable housing, do not currently have the small business support expertise (like NDC and the Unity Council) necessary to help struggling small business survive; at the same time, existing small business support entities do not have development experience.

A large part of how these projects happened is not just their development program, or the financing of the project, but how these organizations come to expand their mission, & their capacity, to be able to accomplish something as challenging and complex as mixed-use development with a small business economic development component. Strategic Economics strongly recommends that any entity supported in undertaking the creation of supportive small business retail space have a demonstrated commitment to neighborhood economic development and small business support; the on-going operation of supportive retail space is sufficiently challenging that any organization that does not have small business economic development as part of its core mission will struggle.

Because displacement of existing small businesses and lack of reasonable start-up space is an issue in many business districts, and it is likely to take multiple projects for an organization to become truly expert at this complex of an undertaking, the city would be wise to put effort towards developing a modest on-going funding stream, rather than devoting a large amount of resources to one hot button project. The development of supportive retail space for small businesses should be regarded as an on-going program, rather than an individual project, as resources allow.

- **Small business support services**: On-going small business support services should be built in to tenanting, so that small businesses get the help they need quickly and efficiently.

As illustrated by all three organizations' experiences, small, struggling businesses that qualify for stabilized space are likely to have on-going issues beyond affordable rent, especially as economic conditions fluctuate. Both the Unity Council and NDC provide all tenants with access to their business support services and have sufficiently close relationships with tenants to know when they are encountering difficulty. This is critical both to assist businesses, as possible, before they fail, and to keep the building projects afloat, as struggling tenants are frequently tardy with rent or leave abruptly. Whether start-ups or long-standing businesses in changing market circumstances, these businesses need supportive retail space and business assistance, in much the same way that affordable housing has evolved to include an array of supportive services for residents. As landlords, the building operators also have an in-road and some leverage to persuade small business owners who may be reluctant to open their books or accept assistance.

- **Retail tenanting selection**: Small business tenants must be carefully selected for stability, compatibility and synergy; established anchor tenants should be considered to attract customers.

This lesson derives from the complexity of developing and operating successful stabilized or subsidized space for struggling small businesses. Both for the good of small business tenants and the on-going survival of the development project, the mix and orientation of prospective tenants must be carefully considered. As demonstrated by NDC's multiple experiences, this is partially an unavoidable conflict with mission-driven commercial development: helping struggling businesses succeed and revitalizing marginal commercial districts is the purpose of these projects; at the same time, the instability of these tenants drains building reserves and endangers the operation of the building. Issues with collections and turnover will always be a challenge for this type of real estate project, but there are ways of mitigating these problems.

There are various financing strategies that can help make these projects more stable (see below, under Financing) and timely support services can make a difference (see above), but it is also important to acknowledge that multiple struggling, incompatible businesses in a single building do not help one another attract customers. As with profit-driven retail development, the mix of businesses within a project must make sense for a targeted customer base. Tenant selection should be based not only on a small business's need for supportive space, but also correspond to a synergistic balance of restaurants, personal services and neighborhood-oriented retail that serves either the local population, or a special customer base that has reason to come to the neighborhood.

It may also be necessary to consider the inclusion of anchor tenants, even formula retailers, that have already established a customer base and can drive foot traffic to surrounding small business tenants. As described in the NDC brief, a conventional Credit Union was included in the Swedish Bank project, and a franchise drugstore is targeted to anchor their next project, both to attract customers for other tenants, and to help stabilize project cash flow and bring needed services into the neighborhood. It might also be wise to enlist a conventional retail broker, or consultant, in the tenant selection process, as a non-profit developer is unlikely to have commercial real estate experience.

- **Financing:** Developing a real estate project that can support struggling small businesses requires creative financing strategies and significant subsidy.

  - Limit debt to stabilize buildings & keep rents low

  Given the instability of the retail rent cash flow and the major advantage to small business tenants of low rents, it is highly desirable to avoid conventional debt obligations that provide little flexibility to building operators and compel unrealistic rent expectation. This, of course, is easier said than done: there is intense competition for the limited tools and resources available to assist development of commercial real estate. Current economic conditions are likely to further dampen the availability of such resources, unless the federal government expands and changes the way that real estate development resources are handed down. The following list includes several of the most significant resources used in the case study projects and widely employed for this type of development:

  - Federal funding from Office of Community Services, US Dept of Health and Human Services
  - State funding via line item (Midtown Global Market)
  - Equity via tax credits such as Historic TCs or New Markets TCs. While TCs are a viable source of equity to qualifying projects, they also impose additional up-front and operational soft costs given the complexity of the deals they necessitate.

- Maximize below-market debt to augment grants

Most of the case study projects obtained significant Community Reinvestment Act (CRA) loans, which requires banks to make low interest loans to projects with community development aspects. The most advantageous source of debt available to this type of project, CRA EQ2 debt has a 2% interest rate and comes due in 10 years, with an additional 10 year renewal. While local banks will favor local projects, large banks such as Wells Fargo and US Bank have greater obligations.

- Launch local capital campaigns

The renovation of well-known blighted buildings make great fund-raising copy, as do projects that have a community needs/service aspect, in addition to helping small businesses. Several of the case study projects would not have been possible without significant local support, garnered through intensive multi-year campaigns.

- Participate in larger conventional commercial projects

Affordable or stabilized retail components can be inserted into larger mixed-use or conventional commercial projects that can provide some internal subsidy. Developers of such projects may be compelled to offer participation in order to satisfy requirements for development approvals, as is legally permissable. Provision of affordable retail space to small businesses could be required as one of an array of possible public good contributions.

- Augment commercial real estate expertise via real estate board

Because the development of affordable retail space can entail more complex financing than a non-profit development entity has previously encountered, the creation of an additional board of directors dedicated to assisting with the development of commercial space is advised. The expertise of both public sector real estate practitioners familiar with sources of subsidy and below-market debt, as well as private sector commercial real estate professionals with significant deal structure experience was critical to many of the case study projects.