

Retail Market Strategy Case Studies Madison, Wisconsin

City Statistics

- Estimated Downtown Population: 35,000
- Estimated MSA Population: 520,000

Downtown Management Organization History

Retail recruitment and retention activities are managed through a Business Improvement District function administered by Downtown Madison, Inc. (DMI), the city's downtown management organization. The Business Improvement District was established in 1999 with the goals of making the downtown area clean and safe, maintaining roads and infrastructure, and addressing the interests of the downtown business community when issues arise within the city. The BID boundaries encompass a one-mile zone including retail shops, restaurants, bars, and office buildings (both public and private) that stretch from the University to the State Capitol. The BID is funded by receipts from a special taxing district, and has an annual marketing budget of approximately \$50,000. The BID's primary target markets are those who live and / or work in close proximity to downtown, including the student population.

Retail Development Strategies/Incentives

Recent marketing efforts around downtown and in print publications have made a significant push to attract downtown shoppers. All stores are encouraged to remain open until 9:00 pm, and retailers have overwhelmingly supported the continuation of the program. Many retailers have reported a doubling in sales as a result of the extended operating hours. The BID has also worked to minimize disruptions caused by capital investment in public spaces. As an example, for renovations being done on State Street, the BID worked with the contractors to make sure that access to all of the stores was maintained throughout construction.

Officially, DMI has outlined five areas of focus:

1. Marketing & Research
 - Focus on making Madison unique
 - Attract outlying residents to come into downtown
 - Promote partnerships between downtown businesses
2. Government Research
 - Communicate with policymakers and integrate businesses and business issues into the city development and planning process
3. Transportation

- Aim to avoid Downtown Madison being isolated due to lack of accessibility
- Provide a transportation shuttle for University of Wisconsin students
- Promote pedestrian movement through the downtown area

4. Parking

- Create an overall parking plan for downtown by coordinating an assessment of current policies and capacities
- Influence of public transportation and proposed improvements

5. Economic Development

- Promote and support the downtown retail community and to encourage downtown residential development
- Ensure viability of the BID
- Create and maintain a “sense of place” in Downtown Madison

DMI and the BID are also currently involved in a retail summit process. The BID is conducting a broad opinion inquiry that takes into account the opinions of everyone associated with Downtown Madison, from residents, employees and students, to shoppers, property owners, and developers. Those who wish to participate in the process are having one-on-one interviews with the BID and DMI so that a comprehensive and united policy can be adopted to best serve the interests of downtown retailers for the next 15-20 years.

The downtown is shifting from being primarily a business center to include residential and entertainment neighborhoods. As this shift occurs, maintaining sufficient parking is a prime consideration as mixed-use developments are built. In large part due to the increasing cost of land downtown, many of the recent and current residential projects are decidedly more upscale in quality and price than preceding examples. The policy of the Madison City Council, however, have been structured such that downtown Madison can have a healthy mix of housing types and prices. Many of the retail stores along State Street are independently owned, but with a small number of chain affiliated retailers (most are small). Downtown has not had to shape policy to keep big box retailers because the sizes of the available retail spaces do not make big-box stores possible downtown. The average size of a retail shop on State Street is approximately 1,500 square feet. While there are a few national chains, such as the GAP, State Street has retained the majority of its independently owned retail stores. Due to continued redevelopment on streets connecting to State Street (the downtown’s historic “Shopping Street”), city officials are discussing a policy initiative that would limit the number of chains in the downtown area.

Results

With the leadership of DMI’s transportation committee, a study was conducted by the New Transportation Alliance regarding the feasibility of light rail in Madison. The study

concluded that Madison has a strong regional economy and employment growth rate and it does meet the necessary requirements for population density to warrant light rail development. The city is now looking to other cities which have recently built light rail /trolley services, such as the systems in Portland, Oregon, and San Diego. Currently, the metro bus system is effective at bringing people into downtown from West Central and East Central Madison, however, because the downtown is on an isthmus, circulation into the CDB from other locations is more difficult. As a result, the public transit system is not yet truly regional. Plans are in the initial stages to create a light rail or some other form of mass transit system that will conveniently link downtown with the outlying areas of the Madison MSA.

Currently, State Street is experiencing construction related to the new Performing Arts Center, and other infrastructure improvements. DMI has recommended that these types of capital improvements occur in other downtown areas besides State Street, and that the area considered to be part of “downtown Madison” should be expanded. As DMI and other agencies market downtown as a good place to live and work, preparations must be made to accommodate the increase in population density in the district. DMI has identified a need for more mixed-use developments for housing, retail, and parking. With the planned expansion, developers will have guidance from DMI to ensure that the plans preserve existing buildings and appropriately incorporate their character and scale in the design of new infill projects.

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Relevance to Downtown Austin

DMI’s focus on a one-mile strip of retail shops, restaurants, bars, and offices that stretch from the University to the State Capitol has solidified the area’s identity as a downtown shopping district. By fostering the area’s identity as a shopping district and extending hours into the evenings when more shoppers are available, DMI has attracted more customers to shop downtown. This strategy has not only resulted in more consumers, but more retailers as well. According to the DMI, since stores have expanded hours until 9:00 pm, some retailers have reported a doubling in total annual sales.

Austin could also learn from DMI’s experience in connecting the dots between the need for a comprehensive public transportation initiative and the potential linkages to foster residential and retail development. By focusing on initiatives to promote pedestrian movement through the city, the DMI has further helped to develop the foot traffic that retailers need during the day and evenings, during the week, and on weekends.

Likewise, Austin is in the process of evaluating a number of key long-term transportation initiatives that offer the opportunity to leverage transportation dollars for the purpose of retail revitalization. The outcome of these transportation strategies will undoubtedly impact the potential for the downtown to improve pedestrian access and foot traffic flows, thereby linking the primary retail nodes from the Convention Center, through 2nd Street (AMLI development), and further east to the Market District, and north long Congress Avenue through the Warehouse and East 6th subdistricts.

For example, it is ERA's view that the Capital Metropolitan Transportation Authority's proposal to create a rapid bus route along Congress Avenue will drastically reduce the potential for Austin's historic shopping street to recapture the pedestrian retail activity of its past. The proposal intends to implement a "high-tech" bus that holds the traffic light green until the bus passes through the light. The proposal is intended to significantly speed up bus commutes.

However, ERA's experience in other locations considering rapid commuter bus lanes suggests that the increase in commuting time efficiency can disrupt pedestrian patterns in ways that discourage street retail activity. Portland's bus ways have lost street retail; remaining stores do not achieve strong sales, resulting in higher vacancy and lower productivities along the bus routes. It is likely that the rapidly traveling buses would restrict or eliminate on-street parking along Congress, and expanded bus stops will impede both physical and visual access to store fronts.

Instead of a dedicated bus way system, ERA suggests that downtown retail in Austin would better benefit from the proposed Commuter Rail Urban Service and the Commuter Rail Regional Service. For example, the Urban Rail Service would operate on existing freight tracks leading to downtown, providing convenient service for both suburban and central city passengers.

Portland, Oregon

City Statistics

- Downtown Resident population: estimated 16,000
- Downtown Office population: not available
- Estimated MSA Population: 2,020,000
- Estimated Downtown Housing Units: 13,000
- Estimated Downtown Retail Space: 2 million square feet
- Parking capacity: 35,645 off-street parking spaces, and 11,749 on-street spaces.

Downtown Management Organization History

In order to better leverage Portland’s strengths and to serve these independent retailers, the City of Portland established two primary entities:

- The Downtown Retail Council (DCR)
- Portland Business Alliance (PBA)

The Downtown Retail Council (DRC) is responsible for developing and conducting retail promotions in Downtown Portland. Its strategy is to represent the interests of downtown retailers with business environment and policy decisions by providing a unified advocacy voice in city policymaking. The DRC provides retailers access to data reports and market analysis that impact local businesses, markets downtown as a retail and dining destination, and attends conferences focused on the recruitment and retention of retailers to the downtown.

The Portland Business Alliance is a private, not-for-profit 501(c)(6) organization established in 2002 to promote economic development initiatives in the Portland region by providing strong leadership, partnership, and programs that encourage business growth. The Alliance was formed primarily to combine the activities of the Regional Chamber of Commerce and the former Association for Portland Progress, one of the earlier downtown Business Improvement Districts in the United States, established in the early 1980’s.

The Portland Business Alliance (the combined BID and Chamber of Commerce) worked in partnership with the City of Portland, whose Development Commission teamed with the PBA to conduct research, develop public/private strategies and direct policies and funding (when possible) to support projects in the central business district, create planning directions that would continue to develop and/or protect downtown, and build political consensus. Until earlier this year, the PBA received over half of its annual income from revenues earned through management fees collected for operation of several City-owned parking garages, a concession granted by the City of Portland. However, a political dispute between the current Mayor and the Business Alliance’s Executive Director resulted in the



City's canceling the parking management contract, and a resulting reduction in staff and programs by the PBA.

Retail Development Strategies/Incentives

The Portland Business Alliance (PBA) has several committees, including:

- Transportation
- Downtown Marketing
- Economic Development
 - Identifies effects of existing and / or proposed policies
 - Analyzes the connection between public policy and the effects that is implementation has on businesses.
- Portland Small Business Alliance
 - Oversees the implementation of small business strategies

Most importantly, the Portland Business Alliance established a dedicated position to oversees retail recruitment and retention. This person serves as an intermediary between the DRC, the PBA, downtown businesses, and local governments. The manager is responsible for meeting with local and independent retailers in order to preserve and strengthen existing businesses and to attract new businesses.

Results

Through the collaborative efforts of the City of Portland and local businesses, the city constructed, owns and operates “Smartpark”, a parking system that provides free parking for more than 700 businesses. The system operates with a validation for up to two hours. The marketing goals of the Portland Business Alliance and the Downtown Retail Council are to attract six to eight new retail stores every three to five years. This year, the two organizations attended the International Council of Shopping Centers annual conference to market Portland as a site for destination retailers. The City of Portland is currently in negotiations with two major national retailers (name withheld due to confidentiality issues).



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Relevance to Austin

Austin currently has approximately 3,200 existing or planned downtown housing units, about one-fourth the number of units in downtown Portland. One of the primary recommendations of the International Downtown Association Retail Panel to the DAA is that Austin focus on expanding its core downtown housing to provide additional direct market demand for retail goods and services. In ERA’s opinion, Portland is an excellent example of what a solid downtown residential market can do for retail development.

It is also important for Austin to realize that Downtown Portland’s renaissance did not occur overnight – but over a fifteen-year period, and due to a number of key contributing factors such as implementation of the regional transit system. Portland’s urban revitalization occurred, in part, because the region adopted a sweeping legislative action that restricted outward growth within a designated growth boundary, the only US city to undertake such as controversial planning policy. As outward sprawl became more restricted, redevelopment and investment increased in the formerly dilapidated central business district. However, like Austin, Portland benefited from the technology boom in the northwest, as well as becoming a relocation alternative for Californians who sold out of highly valued real estate and sought more affordable locations that offered a high level of quality of life.

With real estate values lower than Seattle and northern California, sophisticated lifestyles and more moderate traffic volumes, Portland drew thousands of new residents, many to the downtown area. The City government also responded with housing-friendly policies (selected rezoning of former warehouse and industrial areas, flexible code structures to encourage re-use, and visionary planning directives that fostered thousands of new dwelling units in the downtown area. Today it contains several vibrant residential neighborhoods and three successful retail districts – the core area around Pioneer Square and Broadway, the Pearl District and the 22nd Street corridor, which includes numerous locally-owned specialty shops selling clothing, shoes, books, art galleries, furniture and accessories (both imported and domestic) and housewares.

In particular, the Pearl District has made downtown living a trendy alternative, with a number of converted warehouse and industrial buildings renovated into lofts, condominiums and rental apartments. As a result, the demographic characteristics of downtown Portland residents have become primarily high-income, highly educated professionals, empty nesters returning to the city, and young urban dwellers who both prefer downtown living and can afford to pay for it. The Regional Growth Boundary in

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Portland has boosted retail real estate values by encouraging development of infill properties in the downtown area, as well, with new residential development along the Willamette River, Chinatown and other emerging areas. Downtown condominiums average a reported selling price of \$340 per square foot.

Concurrent with this strong residential growth, Portland's retail market has flourished. Portland has a significant cluster of local and independent retailers located downtown, particularly along 22nd Street, which has become a specialty shopping and dining district for the entire region. Local zoning policies have been implemented to ensure that big-box retailers do not adversely affect downtown businesses. Retailers have another advantage in Portland, in that there is no sales tax. Situated 15 miles from the Washington (state) border, Portland can attract an atypically large percentage of out-of-state consumers, as well as serving in-state shoppers who may have shopped elsewhere without saving sales tax.

The downtown area also has a number of national retail tenants (many clustered in Pioneer Place mall, a three level retail center anchored by Saks Fifth Avenue (two stores, one for men) as well as downtown locations of both Meier & Frank, a regional department store chain owned by the May Company and a Nordstrom store, both of which are located on other sides of the two square block Pioneer Square. One of the Pioneer Square blocks is a multi level plaza that serves as the City's symbolic heart and center of civic activities and programming (i.e., the City's Christmas tree is located on Pioneer Square, as are Fourth of July concerts and other seasonal events. Portland is also unique in that both Meier & Frank and Nordstrom each have full-sized department stores in Lloyd Center, a secondary commercial district located less than one mile from Pioneer Square across the River and adjacent to Portland's recently expanded convention center. Unlike most convention centers, Portland's does not have a cluster of hotels around it; visitors stay in the numerous downtown hotels across the river, providing a lively market for evening dining and shopping downtown by conventioners.

In total, Portland's nearly 13,000 housing units helps to support approximately 2 million square feet of active retail space in the downtown and in the Pearl District. In contrast, Austin currently has 3,200 housing units developed or under construction. Austin holds many of the same "quality of life" characteristics as Portland that serve well in attracting new residents to its downtown. In short, by focusing on residential development, retail development will follow.

Portland has also been recognized as an innovator in regional mass transit, with a combination of high-speed bus lines, a regional light rail that stretches throughout the area and links downtown and the convention center directly to Portland International Airport. There are also buses that connect outlying areas, running through the CBD along dedicated bus ways that restrict on-street parking and non-bus vehicular traffic downtown. The bus ways have proven problematic for retail, however, and the PBA and Portland Development Commission are exploring ways to redefine the bus streets, as retailers have struggled to survive in a bus-dominated environment. Portland is also investigating the potential for expanding a light rail system that in order to make two main streets (5th and 6th St.) more



accessible to pedestrians. Austin should consider Portland’s experience with a bus-dominated environment when evaluating the proposed Rapid Bus System routing.



San Diego, CA

City Statistics

- Estimated Downtown Housing Units: 11,000
- Estimated Downtown Population: 12,500
- Downtown Employees: 75,000
- Estimated MSA Population: 2,910,000

Downtown Management Organization History

The San Diego Centre City Development Corporation (CCDC) is a public, non-profit corporation created by the City of San Diego to staff and implement Downtown redevelopment projects and programs. The organization was formed in 1975 and serves on behalf of the San Diego Redevelopment Agency as the catalyst for public-private partnerships to facilitate redevelopment projects. The organization functions through an operating agreement with the City of San Diego as Agency's representative in the development of retail, residential, office, hotel, cultural and educational projects and public improvement projects.

The CCDC was very influential in initiating the redevelopment of the Gaslamp District in Downtown San Diego. This district is viewed as the first formal Business Improvement District in the country. Planning for its development began in 1975, and within the past decade, the area has undergone significant redevelopment. The Gaslamp District has become a primary destination for dining, entertainment, and retail. In addition to the 77,000 people who work downtown, the area is a popular destination for shopping. As a result of the downtown's popularity, its housing market is booming with 5,000 new residents having moved into downtown in the past few years. In the next few years, 8,000 more are expected to reside in the many new mixed-use buildings currently under construction. Many existing buildings downtown are already mixed-use, with retail or restaurants at the street level, and offices or residences above.

Retail Development Strategies/Incentives

An instrumental part of making downtown accessible to the Greater San Diego area has been the trolley, a light rail system that stretches up to 20 miles from downtown toward the east and south to the Mexican border. One quarter of those who work downtown take public transportation to work, and it is also a popular mode of transportation to baseball games. PETCO Park, the new home of the San Diego Padres, opened in April 2004, and is already a significant source of revenue for businesses in the downtown area, particularly the Gaslamp. The ball field is also located near the recently expanded San Diego Convention Center, and its surrounding hotels.

There are four main projects that have been instrumental in the development of downtown San Diego: Horton Plaza (an innovative downtown shopping center that was planned to link to the street grid and which brought national retailers to downtown under centralized

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mall management), the Gaslamp District BID; the San Diego Convention Center, and PETCO Park. Horton Plaza opened in 1985, yet it was not until downtown became filled with restaurants and the Convention Center expanded (in 2001) that Horton Plaza took off as a regional destination for shopping, dining, and entertainment. Horton Plaza retailers average approximately \$300 in sales per square foot. Another outdoor retail center is Seaport Village. Here, most retailers are independents, and the biggest draw is its location directly on San Diego Bay. Daytime retailing here, and in San Diego overall, flourishes because the population base is growing, the weather is consistently among the best in the country, and there are a large number of year-round tourists and conventioners. Average sales per square foot at Seaport Village average at approximately \$550.

Specific areas of downtown, including the 16 block Gaslamp District, were designated as residential, commercial, and / or retail. The city believes it no longer needs to give retailers an incentive to conduct business downtown. However, downtown redevelopment projects, beginning in the 1970s, were formulated with incentives and written down land costs that prompted retailers to open stores, especially when Horton Plaza was in its development period. The City of San Diego, San Diego County and the Port Authority committed significant public funds to construct the regional trolley system, Horton Plaza, the Convention Center (and convention center expansions), and PETCO Park, and all have paid for themselves through the taxes that were generated, and are now steady sources of revenue for the bonds that originally were used to cover capital investments.

The Gaslamp BID resulted from a concerted effort by developers, city planners, and property owners to attract businesses to what had been a seedy downtown historic district. Specific areas of downtown, including the 16 block Gaslamp District, were zoned for residential, commercial, and / or retail use. San Diego's BIDs are administered by the City's office of Small Business. The BIDs work closely with elected officials and city staff to voice concerns, monitor regulations, and secure additional funding for marketing and business development. BIDs organize special events, advertising campaigns, and also market the district to potential businesses to reduce vacancy rates. BIDs receive additional funding through City grant programs, creating an excellent return on investment for both the City, and for small businesses. The City is committed to supporting its BIDs because they strengthen small businesses, create jobs, attract new businesses, and revitalize older neighborhood districts. The Gaslamp District consists of 97 historic sites and buildings over a sixteen-block area that serves as a pedestrian-based entertainment/dining and shopping district that serves residents, office workers, tourists and convention visitors. The location of PETCO Park at the edges of both the Gaslamp and the Convention Center district along the waterfront has already proven to be a catalyst for new residential and hotel development in an area that had not yet been revitalized.

Results

Given the CCDC's long tenure as a downtown development entity, there are a number of significant achievements to attribute to their activities. Most notably, the organization was a very important supporter of the Horton Plaza retail redevelopment. This shopping complex is a 7 level outdoor mall that is large enough to support 140 chain stores and independent retailers. The complex stretches through six blocks of downtown.

According to local sources, there are currently more than 100 residential, commercial, retail, and entertainment projects currently underway in Downtown San Diego. Real estate prices downtown, especially those with views of the waterfront and PETCO Park, have jumped in response to the park's construction, and downtown businesses are benefiting from increased foot traffic. Planned capital improvements include new sidewalks, streetlamps, and landscaping.

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Relevance to Austin

The redevelopment of downtown San Diego began almost thirty years ago with a strategy to turn the Gaslamp District. Similar to Sixth Street, the Gaslamp was a collection of deteriorated historic structures that offered potential for redevelopment, but largely contained seedy bars, SRO hotels and other low end businesses that catered to visiting sailors. The area was perceived as unsafe, had significant vacancies and had experienced disinvestment. Through public policy and creation of a BID to encourage re-investment and provide central marketing and security, the Gaslamp slowly redeveloped as an entertainment and dining district that draws from throughout the region. Safer, more active streets, lower property values and more favorable zoning encouraged residential developers to create multiple pedestrian scaled housing developments in downtown San Diego. These projects happened incrementally, much like those in downtown Austin, initially appealing to a more affluent market of pioneering residents attracted to downtown living, and later becoming more mainstream as the number of residents increased. The City and the Center City Development Corporation then encouraged development of Horton Plaza, one of the

first downtown shopping center/mixed-use projects to be developed in the United States. Designed to relate to the street grid and to evoke highly designed public spaces in Europe and South America, Horton Plaza introduced a major critical mass of shoppers goods retailers, a cinema complex, restaurant cluster and two department stores into a carefully planned six square block area. By having both department stores and national chain retailers in an innovative downtown center, the regional residential market began to shop more often downtown, also drawing local and independent retailers to Horton Plaza and the surrounding blocks. The City has continued to encourage downtown residential development, and has used incentive funds to attract a downtown grocery store as well as to include affordable housing as part of the mix (through the Housing Authority). High quality design has been a central requirement for downtown housing, and it is often not possible to tell the difference between affordable housing and upscale market rate housing.

The regional transit system was planned to tie into waterfront redevelopment in the former Port Area. Now redeveloped by the Port Authority of San Diego, the old port district includes the highly successful San Diego Convention Center, one of the most popular convention sites in the country due to San Diego's temperate weather, outdoor lifestyle and attractive amenities nearby (the Gaslamp District is only a few blocks from the Convention Center. Because the Port Authority is prohibited from developing housing, its land use and financial incentives have focused on creation of the convention center and a series of high rise hotels along the waterfront. The regional trolley passes alongside the convention center, and allows convention visitors to reach hotels, shopping and entertainment areas in other parts of the downtown. Unlike Austin, both of the major universities (San Diego State University and the University of California at San Diego) are located five to ten miles from downtown. Most student expenditures are for dining and entertainment, or as part of destination shopping trips to Horton Plaza.

PETCO Park, the new home of the Padres, was deliberately located in the downtown area, with the critical views of the waterfront and downtown skyline, as a means to give local residents and visitors another reason to spend time in downtown San Diego. The park was designed to fit into the character of the downtown and adjoining Gaslamp areas, and has catalyzed redevelopment of nearby warehouse blocks into housing and retail (both rehabilitation and new infill construction. Because the area has evolved over time, different development cycles have accelerated or slowed down creation of new uses, as warranted by market support. However, the City and business community have sustained a long-term commitment to downtown redevelopment, using bonds, zoning policies, transportation funding, Housing Authority bonds, tax increment financing and Port Authority bonds to leverage private investment in a range of uses. The number of downtown residents has established downtown San Diego as a thriving residential neighborhood, with over 5,000 new residents added in the last five years, and another 8,000 units currently under construction.

San Diego has also created a clear identity for its downtown as a tourist and convention destination, in which residents and visitors share in the amenities that downtown housing has fostered. Like downtown Austin, San Diego has subdistricts that cater to different markets, and most are slightly too far apart to walk easily, even in San Diego's balmy

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climate. The trolley is safe, easy to use, inexpensive and enjoyable, so it has grown to connect the multiple parts together for residents and visitors alike.

The major point to consider is that downtown was identified as a primary redevelopment area in the 1970's, and there has been a consistent public policy commitment (funding/finance, leveraging of private investment with public dollars, and an evolving vision – first the Gaslamp, then Horton Plaza, then downtown housing and integrated transit and more recently, PETCO Park- to keep downtown viable and give residents and visitors reasons to keep coming back.

Providence, RI

City Statistics

- Estimated Downtown Resident Population: 2,700
- Estimated Downtown Employees: Not available
- Estimated MSA Population: 1,615,000

People that work downtown are of a mostly up-scale demographic, and contribute significantly to the revenues generated by downtown businesses. There is a financial center with multiple banking offices, as well as law firms, and other white-collar industries. Another major industry is health care with a cluster of hospitals affiliated with educational institutions. The hospitals are both teaching facilities and research and development facilities. Downtown Providence also has a wide variety of independent restaurants that benefit from the presence of the main campus of Johnson & Wales University, one of the two major teaching programs for hospitality and food service in the United States (the other being the Culinary Institute of America). Brown University and the Rhode Island School of Design (RISD) are both located immediately adjacent to downtown Providence. The downtown also receives significant foot traffic from the more than 60,000 students, many of whom attend universities that are located within walking distance of downtown restaurants, bars, and retailers, including the Providence Place Shopping Mall. Public transportation is not a major issue in Providence because the outlying areas lack the population density necessary to support a mass transit system, such as light rail. Providence is, however, along the Amtrak line between New York and Boston, and the Rhode Island Transit Authority operates a bus system throughout the city and surrounding towns.

Downtown Management Organization History

The Providence Department of Economic Development (PEDC) promotes economic growth by helping to finance private development, implementing incentive programs that encourage employers to create and retain jobs, and providing opportunity for business growth and development. The Department also provides financial assistance for commercial rehabilitation, the lease/purchase of new or used equipment, acquisition of real property, working capital expenses, and storefront improvements.

The PEDC has been attempting to create a BID for the past eight years, and is just now gaining the support needed to create a special taxing district on downtown businesses to finance the project. The BID will focus on cleanliness, safety, and marketing of downtown retail. Another program that recently began is the Downtown Merchants Association, whose goal is to unify downtown merchants and provide a unified voice in the city.

Retail Development Strategies/Incentives

The Revolving Low Interest Loan Program of the Providence Economic Development Corporation is intended to assist businesses in relocating and expanding in Providence. The loans made through the Revolving Loan Program also help create and retain jobs. All

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commercial, professional, or industrial organizations doing business in Providence, or interested in relocation to Providence are eligible for the program, which provides up to \$125 million in financial assistance. The funds can be used to acquire or rehabilitate commercial property, machinery and equipment, and working capital for start-up companies, or they can be used for leasehold improvements. The interest rate on the loan is set at the time of approval, and is between four and six percent below the prime lending rate. The maximum term for a loan within the program is ten years.

There are plans to target a new revolving loan fund program to help support the tenant fit-up costs for new downtown retailers.

Low-Interest Mezzanine Financing

One example of a small business assistance program that provides capital investment assistance to retailers is the Rhode Island Urban Enterprise Equity Fund (“the Fund”). This program is a revolving loan fund administered by the Rhode Island Economic Development Corporation and established to foster small businesses located within designated urban areas. The Fund is responsible for providing mezzanine financing to assist start-up and existing urban businesses in obtaining the additional resources they need for capital investments.

Loans are available for a minimum of \$5,000 and up to a maximum of \$25,000, for a term of up to 36 months. Rates are fixed at 6% annually. There is a \$100 application fee. Collateral is determined on a loan-by-loan basis and may include liens on corporate assets, liens on personal assets to secure guarantees, and/or warrants and stock options. An exit fee may be assessed at the time of commitment.

Notably, the Fund provides financing to retail, service, commercial, and industrial start-up, later stage and turnaround businesses that are located within, or relocating to, Rhode Island’s urban communities. Often, retail businesses are not eligible for this type of business incentive. Limited development incentives are often earmarked for businesses that hold the promise of significant job creation and tax revenues. Retailers do not typically generate significant, higher-paying jobs. However, Rhode Island determined that stabilizing retail development in its urban areas was equally important to such public benefit benchmarks and has included retail development in its priority funding targets.

Unlike many traditional incentives programs, this program is especially useful for the first-time independent retailer. Approval criteria for financing allows some flexibility for independent start-up applicants that may have little or no sales to date; no profit to date; high leverage ratios; in adequate cash flows to support new debt; no track record; undercapitalizing issues; credit issues—all eligibility factors that would likely bar most first-time independent retailers from taking advantage of traditional low-interest financing small business assistance programs, such as those administered by the Small Business Administration. However, this level of flexibility does not extend to elements of the entity’s business plan. Underwriting criteria requires the business owner to submit a structured business summary that includes a statement of purpose and a detailed

organization and marketing plan...and, above all else, to maintain acceptable financial records over the term of the loan.

For many retailers exploring sources of capital, the most important question may not be how to obtain the financing, but how to use financing wisely by establishing and implementing a realistic and comprehensive niche marketing/branding/positioning plan to make sure that they have the right goods at the right place reaching the right market. For those retailers who need help in formulating such a plan, the Fund works with small business assistance staff to connect the applicants with the available resources, including the Rhode Island Small Business Administration, the Small Business Development Center, the Service Corps of Retired Executives (SCORE), the Small Business Association of New England, and the Center for Design & Business.

Results

- **Providence Place Mall:** Completed in 2002, the shopping center is a \$450 million, eight-story complex with 1 million square feet of retail space and 5,000 parking spaces. There is also a 750-seat food-court. This urban mega-mall consists of mostly large national chain retailers. The mall was the primary focus of retail development in Providence over the last several years. One of the city's incentives to build the mall was to capture the sales tax revenue that the mall generates. Many Providence residents had previously shopped outside of the city or state, often going to New York or Boston for their retail shopping. Now, not only do Providence residents shop at home, but also business is coming from all over Rhode Island and Massachusetts.
- **The Rhode Island Convention Center:** Completed in 1994, the center is a state-of-the-art facility located in downtown Providence. This five-story structure has two attached garages that can accommodate 2,400 cars. A brand new Westin Hotel is another recent addition to the downtown. With so many attractions in the downtown area, the mall is now a center for retail shopping, as well as dining and entertainment.
- **Live/Work Artists Lofts:** Providence has also established a district for artists and art galleries that are zoned in order to limit the appreciation of property value, and thus keep rents lower than they would be otherwise. The regulations give artists tax incentives to live and work in the district. Developers also have tax incentives to provide affordable housing to this community. The result has been a live / work housing district that is affordable to artists, creating an art district in this increasingly vibrant downtown.
- **Enhanced Public Realm:** Twenty years ago, the City of Providence announced a master plan to redevelop the former downtown rail yards into an urban mixed-used and park area, retaining and restoring historic structures, designing a new location for the AMTRAK train station (part of the NY to Boston northeast corridor line),

and, perhaps most dramatically, to uncover a river that had originally flowed through downtown, but had been covered over with streets and parking lots. Completion of this plan completely turned around this portion of downtown Providence, linking the Universities, transportation, an urban corridor park along the rivers and creating new development sites made more attractive by the amenities created along the river walk. A new convention center and three level shopping mall were constructed, along with hotels and new office developments. Smaller renovations and infill projects have also been completed, adding to the street activity level downtown.

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Relevance to Austin

Providence offers several lessons to Austin, in ERA's view. As a 'young' city with a large student population, Providence shares Austin's focus on entertainment, music, the arts, dining and events. The revitalized waterfront along the river walk has turned an unattractive, unsafe area into a major pedestrian destination, attracting restaurants and cafes, clubs and galleries to old and new buildings along its path. Development of the Providence Place shopping mall downtown was heavily subsidized (land acquisition, bond financing, construction of parking garages, etc.) as a means to bring department store and specialty retailing back downtown and to retain Rhode Island consumer expenditures that were otherwise going to Boston, one hour north.

The City also planned for retention of its thriving arts community by passing a property tax program that abates taxes on housing and gallery space for working artists downtown. An older (and largely vacant/underutilized) area of downtown Providence near Johnson & Wales University has been designated as an artists district. Encouraged by Federal tax credits for rehabilitation combined with city property tax abatements, developers are renovating historic structures into artists lofts (a form of affordable housing), market rate rental apartments, new galleries, performance spaces and restaurants. The City's motive was to break the cycle that often happens in large city redevelopment areas, in which artists move into deteriorated areas as residential pioneers attracted by cheap rents, but are then pushed out by higher property values as the areas they revitalized are gentrified. Because

of RISD and Brown, Providence has a strong artistic community tradition, and this group wanted to use public policy to protect its role in bringing back downtown. The City determined that the trade-off in lost property tax revenues in the Arts District would more than be made up by the vitality and creative identity that the artists bring to the life of the City. This approach may be useful in the “arts district” in downtown Austin, particularly for studios and live-work space for working artists. Providence’s program has a screening process to assure that those benefiting are working artists, that public gallery shows are juried to assure high quality levels and that public incentives are used for projects that meet design and construction standards that will stabilize and preserve historic structures.

Providence also shares another characteristic with downtown Austin in that Interstates 95 and 195 cut through the downtown area. The city’s long-range objective is to relocate I 195 from its current location several blocks south. By relocating the roadway, two parts of the downtown will be reconnected, and dozens of blocks of land below the highway will be re-entered into the property tax base. The amount of land consumed by I 35 through Austin is significant, and the creative response in Providence may offer lessons about how to redevelop highway right-of-ways without losing traffic capacity.

Perhaps the greatest lesson learned from Providence is the value created by a long-term commitment to downtown renewal by City government. The dramatic turnaround in the central business district over the past twenty years would not have happened without the overwhelming commitment of the mayor’s office and city councils. Of course, Providence is the largest city in a very small state; it holds a different role in Rhode Island’s economic life than does Austin in Texas’ economic base. Nonetheless, the transformation of the city through public intervention has leveraged millions of dollars in private investment that would not likely have occurred otherwise.

The state presence in downtown Providence is much smaller than the State of Texas in downtown Austin (again, it is a very small state). While the Texas Economic Development Department administers a similar program to Providence’s Loan Program, the Texas example is not specifically geared towards retail businesses. The Texas Capital Access Fund was established to increase the availability of financing for businesses and nonprofit organizations that face barriers in access to capital. Through the use of the Capital Access Fund, businesses that might otherwise fall outside the guidelines of conventional lending may still have the opportunity to receive financing. The essential element of the program is a reserve account established at the lending institution to act as a credit enhancement, inducing the financial institution to make a loan. The Capital Access Fund may be accessed by participating financial institutions that are providing loans to borrowers who are eligible under the program. This approach might also be packaged more fully for targeted development projects in downtown Austin.

Austin could approach the Texas legislature to further target such financing programs to retailers, thereby enabling the DAA to expand its canopy of incentive programs by providing more of what retailers really need. Those needs vary widely depending upon what type of retailer is being served. For example, national retailers have less trouble attracting capital, but have standardized requirements for traffic and pedestrian counts,

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specific demographic and locational characteristics, standardized (although some standards are being adapted for urban settings) for floor plates and building configurations. Independent retailers, on the other hand, can be far more flexible in their space and market requirements, but may have a harder time getting financing; independents may also need extra help (financial and technical assistance) during the early years of operation when their risks are the highest. ERA's experience in other cities has also shown that combining a mix of independent retailers with selected national retailers can create a synergy that only one type of retail category cannot. The new consumer traffic that the Providence Place Mall created has strengthened the overall market for all specialty retailers downtown.

Providence is now planning a new financing strategy, a \$10 million dollar revolving loan fund for commercial development financed by a consortium of private foundations located in Rhode Island. Patterned after the Providence Preservation Society's Housing Revolving Loan Fund, the new fund will be able to acquire, redevelop, mothball or re-sell historic commercial buildings to new owners who agree to invest, complete historically compatible renovations, and bring in new uses to properties that the commercial markets may not consider as top priorities. The targeted area for the fund is the older downtown core of Providence, which has not seen the same level of reinvestment as the new River walk corridor, but which is the next logical area for renewal.

IDA Brain Trust Recommendation: Targeted Retail Tax Increment Financing Washington, DC

City Statistics

- Estimated Downtown DC BID Housing Units: 10,000 (includes units under construction/planned through 2008)
- Estimated Downtown Employees: 378,700 employees

Washington, DC recently enacted a targeted retail Tax Increment Financing Program with the aim of significantly improving the competitive position of the downtown retail environment. The incentive is structured to offer a meaningful difference to retailers considering a downtown location.

Downtown Management Organization History

The Downtown DC Business Improvement District was established in 1997 as a private non-profit that provides cleaning, safety, hospitality, marketing, economic development and homeless services to Washington's city center. The BID's mission is to promote standards that will result in Downtown DC as a world-class commercial, cultural and residential destination. In 2002, the BID's members, including more than 100 downtown business owners and other stakeholders, and Board voted unanimously to reauthorize the BID for another five years.

In particular, the BID is focused on retail recruitment and retention to help support Mayor Williams' goal of increasing Downtown DC's share of residents. Despite a strong office market and a downtown housing boom, retail has been slow to develop in downtown Washington, DC. Nearly one-third of the existing space that could potentially be occupied by retail tenants in the proposed program area is vacant. Only about one-third of the space is occupied by shoppers-goods retailers (a category that excludes the restaurants and service businesses; shoppers-goods tenants are the focus of the proposed program) and a substantial amount of this is accounted for by a single store, Hecht's.

In 2002, the Downtown DC Business Improvement District, with the District of Columbia Office of the Mayor of Planning and Economic Development, launched numerous studies to assess the potential for retailers in downtown DC. The District of Columbia compared the retail expenditure patterns of District residents to estimated current sales in the District and revealed a substantial "leakage" of sales to competing jurisdictions nearby.

Furthermore, District residents were identified as particularly underserved in the general merchandise and apparel and accessories categories. By contrast, the home furnishings and eating and drinking places categories indicated that the District successfully attracting sales from beyond its borders. These trends indicated that there was no fundamental market barrier to creating a successful retail environment downtown. What was missing was a critical mass of shoppers-goods tenants.

Retail Development Strategies/Incentives

To combat this, the Downtown Retail Committee (DRC) and Deputy Mayor of Planning and Economic Development enacted the retail Tax Increment Financing Program. The \$30 million TIF fund is supported by a public/private partnership of major property owners, the Downtown DC Business Improvement District and the DC Office of Planning and Economic Development. The TIF program is structured through a detailed ranking system for prospective tenants to restrict the subsidy to those tenants who add the most value. The TIF is backed by sales taxes generated by the retailers in the TIF. Property owners and retailers qualify for Tax Increment Financing (TIF) program based on a rating system including:

- Uniqueness
- Sales projections
- Positioning and advertising strategies
- Floor space
- Storefront design

Evidence from retail brokers suggests that until a critical mass of retailers exists, or begins to exist, tenants will perceive excessive risk in the downtown market. Overcoming this perception of risk requires a short-term, moderate-scale incentive. Based on DRC's research, the mechanism that seems to work best is a capital contribution to fund tenant improvements, which allows the landlord to lower the rental rate to attract these key tenants. A tenant-improvement cost subsidy in the range of \$50 to \$100, depending on the tenant profile and expected value to downtown, was determined to be adequate in positively affecting the tenant's decision to come to downtown DC.

The program is administered by the DRC through a straightforward award system.

1. Individual retailers submit a proposal to the DRC for TIF financing.
2. DRC undertakes the selection process.
3. The certification is issued to the retailer.
4. The retailer's lending institution of choice provides financing to the retailer.
5. The retailer proceeds with buildout for the new retail space.
6. The new retail store opens.
7. The District issues a bond to the participating banks.
8. Over time, sales taxes generated by the retailer (and secondarily by the retailers in the TIF area) replay the bank note.



Results

To date, two retailers have been approved for the TIF funding, H&M (an international apparel retailer) and Coup de Foudre, a local independent intimate clothing store. The retail TIF program has been well received. The temporary legislation recently was voted to become a permanent program, and was marketed at the 2004 ICSC conference in Las Vegas.

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Relevance to Austin

The targeted retail TIF model offers a viable incentive to attract retailers who may perceive an unacceptable level of risk in locating in downtown Austin. This may be the single most-effective option to create the economic environment that property owners on Sixth Street would require to invest in changing from bar and nightclub tenants to other retail mix types. Furthermore, given Austin's current "Smart Growth" ranking system applied to the currently available incentives package, this approach would fit well within the City's existing economic development framework for awarding incentives. ERA recommends that the DAA and City of Economic Development staff further research the feasibility of implementing this targeted retail incentive tool.

International Downtown Association Brain Trust Survey Results

Please note the following responses from the IDA Brain Trust survey question:

"What are the most significant financial incentives or other tools that have generated new retailers in your downtown?"

1. Charlotte Center City Partners: Short-term startup rent subsidies by the landlords has been the most effective tool in Charlotte.
2. Downtown Fort Worth, Inc.: The Downtown Tax Increment Financing District in Fort Worth provides 2,800 free weekend and evening parking spaces at a number of garages around the core of downtown. This incentive did not generate retail and restaurants, but it makes the recruitment process easier.
3. Downtown Denver Partnership: Tax increment financing.
4. Downtown Cincinnati, Inc.:
 - Tax Increment Financing (TIFS) - While many including Cincinnati have used property tax based TIF, sales tax based TIF seem more innovative and applicable to retail. In Ohio, there we do not have sales tax based TIF (and they carry some risk).
 - Facade Improvements - generally the amounts are too small to have great impact.
 - Promise of lots of foot traffic for retail via arts/culture, transportation, convention centers, stadiums, and residential development
 - Observations:
 - Retail rent should almost be considered as an advertising expense. It is a function of the value created by traffic.
 - Economic development programs in many states and cities are still based on manufacturing economy. Leveraging a service-based economy is still an opportunity to be realized.
 - While I support retail incentive packages that can stimulate growth and assist small businesses (minority and women-owned too), it is important to note that retail is an unusually volatile and fragile field. Care must be taken that incentives do not mask underlying weak market economics - and they all-to-often do.

5. Capital City Development Corporation, Boise, ID: Publicly funded structured parking, wide sidewalks to invite outside dining and infrastructure of a very high quality. Downtown has to be seen cognitively and subconsciously as a special place (worth paying more for).