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EXECUTIVE SUMMARY

Why is the study being done?

In September 2016, the City of Seattle’s Office of Economic Development released Mayor Ed Murray’s Commercial Affordability Advisory Committee Recommendations Report. The report included a recognition that legacy businesses make important economic and cultural contributions and recommended further study around support systems and policies for such businesses. Consequently, the City Council included funding for a study to better understand issues around legacy businesses. The primary questions addressed in the study include:

- What attributes define a “legacy business”?
- What data best describe the challenges in maintaining an operable small business model for legacy businesses?
- What methods, priorities, and systems have been used for supporting legacy businesses in other jurisdictions?
- What is the feasibility of implementing said strategies within existing Washington State and City of Seattle legal parameters?
- What recommendations and/or public policy strategies to support legacy businesses should the Council consider moving forward?

Napoli Pizzeria has been in its South Park location for more than twenty-five years.
A “legacy” business is a special type of small established business

Legacy businesses are defined as a type of established business (minimum of 10 years in operation) that is small (typically less than ten employees), accessible (i.e. pedestrian-oriented, contributes to the ground-level streetscape), retail or food service sector oriented, and independently owned. However, the primary defining attribute is that these businesses serve some community function that goes above and beyond the simple sale of goods and services. Legacy businesses serve as community gathering spots, hubs of social capital and cohesion, and valuable “third spaces” apart from home and work that support local culture and stability.

Using criteria developed in this study, there are roughly 1,160 businesses that might be considered a legacy business. This is 5% of all businesses in Seattle.

Seattle is not losing older businesses at a higher rate

Overall, the available data does not support the conclusion that legacy (or older) businesses in Seattle are closing at higher rates now in the past.

- Closure is an inevitable part almost all businesses. Across the US, about half of companies close within five years of opening.
- In general, businesses are not closing at higher rates now than in the past. Exit rates have been consistent through time, both in the US, Washington State, and the Seattle region.

- Two of the key characteristics of legacy businesses are their age (legacy businesses are old) and their size (legacy businesses are small). Old age and small size have conflicting implications for the rate of business closure:
  - Controlling for size: Older businesses are less likely to close than their younger counterparts. Most closures of older businesses are due to business owner preference.
  - Controlling for age: Small businesses are at more risk of closing than their larger counterparts. Among businesses older than ten years, very small firms (less than five employees) are three-times more likely to close than larger firms of a similar age.
  - This suggests that small size—not age—is the largest risk factor for the closure of legacy businesses, suggesting that many challenges faced by legacy businesses are shared by other types of small businesses.

- There has not been a recent uptick in closures of older businesses in Seattle. As a percent of all business closures, businesses over ten years old make up a smaller proportion of closures today than they did ten years ago. In fact, there are increasing numbers of older, smaller (less than ten employees) firms in the Seattle region.

- The exit rates for older businesses and smaller businesses are not uniform across the City of Seattle, suggesting that underlying community and neighborhood conditions need to be acknowledged.

However, this does not mean that legacy businesses do not face challenges, or that there is nothing that the City could do to assist.
Legacy and small businesses share many of the same challenges

Owning and operating any small business is a rewarding yet difficult proposition, and different types of legacy businesses face different challenges. However, both quantitative and qualitative research into the issue shows the following key challenges:

- **Changing marketplace**: Increased competition, technological changes, shifting consumer preferences, and neighborhood change present challenges for almost every legacy business at one point or another.
- **Narrow profit margins**: Many legacy businesses are in industries that have narrow profit margins even at the best of times.
- **Exposure to rent increases**: As documented in the Mayor’s recent report on Commercial Affordability, Seattle businesses are facing rising rents and low vacancy rates. Businesses that are coming off expiring long-term leases may struggle to find ways to make increases in lease costs work for their business.
- **Exposure to changing labor costs**: Wages represent a large share of expenses for many legacy businesses and are expected to continue to increase as a share of operating costs.

There is limited evidence of how best to support legacy businesses

There are limited examples of legacy business programs in the US and other places. The survey of relevant programs, both domestic and abroad, yielded the following key findings:

- **Promotion of legacy businesses is a new concept in the United States**, meaning evidence of what works is scarce.
- **Formal responses to small business displacement typically consist of technical and financial assistance, land-use regulations or covenants to maintain current uses, and business promotion.**
- **Programs in US cities primarily target small, local businesses in general, as opposed to legacy businesses in particular.**

Programs in other places fit into four general categories: financial assistance, protection, promotion, and technical assistance:

- **Promotion Activities**: While legal, low-cost and easily scalable, it is unlikely that promotional activities alone will result in the large-scale preservation of legacy businesses.
- **Technical Assistance**: This requires more resources than promotional campaigns, but is scalable. There are no legal restrictions, and effectiveness would depend on the quality and type of assistance provided.
- **Protections & Covenants**: This has a higher potential for impact due to mandated protections for legacy businesses, but would require legislative changes that may have to navigate legal issues.
- **Financial Assistance**: This could have a higher degree of impact depending on the level of assistance provided, however, there are restrictions on providing financial assistance to for-profit businesses in the State of Washington. Additional study is
needed to determine if there are alternative revenue sources that could be used to support legacy businesses and to identify opportunities for a public/private partnership.

This research implies that the existing policy environment in Seattle lacks “low hanging fruit”—potential programs that are both easy to implement and likely to produce impactful outcomes for legacy businesses. Any new program must also fit within the legal framework in which the City of Seattle operates.

Seattle has options for expanding its support for legacy and small businesses

The Office of Economic Development (OED) currently offers support to small businesses through direct contact from OED staff, partnerships with local service providers, and support to neighborhood business districts. Based on limitations in Washington law, the City of Seattle cannot provide direct financial support to private businesses. Based on our work in this study, there are three potential courses of action that the City could pursue to support legacy (and small) businesses that would be within legal constraints of Washington State law:

1. Refine or expand existing OED programs to better support legacy businesses. OED has many existing programs that promote economic development and support small businesses, including the Only In Seattle Initiative and the Mayor’s Commercial Affordability Initiative. These programs could be modified to add a legacy business lens.

2. Create new business assistance programs specifically targeted towards legacy businesses. Older legacy businesses may face specific challenges that are not currently emphasized in OED programs. For example, new technical assistance programs could be targeted towards successful succession planning or lease education.

3. Work with other city departments to create a comprehensive legacy program that includes community groups and non-profits. Non-profits may play similar roles to legacy businesses, in that they provide community gathering places and strengthen the social fabric of the city.

In addition to these options, the city should advance its data and business intelligence capabilities. The City of Seattle has some administrative data from business and occupation and retail sales tax filing that could potentially be used to assess trends in these firms, but this data would need to be integrated and enhanced.
Context

The City of Seattle is committed to supporting a strong and resilient economy that generates economic opportunity and prosperity for all of Seattle’s diverse communities. Small, long-tenured businesses—also known as legacy businesses—are an important part of this vision.

Over the past ten years, the city has seen significant increases in population and employment. Amid this tremendous and unprecedented change, many residents and community leaders have expressed a sense of loss at the closing of longtime businesses challenged under new local and global economic realities.

Legacy businesses have been singled out as a class of business that needs to be better understood due to the unique role they play in the city’s economic, cultural, and social fabric. As part of OED’s 2016 work on commercial affordability, Mayor Ed Murray’s Advisory Committee suggested that legacy businesses might face unique challenges and identified the need for further follow-up work.

The conversation about legacy businesses is best understood in the context of other local and national trends:

- **Rapid population growth and increased rents**: Seattle’s rapid population and employment growth have been well-documented and publicized. In 2016, Seattle’s population grew by about 65 people per day.¹ The booming economy creates upward pressure on land prices, which can lead to large increases in commercial rents. As documented in the Commercial Affordability Report, commercial space has become more expensive and harder to find in the last 5 years.

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¹ Source: City of Seattle Population estimates

² Source: U.S. Census Bureau
- **Changing communities**: As Seattle’s economy booms, previously affordable neighborhoods are experiencing increased construction and an influx of new residents. Declining commercial affordability can impact legacy businesses in several ways. As housing costs rise, the customer base of a legacy business may be priced out the neighborhood. In addition, the types of commercial spaces in new construction tend to be larger and do not suit the needs of many small neighborhood businesses.

- **Changing national and global business climate**: New business models (including the rise of online retail) create pressure on small independent businesses. In the last several decades, the share of GDP concentrated in large national and multinational firms has grown. In 1994, revenue of Fortune 500 companies was 58% of GDP; in 2014, that number had grown to 73% of GDP.³

- **Declining social and economic mobility**: There is increasing evidence that neighborhood-level characteristics have significant effects on the social and economic outcomes of the people who grow up there.⁴,⁵ Areas with less residential segregation and greater social capital tend to produce higher levels of upward mobility. The City has led a broad conversation around displacement and the challenges that vulnerable populations face when they lose access to opportunity.⁶

Defining and finding ways to support legacy business may offer some promise in creating more diverse economic development in the city. It also offers the opportunity to find and foster local talent, energy, and support to build both sustainable businesses and cohesive neighborhoods.

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**Seattle has more businesses opening than closing.**

Other than during the Great Recession, Seattle has had more business openings than closures every year since 2001.⁷ In 2015, about two businesses opened for every one business that closed.

**RATIO BETWEEN BUSINESSES CLOSING AND BUSINESSES OPENING, CITY OF SEATTLE, 2001-2015⁸**

*Ratios above 100 indicate more closures than openings.*

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[Diagram showing the ratio between businesses closing and businesses opening from 2001 to 2015. The graph shows that most years have close to equal numbers of openings and closures, but there are spikes in closures in 2007 and more openings than closures in 2014.](#)
Study Questions

The purpose of this study is to provide a base of facts about the trends and challenges facing legacy businesses in the City of Seattle and to provide policy response options for City Council to consider. This report seeks to answer the following questions:

- What exactly is a legacy business?
- What challenges do legacy businesses face in Seattle today? Have those challenges changed over time?
- How have other cities supported legacy businesses? What methods, priorities, and systems have been most effective?
- What are the recommendations and/or public policy strategies to support legacy businesses? Of those, which strategies are most feasible within existing State and City legal parameters?

Data and Inputs on the Study

At the local level, limited data is available on the number of legacy businesses or why legacy businesses close. We took a multi-pronged approach to data analysis that included:

- Interviews with owners of legacy businesses
- Outreach to business districts and business support organizations
- Review of U.S. and international legacy business programs, including interviews with local experts
- Workshops with Advisory Committee, OED, and Council Staff
- Development of legacy business typologies using data from various business financial reporting sources
- Analysis of data from the U.S. Census (Business Dynamics Statistics, Entrepreneur Survey, Survey of Business Owners, County Business Patterns, Zip Code Business Patterns), Bureau of Labor Statistics (Business Employment Dynamics), and City of Seattle (Business permit database, Only In Seattle data)
Does this study address non-profits?

This project focused on the issues and potential solutions for supporting legacy businesses. As the project evolved, it became clear that stakeholders also associated non-profits and other community institutions as critical parts of the community’s social fabric. These groups share an important thread with legacy businesses in they provide places and services for community cohesion and stability. However, nonprofits often face different challenges and opportunities than for-profit businesses. While this study is focused specifically on the business community, many of the recommendations and possible policy proposals could be equally effective in the not-for-profit community.

Recovery Café opened its doors 2004 to help individuals affected by homelessness, addiction, and mental health issues. Located in the Denny Triangle neighborhood, Recovery Café provides classes and other resources that offer support, mentorship, and education on addiction and recovery.

East African Community Services was founded in 2001 to provide culturally responsive education and services for Seattle’s East African refugee community. Based out of the Central District, East African Community Services provides after-school enrichment, summer learning programs, and naturalization assistance.
A legacy business is a type of small business that supports community identity and stability through its long tenure.

WHAT IS A LEGACY BUSINESS?

Many recent discussions of legacy businesses in the media use a gut-level “you know it when you see it” approach to identifying legacy businesses. Typically, it is a beloved business that, were it to close, would leave a hole in the neighborhood that would be hard to fill. It might be a grocer, corner store, florist, barber shop, bookstore, or cafe. Legacy businesses serve as community gathering spots, hubs of social capital, and valuable “third spaces” apart from home and work.

However, evaluating the challenges faced by legacy businesses and forming an effective policy response requires a more formal definition. For this study, we define legacy businesses based on four dimensions:

- **Longevity**: Legacy businesses have been a part of the neighborhood for a long time—long enough to become an important part of the community. For this study, we use ten years as a threshold for long tenure based on feedback from business and community groups but acknowledge other longer-terms might be appropriate. We also present additional information for businesses older than 20 years and 30 years.

- **Economic characteristics**: Legacy businesses are small (typically less than ten employees). Legacy businesses are also publicly accessible, pedestrian-oriented, and contribute to the ground-level streetscape. For this study, we focus on businesses in the Retail and Accommodations & Food Services industries.

- **Ownership characteristics**: Legacy businesses are independently-owned firms with employees. Firms with no employees and franchise chains are not legacy businesses. Although non-profits may share many of the characteristics of legacy businesses, they typically face different challenges and are not the focus of this study.

- **Community value**: Finally, legacy businesses serve some community function that goes above and beyond the simple sale of goods and services. Legacy businesses fulfill a community role through one or more of the following:
  - Providing a community gathering space
  - Serving as a linchpin for a distinct cultural community
  - Contributing to the community through volunteering, fundraising, or in-kind donations
  - Providing an opportunity for diverse people to come together
  - Strengthening social networks and community cohesion
How many legacy businesses might there be in Seattle?

Based on size, age, and industry, Seattle has more than 1,100 potential legacy businesses (extending the age of firm to 20 years reduces that estimate to approximately 490 firms). However, this preliminary estimate does not consider community value, public accessibility, or independent ownership. Incorporating these variables would result in a lower estimate of the number of legacy businesses.

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>Accommodations &amp; Food Services</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Number of employer establishments in Seattle⁹</td>
<td>2,530</td>
<td>2,823</td>
<td>5,353</td>
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<td>Percent of firms with &lt;10 employees, King County¹⁰</td>
<td>67%</td>
<td>50%</td>
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<tr>
<td>Estimate of number of Seattle firms with &lt;10 employees</td>
<td>1,695</td>
<td>1,412</td>
<td>3,107</td>
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<td>Percent of firms with &lt;10 employees that are 10+ years old, by industry sector, U.S.¹¹</td>
<td>36%</td>
<td>39%</td>
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<tr>
<td>Estimate of Seattle firms with &lt;10 employees that are 10+ years old</td>
<td>616</td>
<td>545</td>
<td>1,162</td>
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<tr>
<td>Percent of firms with &lt;10 employees that are 20+ years old, by industry sector, U.S.¹²</td>
<td>15%</td>
<td>17%</td>
<td></td>
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<tr>
<td>Estimate of Seattle firms with &lt;10 employees that are 20+ years old</td>
<td>250</td>
<td>244</td>
<td>493</td>
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</tbody>
</table>

What is a Legacy Business?
WHAT DOES THE DATA TELL US?

Any program targeted towards legacy businesses should be grounded in data about trends in business dynamics and the specific challenges facing small established businesses. This section provides an overview of trends in business closure rates, focusing on small established businesses in the retail and food services industries. Key findings include:

▪ The closure is an inevitable part almost all businesses. Across the US, about half of companies close within five years of opening.

▪ Two of the key characteristics of legacy businesses are their age (legacy businesses are old) and their size (legacy businesses are small). Old age and small size have conflicting implications for the rate of business closure:
   - Controlling for size: Older businesses are less likely to close than their younger counterparts. Younger businesses are more susceptible to economic shocks than their older counterparts, perhaps pointing to the relative resilience of established businesses. Most closures of older businesses are due to business owner preference.
   - Controlling for age: Small businesses are at more risk of closing than their larger counterparts. Among businesses older than ten years, very small firms (less than five employees) are three-times more likely to close than larger firms of a similar age.

▪ In general, businesses are not closing at higher rates now than in the past. Exit rates for having been consistent through time, both in the US, Washington State, and the Seattle region.

▪ There has not been a recent uptick in closures of older businesses in Seattle. As a percent of all business closures, businesses over ten years old make up a smaller proportion of closures today than they did ten years ago. In fact, there are increasing numbers of older, smaller (less than ten employees) firms in the Seattle region.

▪ The exit rates for older businesses and smaller businesses are not uniform across the City of Seattle, suggesting that underlying community and neighborhood conditions need to be acknowledged.

Overall, the available data does not support the conclusion that legacy (or older) businesses in Seattle are closing at higher rates now in the past.

It is also important to note limitations in the granularity of available data. This section draws upon data from the U.S. Census, U.S. Bureau of Labor Statistics, and the City of Seattle. Although many of these data sources provide information by business size, age, industry, and location, they often do not provide detail for specific cross-sections of the business community. In other words, there is limited data about how small, old businesses in Seattle’s retail or food services industries have performed over time. To overcome this limitation, this section looks at each of these dimensions individually and, where possible, in combination.
Business closure rates have remained consistent over time.

Business turnover is natural and normal. Across the US, about half of companies close within five years of opening. Nationwide, business survival rates have been very consistent over the past 20 years, with a slight trend toward higher survival rates.

Closure rates vary by industry and location.

Businesses in retail and food service industries (where legacy businesses are concentrated) have higher survival rates than businesses in other industries. Again, this trend is consistent over the past 20 years.

Washington’s business survival rate is lower than other coastal states and the national average. This relationship is consistent over time. Like other states, Washington has seen a slight trend towards higher survival rates over time. It is not clear what factors are contributing to the difference between Washington’s business survival rate and those of other states, but this issue may deserve more scrutiny as Seattle considers ways to support its older businesses.
Older firms are more resilient than younger businesses.

As shown on the previous page, new businesses are most susceptible to closing during their first few years of operation. Controlling for size, younger businesses are more susceptible to economic shocks than their older counterparts, perhaps pointing to the relative resilience of established businesses.

Older businesses are more likely to close due to owner preferences.

Older businesses close for different reasons than younger businesses, sometimes because they have already successfully navigated many of the challenges which fell their younger counterparts. Compared with younger businesses, older businesses are more likely to close due to an owner/operator’s sale of the business, retirement, illness, or death. Nationally, over 58% of businesses more than ten years old close for these reasons.

While many of these business closures are natural as owners age, when they happen to legacy businesses there may be an undesired loss of a valued community space. Succession and transition planning may be a useful tool in preventing the closures of legacy businesses.
Small businesses, in general, are at higher risk of closing than larger businesses. Controlling for age, small businesses are at more risk of closing than their larger counterparts. This is true even when looking only at established businesses; very small old firms are more likely to close than their larger counterparts. Within established firms, very small businesses (<5 employees) have much higher and more volatile exit rates than establishments with more employees. Businesses with fewer employees are less able to weather economic downturns and other market fluctuation by cutting costs or laying off employees.

The Seattle area has seen an increase in the number of small, older firms. The number of small, old firms in the Seattle MSA increased steadily from 2003-2014.
Fewer older businesses close today in Seattle than ten years ago.

Except for the Great Recession, the number of established businesses closing in Seattle has remained flat over the decade. Businesses over ten years of age make up a smaller proportion of businesses closures today than they did in 2006. Firms over the age of 30 have accounted for between 1.4% and 2.9% of all business closures in the city since 2001.

Neighborhood-specific variation is meaningful.

Within Seattle, many of the challenges facing legacy businesses vary by neighborhood. As a starting place, different neighborhoods have different numbers of small businesses in the retail and accommodations and food services sectors.
Citywide, the number of small retail stores (those with fewer than ten employees) decreased by 6% (118 businesses) between 2008 and 2015, while the number of small businesses in the accommodations and food services sector increased by 4% (55 businesses).

However, these trends were not universal across the city. Some neighborhoods—including Magnolia, Ballard, University District, Capitol Hill, South Park, and Georgetown—saw increases in the number of small retail businesses between 2008 and 2015. The University District, Eastlake, and Downtown each experienced net declines of 10 or more small accommodations and food services businesses.
The number of closures of established businesses (those in business for 10 or more years at the time of closure) also vary by neighborhood. Between 2006 and 2015, neighborhoods in downtown and north Seattle experienced the largest raw numbers of closures of established retail, accommodations, and food services businesses.

When normalized by a total number of business closures, South Lake Union, Downtown, and Ravenna/Wedgwood had the largest share of closures of retail businesses. Queen Anne/Interbay and Fauntleroy had the largest share of closures of accommodations and food services businesses.

Neighborhood-specific effects facing legacy businesses are particularly pronounced for challenges related to residential displacement, neighborhood change, and declining commercial affordability. The Seattle 2035 Growth and Equity Report analyzes variations in vulnerability to displacement and access to opportunity across the city and identified urban centers and urban villages with high displacement risk and high access to opportunity. Several of those neighborhoods—including Downtown, Chinatown-International District, and Ravenna—are in zip codes where a higher percentage of business closures are of established businesses.
Women or minority-owned firms have unique challenges.

National data on reasons why businesses close shows that minority-owned businesses are much more likely than average to close due to lack of access to loans or credit. In 2014, more than 10% of minority-owned firms closed because of lack of access to loans or credit, compared with about 6% on average. 

Women-owned businesses are slightly more likely to close due to lack of personal loans or credit.

Minority business owners may face language, cultural, or other access barriers that make it more difficult deal with changing business conditions. These businesses may also be more likely to be located in neighborhoods that are vulnerable to displacement.
What does all this mean for legacy businesses in Seattle?

Small established firms in Seattle do not appear to be facing higher closure rates than they have in the past. However, this does not mean that legacy businesses do not face challenges, or that there is nothing that the City could do to provide assistance.

The data indicates that small size—not age—is the largest risk factor for the closure of legacy businesses, suggesting that many challenges faced by legacy businesses are shared by other types of small businesses. Support for the overall small business community in Seattle would likely yield dividends for legacy businesses as well.

However, due to their age and community characteristics, legacy businesses may have challenges and needs that differ from those of an emerging small business. The need for succession planning is an example of a challenge that may be more common among legacy business owners than the business community as a whole.

It is also important to note that this analysis is limited by the available data. The lack of detailed local data about business dynamics by size, ownership characteristics, tenure (own/rent), length of time in business, and neighborhood makes it more difficult to ask precise policy questions about the challenges facing legacy businesses in different parts of the City and how those challenges may have changed over time.
CASE STUDY ON SERVING A COMMUNITY ROLE:
ASSIMBA ETHIOPIAN CUISINE

Assimba Ethiopian Cuisine has been a gathering space for the Central Area community for more than 25 years. Messeret Habeti and her co-owner Messeret Ferede opened the Ethiopian Café in 1992 when there were few other dining options in the immediate neighborhood. Within a few years, they had outgrown their original storefront, moved to nearby larger space owned by the same landlord, and rebranded as Assimba.

From the beginning, Assimba’s business model was focused on giving back to the community. In addition to the restaurant space, Assimba has a sizable meeting room that is used for local meetings and performances by the East African community and Central Area residents. Over the years, Habeti mentored several young people who lived in the neighborhood and helped inform other business owners about City policies and resources. The restaurant’s strong community connection sometimes affected its bottom line; Habeti reports providing price discounts to regular customers who could not afford the menu price.

One element in Assimba’s survival over the decades was a strong relationship with their landlord. The landlord kept rents low and provided options for Assimba to lease more space as the business grew.

The business was hit hard by the recession. Assimba had to lay off staff and revenues were cut in half. Habeti relied on strong relationships with the community, adjacent businesses, and with their property owner to keep their doors open.

In early 2017, after 25 years in business, Habeti decided to begin succession planning. In Summer of 2017, she and her partners sold the business to family friends. The restaurant, now named Zagol, remains open in the same location and using the same recipes. Using some of those funds Habeti’s focus has now shifted to teaching people how to cook healthy Ethiopian food. She is currently looking for space to open a new venture.
To better understand the challenges and changing market conditions faced by legacy businesses, we analyzed five types of legacy businesses in greater detail. These typologies were chosen because they are common examples of small businesses that serve as community gathering places. While some challenges—such as rising commercial rents—are shared by all types of legacy businesses, others are unique. The following pages provide more information about each typology.
Ethnic Grocery Store

Specialty and ethnic grocery store revenues have increased steadily as Asian and Hispanic populations have grown in size and spending power.\(^4\) Changing tastes have also expanded their customer base beyond specific ethnic communities. However, competition from larger grocers threatens small stores in an industry where profit margins are low, and establishments are vulnerable to neighborhood changes. Average industry-wide profit margins are only about 2.5% of revenue.\(^5\)

- **External competition.** Ethnic markets face competition mostly from traditional grocery stores, but also from farmers’ markets and restaurants.

- **Residential displacement.** As ethnic communities are priced out of neighborhoods by rising rents, specialty grocers face the prospect of losing a loyal customer base. About 40% of ethnic grocery customers are households earning less than $50,000,\(^6\) making them particularly susceptible to displacement.

- **Commercial affordability.** Rent and property tax increases represent a large share of uncontrolled costs for businesses.

- **Increasing food costs.** The cost of goods sold represents a very large share of revenue for grocers.\(^7\) The price of many food inputs has increased over the past five years, which has forced specialty and ethnic grocers to pay higher prices, and either absorb the increased costs or attempt to raise their prices.

- **Marketing.** To compete with larger grocery stores, independent establishments have to fill a niche demand and yet also keep prices low.

- **Labor costs.** Wages are expected to increase as a share of operating costs.
Independent Bookstore

The vast majority of small independent bookstores are managed by owner-operators with just one establishment. Nationwide, industry-wide profit margins are only about 1.6% of revenue on average, or about $11,040. To compete with online sales and chain bookstores, independent establishments must fill a niche demand and create an appealing atmosphere. Many bookstores also incorporate book signings and other community events.

Even very well established bookstores may feel financial pressure from increases in operations costs, primarily in rent costs, price competition from online sellers, and higher wages. The primary challenges to well-established bookstores are:

- **Online sales.** More than forty percent of new books are bought online. It is near impossible for a brick-and-mortar retailer to compete on price with an online warehouse.

- **Labor costs.** Bookstores rely on having a knowledgeable, well-educated staff. Attracting and retaining staff with deep subject-matter expertise requires paying above minimum wage but must be balanced against narrow profit margins.

- **Commercial affordability.** Rent and property tax increases represent a large share of uncontrolled costs for business owners. When rent costs rise, bookstores have no choice but to raise prices, cut costs in other areas, or exit the market.

- **Declines in discretionary spending.** The recession led to steep declines in leisure spending, including books and magazines. Industry-wide revenues are expected to continue to fall.

More than 500 independent bookstores nationwide closed between 2002–2016. Average profit margins are about 1.6% of revenue, or about $11,000 per year.
Independent Record Store

Most independent record stores are managed by owner-operators with just one store. Like bookstores, record stores require high volumes of inventory and staff with deep subject matter knowledge. The record store industry has been steadily declining in revenues since 2003, and this trend is expected to continue. Industry-wide profit margins are only about 1.2% of revenue on average and declining.\textsuperscript{48}

Despite the resurgence in the popularity of vinyl over the past few years, sales of vinyl have not substantially changed the overall trend of declining revenues. The primary challenges to well-established record stores are:

- **Changing technological landscape for music consumption.** The combination of online music piracy, sales lost to online download services such as iTunes, and the ascendancy of streaming services like Spotify and Pandora means that industry revenues will continue to decline in the years to come.

- **Commercial affordability.** Rent and property tax increases represent a large share of uncontrolled costs for business owners.

- **Marketing.** To compete with online sales and big box stores, independent establishments have to fill a niche demand or create an appealing atmosphere. Many record stores must also incorporate special events, such as Record Store Day, record release parties, and other events to promote themselves.

- **Labor costs.** The industry has already made cuts to hours and staff levels. Further cuts are unlikely to be sustainable, so wages are expected to increase as a share of operating costs.

- **Declines in discretionary spending.** The recession led to steep declines in leisure spending, including music.

Nationwide, 7.2% of record stores closed each year from 2011 to 2016.\textsuperscript{49}

Industry-wide profit margins are only about 1.2% of revenue and declining.
Neighborhood Bar

Operating a neighborhood bar is highly labor-intensive, and industry trends are very location-specific. The primary challenges to well-established bars are:

- **Commercial affordability.** Rent and property tax increases represent a large share of uncontrolled costs for business owners.

- **Residential displacement.** As regular customers also leave the neighborhood due to rising rents, owners often feel reluctant or unable to raise their prices on their remaining regulars.

- **Labor costs.** The cost structure for many bars and restaurants has been based on lower wages and employees working for tips. Increases in the minimum wage and other changes to labor laws have required bars to raise prices and/or adapt their business model.

- **Market competition.** Even a temporary decline in sales due to new nearby competition can threaten the solvency of an established neighborhood bar.

- **Changing customer tastes.** Coffee shops and fast-casual dining restaurants are most likely to replace neighborhood bars. Trends toward craft beer and cocktails have increased costs of goods sold.

- **Lack of a succession plan.** Long-time bar owners often do not have an exit strategy. The value of the business is almost entirely tied up with the continued presence of the owner-operator.

- **Legal and insurance costs.** The costs of commercial liability, workers compensation, and liquor liability insurance rise dramatically in the event of a claim. The economic shock of absorbing deductible payments and increases in premiums may be enough to lead a bar to close.

In 2014, six neighborhood bars in the U.S. closed every day.\(^{50}\)

Average profit margins are about 5.7% of revenue or about $20,000 per year.\(^{51}\)
Small Café/Deli

Industry-wide profit margins are about 5.2% of revenue on average, but revenues are low—only $181,000 per establishment. This means that average profits are only about $9,400.

Small cafés and delis face competition from an increasingly tight market. Location is a key success factor, and the sudden loss of a nearby employer can have an enormous effect on a café’s bottom line. The primary challenges to well-established cafés and delis are:

- **External competition.** Cafés and delis face competition from large grocery stores, farmers’ markets, and chain restaurants.

- **Staff turnover.** Relatively low wages and the lack of a well-defined career path deter most employees from perceiving the industry as a long-term employment opportunity.

- **Controlling costs.** Food waste and overstock are major cost areas. Increasing vendor costs may also drive small cafés and delis to attempt cost-savings elsewhere, but knowing where and when to sacrifice quality for cost is challenging.

- **Changing consumer tastes.** Shifting trends in food and health may add to the number, complexity, and cost of ingredients.

- **Commercial affordability.** Rent and property tax increases represent a large share of uncontrolled costs for businesses.

- **Marketing.** To compete with larger grocery stores and limited-service chain restaurants, independent establishments have to fill a niche demand and yet also keep prices low.

- **Labor costs.** Wages represent a large share of revenues for small cafés and delis and are expected to continue to increase as a share of operating costs.

The majority of small cafés and delis have fewer than six full- or part-time employees. Average profits are only about $9,400 per year.
As illustrated in the typology profiles, different types of legacy businesses face different challenges. However, several key themes emerged:

1. Changing marketplace
2. Narrow profit margins
3. Rising commercial rents
4. Exposure to labor costs

The next pages provide more detail about these key challenges faced by legacy businesses of all types, drawing upon information gained from interviews, focus groups, and data analysis.

### Changing marketplace

Increased competition, technological changes, shifting consumer preferences, and neighborhood change present challenges for almost every legacy business at one point or another.

For legacy retail stores of all types, competition from online platforms has fundamentally altered the market landscape. Amazon, Spotify, and Netflix offer consumers new and often less expensive ways to buy books, listen to music, and watch movies. Some legacy businesses find that the product they offer is no longer in demand.

Legacy businesses in the food services industry also face increased competition from fast-casual chains and large groceries. This competition may require legacy businesses to shift to new business models. Businesses that provide community value (such as a local gathering place) may find it easier to compete with lower-cost online, chain, or big-box options.

Changing consumer preferences and neighborhood demographics can also present challenges for legacy businesses. As lower-income residents are priced out of neighborhoods, local legacy businesses may see a loss in business as their core clientele moves away.

Changing consumer tastes over time—such as the rising popularity of craft beer and cocktails—may require businesses to adapt their offerings to remain competitive.

One key theme from the stakeholder interviews was the importance of building a diverse and loyal clientele so that the business can adapt to changing market conditions.
Narrow profit margins

Many legacy businesses are in industries that have narrow profit margins even in the best of times. Nationally, retail and food services businesses are more likely than average to close because of lack of sales or inability to obtain loans or credit.\textsuperscript{53}

Narrow profit margins make it difficult to absorb economic shocks, weather recessions, and invest in marketing or other business improvements. Businesses with narrow profit margins are also generally more vulnerable to liquidity, credit, inventory, and legal problems. It also complicates succession planning, as it may be more difficult to find a buyer for a low-margin business.

In interviews, several businesses noted challenges in obtaining working capital due to low-profit margins. This makes it more difficult to invest in business improvements, marketing, or expansion.
Rising commercial rents

As documented in the Mayor’s recent report on Commercial Affordability, Seattle businesses are facing rising rents and low vacancy rates. Legacy businesses may be forced to close if the property owner decides to sell or redevelop the building or raises rent beyond what the business can afford to pay. Recent examples of Seattle businesses that closed because the property was being redeveloped include Alki Tavern, the Harvard Exit Theater, and B&O Espresso.

Rising real estate prices manifest differently for business owners who own versus those who rent. For a business owner who owns the building, a generous offer from a developer may entice them to sell the property and retire. For example, Piecora’s Pizza on Capitol Hill closed in 2014 after 32 years of operation when the Piecora family sold the property for $10.3 million.

Business owners who rent have less control over the fate of their business. If the building is demolished or if rents increase beyond what the business can afford to pay, the business has no choice but to relocate or close. In interviews, owners noted that good relationships with landlords are particularly important for business stability and longevity. Property owners that understand the needs and community impact of the legacy business are crucial for long-term business success.

Of the legacy business typologies, cafés and delis pay the largest share of their expenses on rent and are particularly exposed to rent increases. Changes in commercial affordability also vary by neighborhood.
Legacy businesses in the food services industry (bars, cafés, delis, and restaurants) spend a large portion of operating expenses on wages and are most vulnerable to rising labor costs.

### Exposure to labor costs

Wages represent a large share of expenses for many legacy businesses and are expected to continue to increase as a share of operating costs. Increases in the minimum wage and other changes to labor laws may require businesses to raise prices, cut costs in other areas, and/or adapt their business model.

Food service businesses like cafés, delis, and bars are particularly exposed rising labor costs because labor represents a larger share of their costs.\(^6^0\)

Many legacy businesses are “high road” employers who offer wage increases and benefits packages before being required to do so by law, either as part of their community mission or as a way to attract and retain more skilled employees.

In interviews, businesses also noted challenges in navigating and anticipating changing labor workplace laws. In the five years, Seattle has passed ordinances regulating minimum wage, paid sick leave, and secure scheduling. These ordinances add important protections for workers, but many legacy businesses feel overwhelmed by the number of changes.
WHAT HAVE OTHER PLACES DONE TO SUPPORT LEGACY BUSINESSES?

Review of relevant programs in other cities

Displacement of small, local businesses is an emerging concern in fast-growing US cities. While residential displacement is typically at the forefront of conversations on growth and displacement, cities like San Francisco, Boston, New York, Portland, and Chicago have begun to react to concerns about business displacement or lack of commercial affordability. Support for “legacy” businesses, however, has thus far been limited. San Francisco is the only city with an explicit focus on legacy business preservation, defining “legacy” as existing at least 30 years and having contributed to a neighborhood or community’s identity or history. This review expands the definition to include programs that preserve and promote other categories of businesses—such as independent retail or women and minority-owned businesses—that could be adapted to support legacy businesses. The survey of relevant programs, both domestic and abroad, yielded the following key findings:

▪ Promotion of legacy businesses is a new concept in the United States, meaning evidence of what works is scarce. San Francisco’s legacy business program approved the first legacy businesses to its registry in mid-2016. A similar program was proposed in Chicago in 2016 but did not move forward.

▪ Formal responses to small business displacement typically consist of technical and financial assistance, land-use regulations or covenants to maintain current uses, and business promotion.

▪ Programs in US cities primarily target small, local businesses in general, as opposed to legacy businesses in particular, but several programs in cities abroad (i.e. Paris, London, Buenos Aires) target legacy businesses.

See Appendix A for additional detail on relevant programs.
Types of interventions

Interventions used in other places fall into four general categories: financial assistance, protection, promotion, and technical assistance. Some cities offer grants or tax abatements to businesses or property owners (i.e., San Francisco, New York), and others restrict the number of chain businesses in certain neighborhoods to protect independent businesses (i.e., Sonoma, San Francisco). Other cities (i.e., London, Buenos Aires) promote legacy businesses through media campaigns.

Many programs combine multiple intervention types: In England, the More than a Pub program provides financial and technical assistance to community groups seeking to take over ownership of their local pub. Groups may be eligible for $114,000 in grants and loans and receive technical assistance in the form of an advice phone line, workshops, and site visits to learn from their peers. The program, which started in 2016, has resulted in 50 community-owned pubs, preserving them for future community benefit.

In Paris’s Vital’Quartier program, for example, the city’s economic development agency purchases buildings in target neighborhoods, then renovates and rents them to local, independent businesses. The businesses receive technical and marketing assistance and access to capital. At the end of the project, the agency either sells the building to the business or to a third party with a covenant to maintain the use.

Financial Assistance
- Direct grants (U.K., San Francisco)
- Access to capital (Suffolk County, NY; Paris)
- Tax incentives (New York City)
- Subsidized rent (Portland)

Protections and Covenants
- Restrictions on changing the use of the space (U.K., San Francisco Latino Cultural District)
- Restrictions on chain businesses in certain neighborhoods (San Francisco, Aspen, Sonoma)
- Covenants that require landlords to maintain use (Paris, SF)
- Building acquisition (Paris, U.K., SLC)
- Mandatory set-aside in new developments (Cambridge, MA)

Promotion Activities
- Directories (San Francisco’s Legacy Bars & Restaurants directory and map, Buenos Aires “Barres Notables” list)
- Media campaigns (London’s #ListYourLocal campaign)

Technical Assistance
- General technical assistance (Paris)
- Lease education or negotiation assistance
- Technical assistance with transition to a cooperative (U.K.)
CASE STUDY: SAN FRANCISCO LEGACY BUSINESS PROGRAM

When San Francisco residents saw long-time businesses shutting their doors at ever-increasing rates, they turned to historic preservation advocacy organization San Francisco Heritage. But existing preservation tools used by the nonprofit could only protect the physical structures in which businesses reside, not the businesses themselves.

In 2013, SF Heritage launched Legacy Bars & Restaurants, modeled after a similar program in Buenos Aires. The program served as a public education campaign to draw attention to the importance—and vulnerability—of San Francisco’s legacy businesses. An online guide and window decals identify and promote legacy businesses. SF Heritage inducted 100 bars and restaurants onto the list; each had existed for 40 years or more, possessed distinctive architecture or interior design, and/or contributed to its neighborhood’s sense of history. SF Heritage focused on bars and restaurants because of their visibility and their importance as community gathering places.

In March 2015, the City of San Francisco Board of Supervisors voted unanimously to create the San Francisco Legacy Business Registry. Businesses must be nominated by a member of the Board of Supervisors or the Mayor and approved by the Small Business Commission if they meet the following qualifications:

1. Minimum of 30 years of operations in San Francisco, with no break in operations exceeding two years;
2. Contribution to the history or identity of a particular neighborhood or community;
3. Commitment to maintaining the physical features or traditions that define the business.

In November 2015, voters passed Proposition J, which created the Legacy Business Historic Preservation Fund. Through Proposition J, businesses on the registry are eligible for annual grants of $500 per FTE employee, capped at 100 employees or $50,000 per year. To encourage property owners to sign long-term leases with legacy businesses, property owners that sign a minimum 10-year lease with a registry business are eligible for annual grants of $4.50 per square foot, up to $22,500 per year. (However, property owners receiving awards are not required to pass savings along to tenants, nor must they agree to limit annual rent increases.)

In addition to financial support, the program delivers some direct technical assistance to legacy businesses (serving 26 in the first year) and provides referrals to partner agencies. In the coming year, the Office of Small Business plans to provide succession planning resources and training.
It is too early to tell if the program will be enough to keep legacy businesses in San Francisco. With 76 businesses added in the first year, registration has fallen short of the 300-business annual cap. This does not necessarily indicate lack of demand; with just one full-time staff member, the capacity to promote the program and process applications is limited. Another unknown is whether the financial assistance is enough to offset rising costs.

Finally, funding is the largest threat to the program. Funds are appropriated from the general budget so are not guaranteed in perpetuity. The program cost just short of $700,000 last year, but as new businesses join the registry and seek annual grants, program costs will increase.

Although the effectiveness of both programs has not yet been determined, they have the potential to galvanize additional support for legacy businesses. Above all, these initiatives codify the city’s understanding, appreciation, and desire to preserve the unique benefits that long-standing businesses bring to individual neighborhoods and the city as a whole.

76 businesses and non-profits have joined the registry as of March 2017.

$399,000 was awarded to 51 establishments in FY 2016-17, with an average award size of $7,824.

15% of grantees are non-profits, and non-profits received 31% of the total grant amount awarded. Two large organizations received awards of $50,000 and $48,500.

73% of businesses proposed using the funds for rent or tenant improvements.

$34,200 in Rent Stabilization Grants have been awarded, for a total of $34,200.
Possible eligibility criteria

When designing a program to support legacy businesses, a key area of concern is the criteria used to define eligibility. The criteria determine who the program will help and have implications for the application process and administration of the program. Eligibility criteria that are subjective (e.g., community impact) may be more difficult to operationalize than rule-based criteria.

San Francisco’s legacy business program targets older businesses, but programs in other municipalities in the United States, conversely, target broader subsets of businesses without concern for tenure or specific community impact: In Suffolk County, NY, for example, the county provides affordable capital to help local retail businesses – new and old – move into new transit-oriented developments.

In Portland, OR, preference for Prosper Portland’s Affordable Commercial Tenenting Program goes to minority-owned businesses and those displaced by recent development. The program, which recently launched, will lease space in four new developments to local businesses. In one of the developments, the Alberta Commons, tenants will pay rent at 10 percent below-market during the duration of Prosper Portland’s 10-year master lease. In addition to subsidized rent, businesses will work with a tenanting coordinator to design their new space and access local technical assistance providers.

Many programs outside of the U.S., including in Buenos Aires, U.K., and Paris, are targeted towards specific business types that are considered culturally important, such as pubs or bookstores.

“We have known for hundreds of years just how valuable our local [pubs] are. Not just as a place to grab a pint but also to the economies and communities of those they serve, and that is why we are doing everything we can to support and safeguard community pubs from closure.”

—Brandon Lewis
U.K. Community Pubs Minister
**Community Impact**
Some programs target businesses that contribute to a community’s identity, history, architectural character, or sense of place, or provide some other community benefit (i.e., gathering space):
- Cultural identity or history (Paris, SF, London, Buenos Aires)
- Community benefit (U.K.)
- Preservation of architecture (SF, Buenos Aires)

**Industry/Business Type**
Some programs target specific industries because they contribute to a community’s identity, provide community gathering spaces, are particularly vulnerable, or are otherwise important to a community:
- Bars & Restaurants (Buenos Aires, SF)
- Pubs (U.K.)
- Bookstores (Paris)

**Local/Independent**
Some programs target any local and independent business, regardless of industry, tenure, or ownership:
- Independent retail businesses (Suffolk County, NY)
- Non-chains (SF, Aspen, Sonoma)

**Owner Characteristics**
Some programs focus on businesses that are owned by individuals or groups considered particularly vulnerable, disenfranchised, or underrepresented in the business community, such as:
- Minority-owned businesses
- Women-owned businesses
- Businesses owned by low-income individuals

**Tenure**
Some programs have explicit criteria based on the age of the business:
- 30 years in business or 20 years if facing imminent threat (SF, proposed in Chicago)
- Start-up businesses (Cambridge)
What programs work? How would they translate in Seattle?

A program must fit within the legal framework in which OED operates. While this study did not uncover a low-cost, high-impact set of solutions, many of the programs reviewed appear to provide at least some degree of support to vulnerable businesses and/or respond to community concerns. When comparing the relative strength of interventions, it is important to consider both the feasibility and impact of a program. The feasibility of a program can be thought of as some combination of its legality (or regulatory constraints) and the resources required to support it. The impact can be defined as the product of how effective the program is in assisting businesses by the number of businesses that the program could serve. The following are a set of questions that are used to assess these approaches.

Program Feasibility:

1. **Legal/Regulatory framework**: Is the City of Seattle authorized to implement the program? Would it require a legislative change?
2. **Cost/Scalability**: What is the level of resources (financial, staff) required to implement the program? Are there savings related to scaling the program up?

Program Impact:

1. **Number of businesses served**: How many businesses can the program reach?
2. **Effectiveness**: Does the program significantly improve a legacy business’s viability? Does the program result in the preservation of legacy businesses and their contributions to Seattle’s culture and community?

Most of the programs reviewed are still in the initial stages of development, so it is too early to gauge their long-term effectiveness. Another challenge is the lack of rigorous study of program results: most cities report program outputs but fall short of reporting outcomes and impact. For example, we know that San Francisco has registered 76 businesses to the Legacy Business Registry and distributed $399,000 in direct financial assistance to legacy businesses during the first year. We do not yet know, however, the long-term result of this assistance.

Additionally, many programs reviewed combine multiple interventions, so it is difficult to tease out drivers of success: in the UK, for example, the More than a Pub program has resulted in 50 community-owned cooperative pubs nation-wide. The program provided both technical and financial assistance, so it is uncertain which drove the program’s success. It is also uncertain whether the program’s assistance is enough to preserve community pubs for the long-term in cities like London where costs of doing business continue to rise.

While a precise measure of program effectiveness may not exist, we use initial program outputs, and interviews with practitioners to relatively compare program types on a continuum of feasibility and potential impact.
Promotion Activities: While legal, low-cost and easily scalable, it is unlikely that promotional activities alone will result in the widespread preservation of legacy businesses. Existing programs have shown some positive impact, however: San Francisco’s Legacy Bars & Restaurants promotion raised awareness of legacy businesses and spurred further public investment.

Technical Assistance: Requires more resources than promotional campaigns, but is scalable to some extent because technical assistance providers can assist multiple businesses. There are no legal restrictions, and effectiveness would depend on the quality and type of assistance provided. The best technical assistance is targeted in both substances and to those in need.

Protections & Covenants: High potential for impact due to mandated protections for legacy businesses, but would require legislative changes and some program administration. Depending on the action, some protections or covenants would need to be evaluated for legal issues or unintended consequences.

Financial Assistance: High degree of impact depending on the level of assistance provided. Feasibility is low, as there are legal restrictions on providing financial assistance to for-profit businesses in Washington. The number of businesses served is directly proportional to the financial investment, so there are no cost savings related to scale.
WHAT IS SEATTLE CURRENTLY DOING TO HELP LEGACY BUSINESSES?

The Office of Economic Development (OED) currently offers support to small businesses through direct contact from OED staff, partnerships with local service providers, and support to neighborhood business districts. These programs are not explicitly targeted at legacy businesses but may benefit legacy businesses nonetheless. OED staff members connect with small businesses to provide information and support via outreach to neighborhood organizations, presence at trade shows and other community events, or through direct contact from business owners seeking assistance.

Technical Assistance
Direct business support includes the following:

- Information and assistance navigating city regulations and permitting processes.
- One-on-one technical assistance: a consultant contracted by OED provides one-on-one assistance to entrepreneurs with business plan development and operational management, marketing, and financial management. The current focus is on businesses directly impacted by major infrastructure construction projects.
- Referrals to local technical assistance providers.
- Market and industry information: The Business Decision Engine, an online tool offered on the OED website, provides businesses with data related to industry trends, competition, workforce, etc.

Support to Business Districts
The City works with neighborhood business districts to support thriving commercial districts:

- Only in Seattle Initiative: Provides ongoing support to business districts and approximately $1,400,000 in grants for districts to work in five strategy areas: organization, marketing & promotion, business and retail development, appearance & pedestrian environment, and safety.
- Peer network for business owners and community partners in business districts to build skills and share lessons learned.
Small Business Lending and Financial Assistance

OED promotes access to capital through referrals to alternative lenders and direct partnerships with Community Development Financial Institutions (CDFIs).

- Grow Seattle Fund: Offered in partnership with the National Development Council (NDC), the Grow Seattle Fund provides flexible and patient expansion loans for existing businesses. Loans range from $100,000 to $3,000,000.

- Financial support for micro businesses: The program offers zero-percent interest loans and Individual Development Accounts (IDAs) to low-income entrepreneurs. Offered through MercyCorps Northwest, the program incentivizes small businesses to build long-term assets. Participants save $500 over six months and receive an 8:1 match ($4,000) to invest in their business.

New Programs Currently Under Development

In addition to current programs, the City is working on several new initiatives that will improve the resources available to legacy businesses. These include:

- Exploring ways to incentive affordable commercial space in publicly owned properties.

- Commercial Affordability Consulting Team to assist small businesses and small-scale property owners.

- Revisions to the existing SCDI design review process to solicit and incorporate community input (including input from business groups and businesses) sooner in the permitting process.
Seattle is already delivering effective business retention programs, and additional work could further support legacy businesses.

**Challenges**

The City of Seattle does face several challenges in formulating an effective program to assist legacy businesses.

- **Legal context.** Washington State has strict constitutional limitations on economic development. Cities (or counties) may not directly give or loan money to private businesses for economic development. Specifically, Article 8, Section 7 of the State Constitution provides: “No county, city, town or other municipal corporation shall hereafter give any money, property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm.” This means that programs like San Francisco’s program, which provides grants directly to businesses and landlords, would face legal hurdles in Seattle.

- **Underlying market conditions.** City programs have limited ability to impact key underlying market conditions and consumer tastes that frame the business prospects of small businesses. Many of the challenges facing legacy businesses—such as low-profit margins and shifts in consumer spending habits—are rooted in market realities.

- **Limitations in economic development resources.** Direct economic development efforts can utilize federal funding received by Seattle that authorizes that use. The largest fund source available is the federal Community Development Block Grant Program (CDBG). The bulk of Seattle’s CDBG budget is reserved for social service programs benefitting low-income individuals, and economic development assistance only receives a small portion of the City’s CDBG budget. Moreover, the City continues to experience federal budget cuts to its annual CDBG entitlement. Current efforts are exploring the ongoing effects of utilizing federal and other non-City funding sources.

- **Definition of legacy businesses.** There are no widely accepted definitions of “legacy businesses.” This analysis has established some working terms, but there is room for further refine the definition regarding firm tenure, ownership, size, sector orientation, and community impact. The most challenging of these is community impact where there are no easily accessible definitions (or data) on how businesses might support the short- or long-term welfare or people in the community.

- **Limited data about legacy businesses.** Also the definitional issues described above, there is limited Seattle-specific, comprehensive, and precise data on business characteristics and the reasons why long-tenured firms go out of business. Also, there is little professional or academic study on the effectiveness of programs targeted at “legacy” businesses as defined in this study.

- **Unintended consequences.** Public efforts to support legacy businesses can achieve a socially efficient allocation of resources if they support the viability of culturally and historically important businesses without harming consumers or other businesses. However, it is not in the public’s best interest to protect poorly run firms from competition, arbitrarily pick winners and losers, and create barriers to entry for new firms.
Program options

Based on our work in this study, there are three potential courses of action that the City could pursue to support legacy businesses:

1. **Refine or expand existing OED programs to better support legacy businesses.** OED has many existing programs that promote economic development and support small businesses, including the Only In Seattle Initiative and the Mayor’s Commercial Affordability Initiative. These programs could be modified to add a legacy business lens.

2. **Create new business assistance programs specifically targeted towards legacy businesses.** Older legacy businesses may face specific challenges that are not currently emphasized in OED programs. For example, new technical assistance programs could be targeted towards successful succession planning or lease education.

3. **Work with other city departments to create a comprehensive legacy program that includes community groups and non-profits.** Non-profits may play similar roles to legacy businesses, in that they provide community gathering places and strengthen the social fabric of the city. OED could partner with other City departments (including the Department of Arts and Culture and the Department of Neighborhoods) to create a comprehensive program that provides resources to support these community legacy businesses and groups.

The following pages discuss each of these program options in more detail.

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**Better data on legacy and small businesses is needed.**

In addition to the three program options, the City could pursue the creation of a comprehensive business and employment data set for Seattle. This dataset would provide more insight into legacy businesses (and other small businesses) and help the City formulate effective policy responses.

The creation of a business and employment data set would improve the City’s understanding of firm dynamics about many of the issues confronted as part of this study, including how many legacy businesses exist, why old firms go out of business, and neighborhood-level impacts. Using current administrative data gathered by state and city agencies, the City can link employment, business license, business output information to create deeper intelligence on firms on their performance and differentials by relevant issues.
Option 1. Refine or expand existing OED programs to better support legacy businesses.

Seattle OED currently operates a range of local, small business assistance retention programs (see page 40 for additional details). While legacy businesses are not a focal point of these programs, finding ways to better reach or tailor programs to legacy business would be beneficial. OED already offers technical assistance to businesses and those services could be tailored to better reach legacy businesses.

Opportunities to refine OED programs through a legacy lens include:

- **Targeted outreach for the Grow Seattle Fund.** Grow Seattle is a partnership with the National Development Council (NDC). It provides flexible and patient expansion loans for existing businesses. Loans range from $100,000 to $3,000,000. Legacy businesses may be able to access these funds to deal with one-time space planning or other business needs. Targeted outreach to minority and women business owners may be warranted to account for greater observed challenges from those groups accessing lending.

- **Marketing and promotion.** All small business struggle effective marketing and promoting their business to customers. Targeted marketing technical assistance or recognition programs could be beneficial. Local chambers, business groups, and government agencies periodically recognize local businesses. OED could work with these groups to tailor a legacy business award that would recognize the business for their impact on the local community.

- **Commercial Affordability.** Based on the Commercial Affordability Advisory Committee’s recommendations, the City of Seattle will implement provisions to include affordable commercial space for food and retail businesses in publicly owned spaces and deploy a Commercial Affordability Consulting Team to assist small businesses and small-scale property owners. As part of these initiatives, special attention can be given to legacy businesses for affordable commercial space or assistance given from the consulting team.

- **Only in Seattle Initiative.** The Only in Seattle initiative provides ongoing support to business districts to work in five strategy areas: organization, marketing & promotion, business and retail development, appearance & pedestrian environment, and safety. As part of their cooperation with OED, the business districts can incorporate approaches to be inclusive of legacy businesses along the respective strategy areas.

These would be lower cost options that could likely be implemented within existing resources, yet some additional support may be necessary. Since the activities are mostly outreach and definitional or exist within current program efforts, there will likely be no legal implementation efforts.
Option 2. Tailor existing technical assistance programs specifically addressing unmet needs of legacy businesses.

Seattle OED currently operates a range of local, small business assistance retention programs (see next page for additional details). While legacy businesses are not a focal point of these programs, finding ways to better reach or tailor programs to legacy business would be beneficial. OED already offers technical assistance to businesses and those services could be tailored to better reach legacy businesses.

Based on analysis and outreach conducted as part of this study, legacy businesses may face challenges for which outside technical assistance could be beneficial. OED already provides technical assistance and could expand its offerings to include new programs specifically tailored to fit the needs of legacy businesses. This includes succession planning, commercial leasing support, and exploring ways for businesses to buy their space as opposed to lease. Potential technical assistance programs include:

- **Succession planning.** Many small business owners have no exit strategy for their businesses in the event of their disability or retirement. Running a small business is a challenging and all-consuming affair. Most small business owners focus their energies on business survival and future growth. However, a planning for a business exit strategy means planning for retirement (or a next venture) but also means having a plan for the succession or transfer of ownership of the business. Finding a suitable successor is a difficult proposition. Not all employees or family members are well suited to run a business. As part of the OED technical assistance offerings, succession planning services could be offered to inform business of succession planning services and connect business owners with other entrepreneurs that might be interested in purchasing the company.

- **Lease and space planning assistance.** Leasing commercial space is one of the largest expenses incurred by small business. Rent costs are one of the largest operation costs (outside cost of goods sold) that many legacy businesses will confront. Many small businesses are not familiar with the terms of leases or lack the resources to be connected with reputable professionals. OED could provide specialized resources for leasing commercial space that could cover key items such as the general lease agreement (i.e. price and term), expense items outside of rent such as common area charges, maintenance and repair responsibilities, add-on clauses, and default provisions.

- **Condominium-ization or joint ownership of retail space.** There are many issues related to the creation of condos for retail that could be explored as a way for legacy businesses to own and control their space. While upfront capital would be needed, owning the space could be advantageous to longer tenured businesses where because ownership insulates them from rapid increases in commercial rents or physical displacement. There could be an opportunity as Seattle sees more demand for condo properties but this would also need to consider the entanglements that co-op or condo boards might present. Commercial land trusts are another option that the City could explore as a way to help legacy businesses control their spaces.

In comparison with Option 1, this is a slightly higher cost option that could likely be implemented with expanded resources. The technical assistance offered in these actions would require expanded services regarding succession and real estate assistance. Because these are new services, legal review would be required to ensure that the programs comply with Washington State law.
Old School Frozen Custard opened in 2007 and quickly became a Capitol Hill favorite. While the two other Seattle locations of the small chain closed in the coming years, the Capitol Hill location remained, much to residents’ delight. When its co-owners were ready to retire after nine years, they wanted to keep the store alive and sought to sell to new owners. They were initially unsuccessful; Old School closed in 2016 and was duly eulogized in various neighborhood blogs.62

Fortunately, two locals and longtime fans of Old School saw the closure and decided to step in to resurrect the store.63 Meg and CJ Chaney had loved Old School for years, so much so they served it at their wedding instead of cake. Passionate about the product, they bought and quietly reopened the store, keeping the classic recipes and community atmosphere. They’ve kept their day jobs as a producer for an app store games company and founder of a tech company, respectively, in addition to continuing to run “Meg’s Retro Cookies,” which Meg founded in 2014. Naturally, the cookie company now supplies Old School with baked goods for ice cream sandwiches. Thanks to the quick involvement of the Chaney’s, Seattleites continue to enjoy Old School’s frozen custard.

While the serendipity—and a strong neighborhood connection—worked out well for Old School, many small businesses do not have succession or sale plans that might allow for their continued operation. Viable businesses may close when an owner decides to move on and cannot find a willing buyer. However, succession planning is complicated, and all situations are unique yet assistance in finding buyers, transitioning out of business, and structuring the financial sale or lease of business. For example, SBA’s 7(a) loan program can help a qualified buyer finance the purchase of business over as many as ten years.
Option 3. Work with other city departments to create a comprehensive Legacy Program that includes community groups and non-profits.

Many business and community stakeholders related the community impact of legacy business to the services provided by a range of community, housing, arts, and social service organizations that tend to be non-profit in composition. In addition to OED, the City may consider bringing in a number of other city departments that have working and informal relationships with these groups, such as Department of Neighborhoods and Department of Arts and Culture. Coordination between departments would likely be necessary to create a more comprehensive legacy program and find dedicated resources to support actions.

A formal legacy program would require additional City resources to support any assistance/incentives offered along with increased administrative expenses. Of the three options, it would have the highest cost. Since this would be an entirely new program, there would be higher programmatic costs associated with staffing, legal review, and program design.

At a minimum, this effort should be focused on defining the following program parameters:

- **Definitional and eligibility criteria.** As noted above in the legacy business definition section, there are myriad of dimensions that must be addressed, considered, and defined to identify the population of entities. This study has settled on a workable definition, but city decision-makers may desire to amend the particulars.

- **Nomination or application process.** Given the complexity of issues surrounding community impacts, many national and international programs have used some form of application or nomination process to formalize consideration. In some settings, a business may petition to be considered, or local community and elected officials may nominate entities.

- **Screening, scoring, and selection process.** Following the nomination or application process, there may need to be some screening (which could include some formal scoring process) to select and confer legacy status on an entity. Here, a critical issue will be the determination of what body determines the status and the process for doing so. Would city council decide or would that authority be delegated to some existing or new body?

- **Resources for Support.** As stated above, the city has limited ways it can support businesses due to legal, constitutional limitations. Further, it has limited financial resources at its disposal from which it could draw to support new activities. Moving forward, it would be likely that legacy support programs would need to
either 1) reprogram existing levels of funding, or 2) seek new forms of incentives or financial support. Based on the review in the study, a handful of ideas were considered below. Regardless, any deployment of resources would need to consider, at a minimum, how long would the support last; who would administer the funds; and what oversight or audit measures would need to be in place. Options for funding sources include:

- **Use of existing CDBG monies.** CDBG monies are a fixed amount, and no new money is available for legacy businesses. The City has some flexibility with its use of CDBG, but using CDBG for legacy businesses and community organizations would require re-examining existing priorities.

- **Preferential tax treatment.** The City could extend preferential tax treatment to a new class of legacy businesses through the exemption of business and occupation taxes or utility rate/tax exemptions. The tax expenditure for these programs would mean less tax revenue collected or that the burden of funding them is shifted to other taxpayers.

- **Other City Programs**
  - The City may explore the use of affordable housing programs that the city administers to create affordable commercial space that non-profits may occupy. This may be challenging given the limitations of commercial programming spaces in these projects as well as the impact it would have on available resources for affordable housing.
  - The City may consider using the street/alley vacation process and require that the project must provide affordable commercial space and sign a long-term lease with a legacy entity as part of its community benefit requirements.
  - The City may revise its incentive zoning-density bonus program to include a provision for commercial affordability as a condition of participating in the program. This may be challenging given the focus of the incentive program on housing affordability and the implementation timeline of the Mandatory Housing Affordability program.
  - The City may consider the creation of an 8-year multifamily property tax exemption (MFTE) program targeted towards legacy businesses. As a condition of approval of the tax exemption, a project must provide affordable commercial space and sign a long-term lease with a legacy business or community group. The legality of this program would need to be reviewed, as well as its impact on city property tax collections and how it would work in conjunction with the 12-year affordable program currently in place.
CASE STUDY ON NAVIGATING THE TRANSITION FROM LEGACY BUSINESS TO NON-PROFIT: SCARECROW VIDEO

Scarecrow Video is a globally recognized haven for film preservation and movie aficionados. Founded as a video rental store in 1988 in the University District, Scarecrow is known for both the quality and size of its collection; with more than 130,000 titles, it is well over ten times the size of Netflix’s catalog. Many of its titles are rare films preserved from around the world, some of which are only available at Scarecrow. Despite the rarity of its catalog, every title is accessible to the public, making Scarecrow a beloved establishment for generations of Seattleites.

Scarecrow successfully changed hands when its founder retired in 1998. In the late 2000’s, however, rental business steadily declined due to competition from online downloads and streaming services. Between 2007 and 2013, revenues fell by 40%. In 2013, Scarecrow’s owner sent out a plea for the community support that resulted in a temporary uptick in business, but the store’s future remained uncertain.

Fortunately, store employees created a plan to save Scarecrow by turning to a non-profit business model. In 2014 the owners of the original for-profit business donated the collection to the new non-profit, The Scarecrow Project. The board of the non-profit is made up of employees and community members. To fund the transition to non-profit, Scarecrow raised $130,000 through a Kickstarter campaign, which served as both financial support and a signal of the public’s willingness to support Scarecrow’s mission.

Three years later, Scarecrow continues to be a community landmark. While the transition continues to be demanding, the non-profit model allows for flexibility in membership, donations, and volunteers. Scarecrow’s focus is on maintaining a high-quality, accessible public archive and hosting community events both at their location and in the community. On a recent survey of the businesses that Seattleites most fear will close, Scarecrow topped the list, but fortunately, the change in business model provides opportunities for a brighter future. With the continued dedication from Scarecrow’s many employees, volunteers, and board members, and with the community’s continued financial investment, this film sanctuary could be around for many future generations to come.

The Scarecrow example highlights a business who underlying marketplace changed necessitating in a shift from a private enterprise to one with a public mission. Similar types of organizations with community legacies can be explored as part of a larger legacy program that more holistically examines the public contributions from a range of organizations.
Endnotes


7. City of Seattle Office of Economic Development analysis of data from Finance and Administrative Services on business openings and closures.

8. Ibid.


10. Percent of King County firms with <10 employees: U.S. Census 2015 County Business Patterns


12. Ibid.


14. Ibid.

15. Ibid.

16. Ibid.

17. Ibid.


20. Ibid.


22. Ibid.

23. Ibid.

24. Ibid.


26. Ibid.

28. Ibid.
29. Ibid.
30. ECONorthwest analysis of data from the City of Seattle Office of Economic Development and Finance and Administrative Services on business closures.
31. Ibid.
32. Ibid.
37. Ibid.
38. Interview with Messeret Habeti on August 28, 2017.
39. Typologies were chosen by the consultant team in consultation with OED in order to represent a range of small business types that serve as community gathering places.
40. Information for typologies comes from U.S. Census Annual Retail Trade Survey and IBISWorld Industry Reports.
42. Ibid.
43. Ibid.
44. Ibid.
49. Ibid.
53. Ibid.
56. IBISWorld Industry Reports, 2017.
ENDNOTES AND PHOTO CREDITS

affordability


60. Ibid.

61. Ibid.


66. Interview with Kate Barr, July 31, 2017.

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Northwest African American Museum
Zagol Ethiopian Restaurant

Roundtables, Focus Groups, and Interviews

U District Partnership Roundtable:
Al’s Music Video & Games
Big Time Brewery
Brooklyn Ave Dental
Brooklyn Frame Shop
Bulldog News
Café Allegro
Gargoyles
Hardwicks
Magus Books
Pink Gorilla
Scarecrow
Ugly Mug Café