

Retail development strategy for Rainier Valley

DRAFT SUMMARY FOR DISCUSSION

Summary

Given the potential impact of the light rail expansion in Rainier Valley on Rainier Valley's independent businesses, the City's Office of Economic Development engaged the Community Land Use and Economics Group to outline a strategy for strengthening retail along the Martin Luther King, Jr. Way corridor (with particular attention to the areas around the Othello and Rainier Beach stations) and for marketing Rainier Valley's retail districts.

Our research included:

- Estimating the buying power of Rainier Valley residents and likely new residents, then comparing this with estimates of sales currently taking place in Rainier Valley
- Conducting interviews with developers, real estate brokers, business owners, and representatives of community organizations
- Examining Rainier Valley's neighborhood plans as they were being updated in 2009
- Identifying potential regulatory barriers to independent business development and expansion

While Rainier Valley's independent businesses, and the nodes in which they are clustered, have many needs, we found that the three largest threats to independent businesses along the Martin Luther King, Jr. Way are:

- A likely over-supply of new retail space along the corridor
- Lack of control over property ownership and commercial rents
- Lack of a comprehensive and aggressive marketing program for the corridor and its commercial nodes

We focused our research on five distinct market segments and their specific needs:

- Current residents:
 - Need a broader range of convenience and comparison goods and services
 - Need a broader range of entertainment, experiences
 - Need *not* to feel (or be) displaced
- Current customers of ethnic commercial enclaves:
 - Need continued access to goods and services
 - Need *not* to feel displaced
- Likely future residents:
 - Oriented towards the MLK corridor
 - Process of neighborhood discovery, of becoming "insiders"
- People commuting through:
 - Oriented towards the MLK corridor
 - "Loud" messages needed to attract attention
 - Need to create a market position
- Greater Seattle residents:
 - Significant negative perceptions of Rainier Valley to overcome
 - Need to create an overall, inclusive market position

Major findings + observations

- 1. Rainier Valley's retail market is a complex amalgam of retail voids.** In *total*, Rainier Valley's leakages might appear to be significant enough to support a sizeable cluster of new businesses, but these leakages are generated by households with widely varying demographic characteristics and widely varying retail preferences, and there are few demographic categories in which there is sufficient demand to support a sizable cluster of new businesses. Among our most significant findings with regard to retail voids and surpluses:
 - There is significant leakage in most retail product categories among Rainier Valley's more affluent households.
 - There is some leakage in groceries and pharmaceuticals among Rainier Valley households of all income levels.
 - There is significant leakage in food service and entertainment among Rainier Valley households of all income levels. A substantial percentage of this leakage could likely be absorbed by current Rainier Valley restaurants.
 - Rainier Valley's automotive-related businesses generate a retail sales surplus. This surplus will diminish as these businesses gradually disappear over the next 5-10 years.
 - Residents of new housing units along the light rail line are likely to generate a total of \$17-20 million in new retail demand, but it is unlikely that these new residents will make more than 25-30 percent of their retail purchases within Rainier Valley.
 - As new residents move into new housing along the light rail corridor, it is possible that there might be sufficient demand to develop a cluster of comparison businesses (particularly furniture, home furnishings, and appliances) or a moderately sized discount department store.
- 2. The amount of new retail space that can be supported by anticipated new Rainier Valley residents is technically supportable - but not if some of the new demand is absorbed by existing Rainier Valley businesses.** We estimate that the anticipated residents of the roughly 1,000 new housing units planned for development along the Martin Luther King, Jr. Way corridor will generate \$17-20 million in new retail demand. We think it is likely that Rainier Valley's existing businesses could absorb approximately 20 percent of this new demand. The remaining new retail demand could support approximately 60,000 square feet of new retail space - slightly less than the 75,000 square feet currently being planned (some of which is tentative). But it is unlikely that new residents will make more than 25-30 percent of their retail purchases along the corridor or elsewhere in Rainier Valley.
- 3. Customers of Rainier Valley's nodes of ethnic businesses bring considerable buying power to Rainier Valley - and it is important to protect this market from erosion.** It is likely that the increased traffic and visibility light rail will provide will make it possible for these nodes

to increase their sales, both by selling more to current customers and also by reaching new customers. We believe that, with a solid marketing program, it will be possible to boost retail sales levels at the Othello node by approximately 3-5 percent per year for each of the next five years, with slightly more modest increases at the Columbia City and Rainier Beach nodes. But the first priority in all three nodes should be to mitigate sales erosion from current customer segments.

4. **Rainier Valley plays an important role as an independent business incubator.** This is particularly true for businesses launched by recent immigrants, with some businesses eventually moving to the International District, northern Seattle, and other communities within the region.
5. **Retail markets and zoning designations do not necessarily overlap.** For example, while much of the commercial district surrounding the Othello station has been zoned NC2 to encouraging development of small-scale and locally serving businesses, this node's retail economy is currently driven as much by non-Rainier Valley residents - most of whom arrive by car - as it is by Rainier Valley residents.
6. **The most significant problem facing Rainier Valley's independent businesses is lack of control over commercial rents.** Only a small handful of Rainier Valley's independent businesses own the buildings in which they operate, making them vulnerable to escalating rents.
7. **Rainier Valley's commercial nodes suffer from a dearth of marketing activities.** Ideally, each node should offer 2-4 major special events and 2-4 retail events annually, plus an ongoing program of marketing activities to increase overall visibility and improve public perceptions.
8. **Rainier Valley's independently owned businesses need basic assistance with business planning.** Several public- and private-sector entities provide business planning assistance to Rainier Valley's independently owned businesses, but the need for services outstrips the services available.
9. **The public- and private-sector entities working to support marketing and business development activities in Rainier Valley offer key tools and resources, but the infrastructure is not sufficient for a comprehensive marketing and business development effort.**
10. **The State's limitation on the use of public funds to help private enterprise precludes use of many tools used to stimulate and support small business development in other cities.** Many of the programs created by other cities to help stabilize and cultivate independent businesses will not "translate" to Seattle because of state limitations on the use of public funds to help private enterprise, making it likely that the private sector will need to provide some of the financing and financial assistance needed.
11. **The gradual disappearance of auto-related businesses in Rainier Valley represents both opportunities and losses.** As Rainier Valley's auto-related businesses gradually disappear,

more land will be available for new commercial uses - but Rainier Valley will also lose some entry-level and skilled jobs and some potentially valuable skill sets.

12. **The experience of arriving at one of Rainier Valley's commercial nodes via light rail is visually weak.** Each commercial node should be physically and visually differentiated from the stretches of Martin Luther King Jr. Way between the hubs.
13. **Crime and the perception of crime are significant deterrents to attracting shoppers from both within and also from outside Rainier Valley.**
14. **Property owners' expectations of commercial rents may be unrealistically high.**

Major recommendations

1. **Modify zoning for new mixed-use development to concentrate retail development around light rail stations and limit retail development between stations.** We recommend that the City relax the ground-floor retail use requirement for new mixed-use development within approximately a four-block radius of Rainier Valley's light rail stations, eliminating the requirement for ground-floor space outside that radius or permitting non-retail commercial uses (such as studio space or coworking office space).

Example: Arlington, Virginia is served by eleven of the Washington Metropolitan Area Transit Authority's Metro stations, and the County made a conscious decision in the 1970s to densify commercial development within a few blocks of seven of its Metro stations, in part by downzoning land between the quarter-mile radii of each station.

2. **Fill in gaps in neighborhood markets.** Our final report will provide detailed recommendations for filling retail gaps in neighborhood markets (we received updated B&O data from the City on September 21st). But, in general, our recommendations include:
 - a. Filling gaps by adding new product lines to existing businesses.
 - b. Incubating new product lines within existing businesses, then spinning out those that succeed into freestanding businesses within 24 months.
 - c. Using mobile vending units (vending carts, delivery vans) to provide goods and services for which there might not be enough demand to support a freestanding business and to augment in-store sales.
 - d. Using pop-up retail to test new retail concepts for Rainier Valley's commercial nodes.
 - e. Stressing retail contiguity on the ground floors of commercial nodes, gradually shifting offices to side street and upper-floor locations.

3. **Work with Safeway to improve its merchandise mix, visual merchandising, and service.**
4. **Explore the possibility of attracting a moderately sized discount department store.** We believe there is a reasonable chance that, with construction for a majority of the Martin Luther King, Jr. Way's new residential units underway, a moderately sized discount department store might consider locating in Rainier Valley. There are several discount department store chains that might be interested, each with different demographic targets and therefore with different likely location preferences. If this option appeals to the working group, we will work with the City to develop an approach to a specific chain.
5. **Help independent businesses buy commercial property, or buy a share in commercial property.** In particular, we recommend pursuing one of two options:
 - a. A nonprofit community land trust that would own key commercial properties and lease them at below-market rates to businesses meeting certain criteria.
 - b. Shared equity, with a nonprofit entity sharing ownership of key commercial properties with businesses meeting certain criteria.

* There appears to be a critical need to help the small cluster of Somali-owned businesses on Rainier Avenue between Hillman City and Rainier Beach purchase, or purchase a share of, the property they currently occupy, then to upgrade this property in the future.
6. **Encourage development of retail condominiums and conversion of existing retail space to retail condominiums,** providing small business owners with opportunities to own the spaces in which they operate, perhaps by subsidizing development of commercial space for priority retail businesses through PUDs. Retail condominiums might also be owned by community-based nonprofit organizations or neighborhood-based stock ownership groups.
7. **Provide parking flexibility** in commercial nodes that are currently heavily dependent on customers traveling by car.
8. **Continue, and intensify, technical assistance to Rainier Valley's independent businesses.** Among the specific needs and opportunities:
 - Providing businesses with information on new product lines they might add.
 - Providing assistance with transition planning.
 - Helping businesses add new distribution channels, including:
 - Deliveries within the neighborhood
 - Deliveries within Seattle
 - Wholesale sales to Seattle-area businesses and restaurants
 - Online sales
 - Mobile vending, to create visibility in high-traffic locations and public spaces
9. **Create a local nonprofit venture fund to help capitalize retail development and expansion in priority categories.** We recommend several models:
 - a. A community venture fund that raises money from private-sector sources and makes strategic investments in key businesses, much like the Boston Community

Venture Fund (which provided equity to companies like Zipcar and City Fresh Foods) and Pacific Community Ventures (which invests in California companies like Mercados SUVIANDA and Timbuk2 messenger bags)

- b. Community stock ownership in key businesses, providing equity, peer guidance, and a loyal customer base
 - c. Matching entrepreneurs with private investors to launch new and expansion businesses
- 10. Create a citywide designation program for heritage businesses** - locally owned businesses that reach benchmark years, that perpetuate a cultural tradition, and that help shape neighborhood identity.
 - 11. Increase participation in established independent business marketing tools**, particularly OpenTable, Local First, and UnScene - all of which currently have almost no Rainier Valley participation.
 - 12. Create a dynamic retail website** that makes it easy for residents and visitors to find retail businesses in Rainier Valley, that ties together categorical business clusters, that promotes each neighborhood's distinctive retail personality, and that generates buzz for each of Rainier Valley's commercial nodes. The website should create experiences that are searchable by node, category, and experience.
 - 13. Develop two signature promotional events for each commercial node** that draw people to each of Rainier Valley's commercial nodes, creating an experience unique and specific to each node. Each event should be highly creative, should draw on prevailing cultural traditions, should reinforce a positive public identity for the node, and should be inviting to all area residents and visitors. Market the collection of signature events as a whole, encouraging public participation in as many events as possible.
 - 14. Market Rainier Valley and its commercial nodes outside Rainier Valley** - featuring its commercial neighborhoods on hotel key cards, for example, or offering unusual merchandise from Rainier Valley businesses in vending machines throughout the metropolitan area. An RV RV?
 - 15. Develop a loyalty program for current and new residents and for current customers of Rainier Valley's ethnic business clusters.**
 - 16. Enhance the appearance of the stretches of Martin Luther King, Jr. Way approaching each station.**
 - 17. Create a stronger gateway into Rainier Valley at the triangular site bounded by McClellan, Martin Luther King, Jr. Way, and Rainier Avenue South.**
 - 18. Create a graphic identity system for each commercial node** that conveys something recognizable, memorable, and unique about each node.

One example: "paper" lanterns similar to the "solar flowers" that run along the I-35 corridor in Austin, Texas (<http://www.thisisbrandx.com/2009/09/energetic-art-in-full-bloom.html>)

- 19. Strengthen Rainier Valley's organizational infrastructure to market Rainier Valley's commercial nodes, increase business assistance services, and augment policing.** We believe the best mechanism for this would be a business improvement district, accruing funds to provide dedicated marketing and business assistance staff and to provide visitors with a greater sense of safety.
- 20. Improve the City's B&O data collection systems.**
- 21. Create a public space/outdoor market at Othello.** This space could also accommodate a farmers market. Enhance this space with enticing, high-visibility art - e.g., "paper" lanterns, video art - that will capture the attention of light rail passengers as well as helping connect the Othello commercial node to immediate residential neighborhoods.
- 22. Include housing types for specific cultural traditions in the new housing being developed along the light rail corridor,** such as multi-generational housing, housing for extended families, housing that provides gender-segregated amenities, housing that provides shared public space, etc. Housing that appeals to and supports specific cultural traditions will help protect and expand existing culturally-specific retail markets in Rainier Valley.
- 23. Seed new cottage industries and small manufactures in Rainier Beach.** Given that auto-related businesses in and around Rainier Beach will likely disappear over the next decade or so, we recommend actively cultivating new cottage industries and small, auto-independent manufactures on these former sites.

DRAFT - for discussion only