



Office of the City Manager

ACTION CALENDAR

October 6, 2015

(Continued from September 15, 2015)

To: Honorable Mayor and Members of the City Council

From: *DWR* Dee Williams-Ridley, Interim City Manager

Submitted by: Michael Caplan, Economic Development Manager

Subject: Retail Incentives in Commercial Districts

INTRODUCTION

On October 7, 2014, Council referred to the City Manager the concept of reducing or eliminating permit fees and/or business license taxes for a set period as an incentive to attract specific retailers and entertainment uses to the Telegraph Avenue and Downtown. This information report provides an assessment of the proposed policy concept in light of the business climate and trends in retail vacancy rates and a summary of current efforts to attract those types of uses.

CURRENT SITUATION AND ITS EFFECTS

In January 2015, The Office of Economic Development (OED) produced an Information Report updating Council on the Vacancy Rates and Sales Tax Trends in Berkeley's Commercial Districts. This report showed a general trend towards lower rates for both Telegraph and Downtown since 2008, despite the fact that both districts have historically experienced higher vacancy rates than Berkeley overall. Since that report was written, vacancy rates on Telegraph and in the Downtown have continued to decline. The vacancy rate in the Telegraph district fell from approximately 12.7% in fall of 2014 to approximately 9.5% in spring 2015. During the same period, the vacancy rate in the Downtown fell from approximately 11.2% to approximately 8.2%. It is important to note that a number of the spaces that appear vacant from the street are in buildings currently going through rehabilitation, remodeling or entitlement processes and are not on the market.

These positive trends reflect a variety of factors including the overall recovery of the regional economy, the increasing desirability of the Downtown's residential and office markets, the positive impact of Berkeley's thriving arts and cultural sector and the marketing and economic development activities implemented by the City and its partners in these districts.

Given the fact that vacancy rates are declining, the retail market is strengthening, and significant new development is being planned for both Downtown and the Telegraph area, staff does not recommend that Council initiate a new set of retail incentives at the

present time. While such tools can assist retail attraction efforts during periods when the economy is weak, it is unlikely that they would have a significant effect at a time like today when the market is strong. Staff thinks that a better strategy for current conditions would be for OED staff to continue -- and to deepen -- its engagement with the brokerage community and property owners in providing information about specific retail concepts identified in the Council referral that the City would like to attract. OED is now planning to convene a 'broker forum' later this summer to discuss issues and opportunities related to retail attraction and improvement of tenant mix in Downtown and Telegraph districts.

BACKGROUND

Vacant storefronts can be detrimental to the overall health of a commercial district; they can be attractors of crime and vandalism, and potentially discourage private investment in a neighborhood. However, some retail vacancy is a feature of almost all retail districts. The typical vacancy rate for a healthy commercial district is somewhere between 4 and 7%. Rates at this level reflect normal mobility and turnover in the retail market.

The City doesn't currently have targeted retail incentives. However, the Office of Economic Development (OED) and partner agencies—including Visit Berkeley, Downtown Berkeley Association, Telegraph Business Improvement District, Buy Local Berkeley, and others—are implementing a range of projects and programs to attract retailers, fill vacant storefronts and improve the health of the City's commercial districts. These have involved various outreach, direct assistance, marketing and 'placemaking' activities including:

- **Targeted Retail Attraction.** The Downtown Berkeley Association retains a veteran retail attraction consultant who, working closely with OED staff and other partners, is implementing a strategic approach to engaging prospective retailers and connecting them with opportunities.
- **Assistance in Navigating City Processes.** A clear and efficient permitting process is extremely valuable to a prospective retail business. OED works with new retail tenants whenever possible to help them productively engage the City's planning process. When a retail tenant is confused or needs guidance, OED and Planning Department staff will often meet together with the client on a pre-application basis to map out their most efficient pathway to get permitted.
- **Marketing of Berkeley and its Commercial Districts.** OED and partner organizations are producing marketing materials, such as the Downtown Retail Attraction Package and the recent insert in the San Francisco Business Times, that highlight the strengths and desirability of Berkeley's various commercial districts as business locations.
- **Cleaning and Hospitality Services.** The cleanliness of Berkeley's commercial districts is consistently the number one issue cited by residents and shoppers

when asked about their local shopping patterns and preferences. It is also a often cited by brokers as a factor as to whether they can successfully attract new tenants to an area. Over the past several years, property-based business improvement districts have bolstered cleaning services in the Downtown and Telegraph and this has helped improve the curb appeal of those areas from a retail perspective.

- **Events & Activities.** Special events such as the recent Bay Area Book Festival and Sundays on Telegraph attract thousands of visitors and shoppers to Berkeley's commercial districts, increasing vitality and the attractiveness to prospective retailers.

Of course, the ability to offer incentives, such as reducing or eliminating permit fees and/or business license taxes for a set period, might provide a useful tool in some circumstances to assist retail attraction efforts. However, staff doesn't recommend doing that at the present time for a number of reasons:

- **New Retail Leasing is Happening Now.** In the current market, retail leasing is happening without incentives. Commercial vacancy rates are dropping and sales tax performance is improving. The grand opening of Target Express last fall sent a signal to other major retailers that are, more than ever before, looking for locations in Berkeley.
- **The Value of Possible Incentives.** For the types of major anchor businesses identified in the referral, the cost of use permits and business license taxes pale in comparison to other expenses such as labor and rent. As such, these incentives would not be likely to influence location decisions. More significant incentives, such waiver of building permit fees, are much more costly and would only typically be used as an attraction incentive in exceptional circumstances.
- **Incentives Would Not Address Some Long-Term Vacancies.** A number of long-term vacancies are caused by factors that are not directly related to market forces. Some are owned or managed by larger ownership groups or irrational actors for whom market conditions are not the primary consideration. In these cases, incentives would be unlikely to produce the desired results.
- **The Track Record of Retail Incentives is Mixed.** Economic development literature over the past ten to fifteen years has generally skewed against incentives as an effective tool for retail attraction.¹

¹ See Peters, A., & Fisher, P. (2004). The failures of economic development incentives. *Journal of the American Planning Association*, 70(1), 27-37. See also Goetz, S. J., Partridge, M. D., Rickman, D. S., & Majumdar, S. (2011). Sharing the gains of local economic growth: race-to-the-top versus race-to-the-bottom economic development. *Environment and Planning-Part C*, 29(3), 428.

Going forward, staff will continue to track retail market conditions in the Downtown and Telegraph districts and the City as a whole. If retail market conditions were to change in the future, staff will return to Council with a renewed assessment of whether incentives of the type proposed in the referral, or some other sort, would be warranted.

ENVIRONMENTAL SUSTAINABILITY

Berkeley's neighborhood commercial districts enable city residents to shop and dine locally. Regardless of incentives, positive economic development activity that supports vital retail districts can potentially reduce carbon emissions by reducing the need for residents to travel outside their immediate neighborhood or beyond the City limits.

POSSIBLE FUTURE ACTION

None.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Unknown.

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