

Saving Independent Retail

Policy Measures to Keep Neighborhoods Thriving

New York City's independent retailers can't catch a break. During the past decade, locally owned retail businesses in neighborhoods all over New York City were on the losing end of the city's strengthening economy. Improving economic conditions in their neighborhoods should have helped small local retail businesses. Instead, prosperity turned into a threat as rising rents made it difficult for many of them to continue operating. Now in the economic downturn, already weakened independent retailers are fighting for their survival.

Retailers are plagued by high rents, competition from chains and the internet, limited access to credit, and other stresses, but their decline is far from inevitable. This Pratt Center Issue Brief details measures the Mayor's Office can and must take to keep independent stores thriving. Other cities are pursuing creative strategies to strengthen local retail and maintaining the diversity of their neighborhoods. The mayor should appoint a retail task force to review alternatives and set course for policy to sustain small merchants.

As independent retail stores close with increasing frequency, New York is losing more than places to buy the necessities and luxuries of life. It is being drained of essential ingredients for a healthy economy and strong, livable communities. A 2004 study in a Chicago neighborhood showed that local businesses poured 68 percent of their revenue back into the local community, while for national chains the return was only 43 percent. The aggregate losses, though difficult to quantify, are even greater. The gradual disappearance of the "mom and pops" from many shopping districts undermines the diversity and uniqueness of what defines New York City – what attracts entrepreneurs to build businesses here, lures tourists to visit, and offers residents a connection to proprietors that is more than economic. Small retailers are part of the glue that holds neighborhoods together, but that bond is dissolving, and weakening community quality of life along with the city's economy.



Church Avenue in Flatbush, Brooklyn, is a high-traffic retail strip and a major destination for area shoppers. But like other popular middle-class shopping districts around the city it is suffering from a troublingly high vacancy rate - 11 percent of its storefronts are now empty - and little city support for struggling merchants.

Independent Retail's Plight

According to the Real Estate Board of New York, retail rents rose 54 percent between 2001 and 2008. In surveys, New York City merchants cite high rent as the biggest challenge they face, followed by the increasing cost of goods and a customer base that was dwindling even in boom times. Increasingly, shop owners operate under leases that run for five years or less, down from a once-standard ten, leaving them vulnerable to rent hikes and eviction.

Recession-driven declines in business have not been matched by significant decreases in rents. In Manhattan, storefront rents in major retail corridors have dropped about 11 percent over this time last year, according to the Real Estate Board of New York, but that figure reflects considerable variation among neighborhoods. On Harlem's 125th Street, for example, the average asking rent is now \$119 annually per square foot, up from \$107 a year ago.

National chain retailers are continuing to expand their presence in major shopping districts in Manhattan and the boroughs, and even as some chains close down others are arriving for the first time. Property owners on major

commercial strips tend to seek chains, not only because they are willing and able to pay higher rents than independents can, but because of fears that independent retailers are a risky bet in today's challenging economy. Chain store operators seek to cluster together, and their presence dramatically inflates rents. On Steinway Street in Queens, annual asking rents on a chain-dominated block exceed \$70 per square foot, compared with \$40 for a nearby stretch where many independents have closed. Even that rent is too high for independents to sustain, and the block has at least a dozen vacant storefronts.

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A Missing Piece of the Economic Development Agenda

In this year's State of the City address, Mayor Bloomberg declared "strengthening the quality of life in every neighborhood so recession does not lead to disinvestment and abandonment" a cornerstone of his plan for economic recovery. Similarly, the administration's "Five Borough Economic Opportunity Plan" identifies the need to "help businesses" as central to "creating jobs today." The plan highlights major development projects, from the Kingsbridge Armory to Willets Point to Coney Island, as part of plans for future job creation. While these mega-projects may bring needed retail space to underserved areas, other parts of the city are blighted by empty storefronts formerly occupied by small businesses. The Bloomberg administration needs to develop a comprehensive plan to examine and address the underlying challenges faced by small retailers, and provide support for struggling merchants and commercial areas with high vacancy rates.

In an uncertain economy, property owners seek chain retailers for empty storefronts.

The Department of Small Business Services (SBS) is charged with assisting independent ventures, but its services to retailers are limited. The agency only provides financial assistance to retailers enduring emergencies or directly displaced by city-sponsored development projects. Retailers are generally excluded from subsidies for businesses that are relocating or expanding. And, more fundamentally, the agency needs to pursue policies that can level the playing field to help small businesses deal with the unique disadvantages that threaten their survival.

What the City Can Do

There is much the administration can do now to deliver on the mayor's promise of strengthening neighborhood quality of life through nurturing local retail. New York City should start by looking to models from more than 20 states and 50-plus cities that have new or proposed laws aimed at fostering a stable, thriving and successful local business sector, turning to tools that can be combined with smart incentives and a community planning process to encourage the kinds of businesses that neighborhood residents want and need.

The policy tools now employed or under consideration by other cities and states fall into three general categories:

- Land use regulations, especially zoning provisions to prevent or inhibit the proliferation of chains
- Financial incentive/benefit programs and market control mechanisms to reward landlords for accommodating local retail
- Support programs – everything from niche marketing to grants and loans for business owners – to bolster local retailers' ability to compete

Strategies that could help New York City sustain independent retail:

Formula Business (i.e. “Chain”) Restrictions

In place in San Francisco, Seattle and 15 other cities

A formula retail establishment is commonly defined as having eleven or more other retail sales outlets located in the United States, has a trademark or servicemark, and maintains two or more standardized features such as merchandise, facade, decor, uniform for workers, signage, etc. San Francisco has the strongest restrictions on chain retailers in the nation, using a combination of land use regulations within specifically created districts where special review is required before a chain can open.

Size Caps on Commercial Property

In place in Madison, Wisconsin and 29 other cities

Instead of banning formula businesses outright, size caps serve to prevent large floorplate-seeking chains from moving in. A store size cap amends a zoning ordinance, either for an entire city or for designated areas within a city, to limit the physical size of retail stores. Some municipalities put an outright ban on stores above a certain size, while others limit large stores to specific areas. Small towns and large cities across the nation are using store size caps to protect small and local businesses, decrease traffic congestion, lessen the burdens on infrastructure, regulate building design and maintain pedestrian-friendly districts, among many other planning goals.

Neighborhood-Serving Zones

In place in Palm Beach, Florida

Neighborhood serving zones are created in order to meet the everyday consumer needs of local residents, as opposed to attracting tourists. Such regulations limit the size and “use type” of retail stores in certain districts in order to maintain the area’s character and pedestrian-friendly streets. Palm Beach, Florida is the only city in the nation to have this type of zoning.

Big Box Tax

Proposed in Maine and Minnesota

While a big box tax provision has yet to pass and become law, the concept may be worth pursuing. Generally a tax of this kind would create a disincentive for chains trying to locate in certain districts within a state or city. In cases where the retailer was willing to pay the tax and open a store, the tax revenue could be used to support local businesses and or retail chain workers earning less than a living wage.

Community Land Trusts

A community land trust (CLT) is an existing policy tool being used in a handful of locations around the country to address the need for affordable housing. In a CLT, a private, nonprofit corporation acquires land parcels in a targeted geographic area with the intention of retaining ownership of the land for the long term. The non-profit CLT leases or sells structures on the land at below-market rates to eligible residents, who enjoy the benefits of low rent or mortgages while agreeing to restrictions on subletting or reselling. This model could be applied to commercial or mixed use land, and could be a viable strategy for protecting small businesses from rising rents by taking property off the commercial market and leasing it at below market rates to residents and small business owners who demonstrate a need for it.

Shop Local Campaigns

Austin, TX and many cities around the nation (including NYC)

The loss of mom and pop shops in cities across the nation has inspired governments and the private sector to create marketing campaigns for local products and local retailers. These campaigns share resources such as websites and brochures to promote “shopping local” and are often a venue for merchants to meet and discuss best practices.

Recommendations

The Mayor's Office should establish a citywide local retail retention task force made up of interested elected officials, government agencies, policy experts, small business owners, and community organizations to systematically analyze the problem of independent retail attrition and potential solutions, and to develop an implementation strategy to address them. The goal of this group should be to develop a package of policies that:

1. **Create financial incentives and programs to support independent stores**
2. **Restrict or limit chains in certain neighborhoods where they are causing the displacement of local retailers**
3. **Make sure enforcement of sanitation, health and other codes does not unreasonably burden small local establishments**

Community and business groups have been discussing policy measures such as the Small Business Survival Act now under consideration in the City Council, which would allow retail tenants to seek binding arbitration to prevent excessive rent hikes. To build a foundation for thriving small businesses, the local retail retention task force should evaluate additional ideas that have emerged from this collaborative thinking, which include:

- **Limiting the escalation of rent.** One proven model is a voluntary incentive program in targeted locations. With support from the New York City Department of Finance, the Downtown Alliance manages such an initiative for Lower Manhattan, providing a tax abatement for landlords who agree to a schedule of modest rent increases to local (non-chain) businesses.
- **Set-asides of space for small businesses, vendors, and entrepreneurs.** For any commercial development over 50,000 square feet, owners should be required to include businesses at a range of sizes, going down to 250 square feet, with targets for locally owned small businesses. For city-owned or city-sponsored developments, rents must be below-market and leases at least five years.
- **Zoning ordinances to control number, type and size of retail establishment in specific areas.** Ban or place limits on the number of national chain stores that can occupy specific district, guaranteeing that a majority of the retail establishments are independent and locally owned. Restrict ground floor sizes and ban banks and hotel lobbies from occupying storefronts in new construction.
- **Reducing merchants' energy costs and making local retail greener.** Programs such as NYSERDA energy audits and the Smart Loans program are already in place to provide fee waivers, fund matching, outreach, and training to businesses seeking to reduce their costs and operate more sustainably. The city needs to do more to connect local retailers to these services.
- Finally, because local retailers don't have an advocate within city government, we recommend the **creation of a Local Retail Ombudsman** in the office of the NYC Public Advocate.

For more information on the Pratt Center's work in support of neighborhood retail, contact Vicki Weiner, vweiner@pratt.edu, or visit <http://www.prattcenter.net/tags/retail>.