Economic Development Approaches to Corridor Revitalization: Impact of Retail Disruption and Toolkit for Survival

Presented to the SACOG Land Use Committee

Thursday, August 2, 2018

Presented by:
Larry J. Kosmont, CRE®, President & CEO | 213-507-9000 | lkosmont@kosmont.com
• The Plumbing of the World is Changing

• Retail Is Not *JUST* Retail Anymore

• Kosmont’s Rx for Retail Corridors/Revitalization Tools
Technology is changing the way we live and consume
• Shifting retail & tenant mix, interaction, and connectivity (e.g. driverless cars, robots, big data)
• Retail adapting to changing social habits, bricks/clicks omni-channeling, focus is on trips vs. sales
• “Last Mile Delivery” reflects changes in buyer behavior & expectations: the new store is an industrial building

Green Economy: California shifting to a reduced carbon footprint “green” economy
• Mandates are aggressive
• State approved 4 new “Housing and Sustainability” Districts; incentives for public/private projects
• Spur growth of clean, sustainable, environmental business initiatives to achieve compliance

Economic Development Approaches are changing due to new focus of private investment
• Private Investment strategies based on digital-based lifestyle shifts, demographics, climate action mandates
• Cities need private $$ to create jobs, tax revenue, and housing
• Housing shortage affects all sectors; state-wide priority with local control at stake
• Automation driven job losses will require commitment to job creation and “continuous” education
BUSINESSES PURSUE RELEVANCE AND PROFITS IN A CHANGING WORLD

Consumption

Customers are buying differently
- Brick & Mortar vs Online
- Accelerated Demand for convenient/rapid delivery (last mile delivery)
- InstaCart, Doordash, UberEATS, Amazon, Wal-Mart

Commuting

People’s movement patterns changing
- Expanding Transit ($100 Billion dollars approved by LA County voters)
- Economy of sharing (Uber/Lyft ride-sharing)
- Driverless/Autonomous cars & transit coming quickly

Communication

People are communicating digitally
- Social Media (Facebook, Instagram, Twitter)
- Employee Recruitment (LinkedIn, Zip Recruiter, Indeed)
- Digital means local as well (Nextdoor)

Public & Private Sectors Must Focus on the 3 C’s
PURSuing the Millennial CONsumer

Who they are
- Education
- Income
- Habitation
- Marital Status
- Kids

What drives them
- Experience
- Personalization / Authenticity
- Technology
- Health
- Social Good

In 2000, Millennials and Gen X totaled 50%
By 2025, Millennials will be 75% of the population
Millennials are 80 million strong today and represent $600 billion in spending power

2000
- Silent Gen. 21%
- Millennials 29%
- Baby Boomers 29%
- Gen X 21%

2015
- Silent Gen. 10%
- Millennials 27%
- Baby Boomers 25%
- Gen Z 19%
- Gen X 19%

Today’s Millennial Traveler
- Growing Market – 50% of travel retail market
- Hyper Connected – 74% of Millennials search for travel information on mobile device; 9 out of 10 use social media for travel inspiration
- Seeking Local Experiences – 50% of Millennials prefer “finding” hidden local places than visiting tourist attractions
- Declining Car Ownership – Most won’t own cars by 2035

Source: ICSC; Expedia, “Millennial Travel Report”; Nielsen, “Millennial Travel Study”
Source: ESRI (2018); *Note: Boundaries for SACOG Area and the Bay Area taken from the following websites: https://www.sacog.org/post/administrative-boundaries and https://data.sfgov.org/Geographic-Locations-and-Boundaries/Bay-Area-Counties/s9wg-vcp/data
HOW DO MILLENNIALS CONSUME?
THEY VALUE \textit{PRICE, PLACE, \\& TRIPS}

- Internet is driver of changes in shopping: “the sale can take place anywhere”
- So… \textbf{Trip Generators} are the new anchors: entertainment, food, necessities
- Despite digital growth \textbf{Brick \\& Mortar in demand} (#Omnichanneling)
- Going from \textbf{BIG to small}: “Urban” formats (#Right-sizing)
  - (Nordstrom Local is 3,000 SF vs. Nordstrom at 177,000 SF avg.)
- \textbf{The Amazon Effect:} evolution \\& disruption of retail market…dominant online,
  - plus conducting retail from an \textit{industrial platform};
  - plus \textit{brick \\& mortar} formats (Whole Foods, Books, “Go”)
- \textbf{Last Mile Delivery:} demand boosting (Instacart, Doordash, UberEATS)
- \textbf{Online Sales growing faster than overall Retail Sales:}
  - E-commerce sales are 9\% of total retail, growing at \~12\% each year (2013 to 2017)
  - Black Friday - \$5.0 billion in 2017 from \$4.3 billion in 2016
  - Cyber Monday - \$6.6 billion in 2017 from \$5.6 billion in 2016


Exterior (above) and Interior (below) of Nordstrom Local in West Hollywood, CA. Opened October 2017.
But you can be on the internet or at work while you work out.
CAPTURING MILLENNIAL DRIVEN ECONOMIC RETURN

4 KEY QUESTIONS

Are you creating places, not spaces?
- Blended use
- Culture/Entertainment
- Experience & Destination

Are you inducing creating workplaces?
- Creative office
- Shared workspaces
- Sustainability: Zero Net Energy (by 2030 for commercial bldgs)

Are you attracting Millennial housing?
- From Urban to updated Suburban settings
- Want communities/projects with urban amenities
- Authentic places with genuine experiences

Are your projects enabling/supporting mobility?
- Internet/Digital backbone investment
- First/last mile mobility and connectivity; Transit
- Design with drones and rideshare in mind, less parking
• The Plumbing of the World is Changing

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WHAT IS RETAIL TODAY?

1. **Big Box Shrinkage**
   - Size matters, but bigger is not necessarily better; most stores smaller by 25% to 75%
   - #smallboxretail

2. **Food and Place are New Anchor Tenants**
   - For the first time in history, U.S. restaurant sales have surpassed grocery sales
   - #YouCan’tEatorDrinkOvertheInternet

3. **Mixed Use is about the Right Blend**
   - Today’s “value” metric is more about time and trip generation than sales per square foot
   - #CommunityRetail instead of lifestyle retail
   - #ExperientialRetailing

4. **E-Tail**
   - Union of retail consumption & e-commerce
   - Retailers with robust omni-channels backed by physical stores, generate the higher online sales
   - #Omnichanneling

5. **The Distribution Revolution**
   - Distribution of goods is as important as consumption
   - Demand for industrial real estate at all time high
   - #Redustrial
DESTINATION IS RETAIL

FITNESS

Divergent Crossfit; South Pasadena, CA

THEATRE / ENTERTAINMENT / CULTURE

Century Theatres; Mountain View, CA

RESTAURANT / BREWERY

Divergent Crossfit; South Pasadena, CA

COMMUNAL DINING MARKET HALLS

Stone Brewing; Escondido, CA

SteelCraft; Long Beach, CA
RETAIL SALES DRIVEN BY **PLACE OR PACE** OF DELIVERY

<table>
<thead>
<tr>
<th>Destination</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience</td>
<td>Industrial Fulfillment</td>
</tr>
<tr>
<td>Food</td>
<td>Click and Collect</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Last-Mile Delivery</td>
</tr>
<tr>
<td>Blended Use</td>
<td></td>
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</tbody>
</table>

Blended Use: Paseo Colorado; Pasadena, CA

Amazon Fulfillment Center; San Bernardino, CA
RETAIL MEETS INDUSTRIAL: DESTINATION OR DISTRIBUTION?

- Retail is as much about distribution of goods as it is destination to consume goods. Think: disruption and bifurcation
- Omnichanneling – Consumers have multiple ways to shop for and receive goods:
  - The Traditional Approach – Buy and pick up in store
  - Buy and Receive – Buy in store receive at home
  - Click and Collect – Buy online and pick up in store
  - Click and Receive – Buy online and receive at home
- Today….Retail meets Industrial = REDUSTRIAL
  - Last Mile delivery is the timely goods movement to the final destination (home or pick up location)
  - Critical for retailers as demand for quick delivery escalates
- E-commerce sales to reach $462 billion in 2018, up 12.8% (U.S.)
  - Growth from apparel, sporting goods, electronics, office supply and food
  - Still internet captures only approx. 9% of total retail sales

THE TRINITY OF RETAIL

Retailer (bricks & clicks)

Tech & Automation (in store and online) changing the nature of retail

Order from Smartphone or Laptop
Items Delivered to You or Pickup in Store/Locker

Distribution
RETAIL OBSERVATIONS

How do you not get left behind?

• Retail is changing. The consumer is changing.
  ▪ The store, the center, and the boulevard need to change

• Investor expectations and “old school” thinking are stacked against today’s retailers

• Retail’s reliance on cheap, disposable labor is shifting
  ▪ Emphasis on personalization and services

• Future is tied to an engaging customer experience
  ▪ Balance of vision, image, technology, employees
  ▪ Continuous investment and adaptation is key

Source: https://chrissniderdesign.com/blog/resources/social-media-statistics/
HOW CAN COMMERCIAL CORRIDOR STORE FRONTS STAY IN BUSINESS?

3 Key Factors

Customer Service

Experience

Authenticity

Customer service is an imperative. Virtual reality headset at Toms store on Abbot Kinney Boulevard in Venice. Provide a genuinely authentic experience to consumers (eg., references to history, reality based design, “touch”).

PRESENTATION OUTLINE

• The Plumbing of the World is Changing

• Retail Is Not JUST Retail Anymore

• Kosmont’s Rx for Retail Corridors/Revitalization Tools
PUBLIC AND PRIVATE SECTORS NEED TO ADJUST THEIR GOALS

If retail is your lead, you are leading with your chin.

If you lead with placemaking, purpose, and blended use, then you have a shot at retail...
BRICK & MORTAR RETAIL = BLENDED USE

**NOW**

- Residential
- Community Retail
- Experiential / Culture / Entertainment / Fitness
- Food / Grocery / Restaurants
- Medical / Office / Civic

**SOON**

- Pop-Ups
- Lockers
- Click-and-Collect / BOPUS (Buy Online, Pick Up In Store)
- Distribution (Redustrial) vs. Destination
CASE STUDY 1: ARTESIA CORRIDOR (REDONDO BEACH, CA)

1. Façade Improvements
   • City of Redondo Beach offers a Commercial Storefront Improvement Program
     ▪ Provides 50% matching grant to business & property owners for façade improvements
     ▪ Green areas are properties that are eligible for this program

2. South Bay Galleria
   • Eastern front door to Artesia Corridor; major improvements proposed
     ▪ Expanding building floor area by over 600,000 SF
     ▪ Adding 150-room hotel, 300 residences, and 50,000 SF of office space
     ▪ Planning Commission approved Galleria Improvement Project on April 19, 2018

Sources: http://www.redondo.org/depts/hbt/business_assistance/storefront_improvement_program.asp;
http://www.redondo.org/depts/community_development/planning/south_bay_galleria_draft_eir.asp
### UTILIZE ECONOMIC DEVELOPMENT TOOLS TO ASSIST CORRIDOR REVITALIZATION

<table>
<thead>
<tr>
<th>New Tools</th>
<th>Existing / Former Tools</th>
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<tbody>
<tr>
<td><strong>Digital E.D. &amp;</strong></td>
<td></td>
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<tr>
<td><strong>Digital Community Participation</strong></td>
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<tr>
<td>OppSites</td>
<td></td>
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<tr>
<td><em>digiConversation™</em></td>
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<tr>
<td><strong>Sustainability and Housing Districts</strong></td>
<td></td>
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<tr>
<td>Enhanced Infrastructure Financing Districts (EIFDs)a</td>
<td></td>
</tr>
<tr>
<td>Community Revitalization &amp; Inv. Authority (CRIA)</td>
<td></td>
</tr>
<tr>
<td><strong>WHOZ</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Housing Sustainability Districts (HSD)</strong></td>
<td></td>
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<tr>
<td><strong>Affordable Housing Authorities (AHA)</strong></td>
<td></td>
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<tr>
<td><strong>NIFTI</strong></td>
<td></td>
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<tr>
<td><strong>Kosmont Retail NOW!®</strong></td>
<td><strong>Real Estate &amp; Property</strong></td>
</tr>
<tr>
<td><strong>Land Use / Zoning</strong></td>
<td><strong>Rebate of Taxes / Revenues</strong></td>
</tr>
<tr>
<td>(Higher Density; D.O.R.™; STAR™ Parking)</td>
<td><strong>Special Districts</strong> (Tourism, BIDs, etc.)</td>
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<tr>
<td><strong>P3 / Project Delivery Methods</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Grants / State / Federal Sources</strong></td>
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<tr>
<td><strong>California RDAs 1945 - 2012</strong></td>
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</tbody>
</table>
A tool kit and platform for both public and private sectors to attract **blended use** and trips, revitalize corridors, and focus on trip attractors in light of omnichanneling.

It is a comprehensive and proactive **retail/blended use attraction platform** that identifies existing conditions, sets a path, targets tenants, & produces results.

**P3 Retail Attraction Tool**
Source: ESRI (2018); *Note: Boundaries for SACOG Area and the Bay Area taken from the following websites: https://www.sacog.org/post/administrative-boundaries and https://data.sfgov.org/Geographic-Locations-and-Boundaries/Bay-Area-Counties/9wgvcph/data
## ANALYZE …

## POPULATION AND INCOME

<table>
<thead>
<tr>
<th>Year</th>
<th>SACOG Area*</th>
<th>Bay Area*</th>
<th>State of California</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Population</td>
<td>2,464,712</td>
<td>7,728,924</td>
</tr>
<tr>
<td></td>
<td>Households</td>
<td>884,371</td>
<td>2,796,565</td>
</tr>
<tr>
<td></td>
<td>Average HH Size</td>
<td>2.74</td>
<td>2.71</td>
</tr>
<tr>
<td></td>
<td>Median Age</td>
<td>36.7</td>
<td>38.9</td>
</tr>
<tr>
<td></td>
<td>% Hispanic Origin</td>
<td>22.4%</td>
<td>23.9%</td>
</tr>
<tr>
<td></td>
<td>Per Capita Income</td>
<td>$33,425</td>
<td>$46,836</td>
</tr>
<tr>
<td></td>
<td>Median HH Income</td>
<td>$66,437</td>
<td>$90,416</td>
</tr>
<tr>
<td></td>
<td>Average HH Income</td>
<td>$91,801</td>
<td>$127,848</td>
</tr>
</tbody>
</table>

### 2018-2023 Annual Growth Rate

<table>
<thead>
<tr>
<th></th>
<th>SACOG Area*</th>
<th>Bay Area*</th>
<th>State of California</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>1.08%</td>
<td>0.93%</td>
<td>0.82%</td>
</tr>
<tr>
<td>Median HH Income Growth</td>
<td>3.45%</td>
<td>3.35%</td>
<td>3.47%</td>
</tr>
</tbody>
</table>

**Source:** ESRI (2018); **Note:** Boundaries for SACOG Area and the Bay Area taken from the following websites:
STRATEGIZE …

PER CAPITA RETAIL SALES ACROSS COMPARABLE REGIONS

Per Capita Retail Sales in 2016

(in $ thousands)

2017 Population (000s):

<table>
<thead>
<tr>
<th>City</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lynwood</td>
<td>73</td>
</tr>
<tr>
<td>Bell Gardens</td>
<td>44</td>
</tr>
<tr>
<td>Bellflower</td>
<td>80</td>
</tr>
<tr>
<td>Paramount</td>
<td>56</td>
</tr>
<tr>
<td>Norwalk</td>
<td>109</td>
</tr>
<tr>
<td>South Gate</td>
<td>97</td>
</tr>
<tr>
<td>Downey</td>
<td>117</td>
</tr>
<tr>
<td>L.A. County</td>
<td>10,276</td>
</tr>
<tr>
<td>Pico Rivera</td>
<td>65</td>
</tr>
<tr>
<td>Commerce</td>
<td>13</td>
</tr>
</tbody>
</table>
**STRATEGIZE …**

**“CASH REGISTERS VS. WALLETS” … RETAIL SURPLUS / LEAKAGE**

- Retail Sales Per Capita in $000s (2016)
- Retail Spending Potential Per Capita in $000s (2016)

<table>
<thead>
<tr>
<th>Location</th>
<th>Retail Sales Per Capita</th>
<th>Retail Spending Potential Per Capita</th>
<th>Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lynwood</td>
<td>$5.1</td>
<td>$5.8</td>
<td>$0.7K</td>
</tr>
<tr>
<td>Bell Gardens</td>
<td>$6.6</td>
<td>$6.4</td>
<td>$0.0K</td>
</tr>
<tr>
<td>Bellflower</td>
<td>$8.7</td>
<td>$9.2</td>
<td>$0.5K</td>
</tr>
<tr>
<td>Paramount</td>
<td>$10.1</td>
<td>$10.1</td>
<td>$0.0K</td>
</tr>
<tr>
<td>Norwalk</td>
<td>$11.0</td>
<td>$11.0</td>
<td>$0.0K</td>
</tr>
<tr>
<td>South Gate</td>
<td>$12.2</td>
<td>$12.2</td>
<td>$0.0K</td>
</tr>
<tr>
<td>Downey</td>
<td>$12.6</td>
<td>$10.6</td>
<td>$2.0K</td>
</tr>
<tr>
<td>L.A. County</td>
<td>$14.2</td>
<td>$13.3</td>
<td>$1.2K</td>
</tr>
<tr>
<td>Pico Rivera</td>
<td>$16.2</td>
<td>$8.6</td>
<td>$1.2K</td>
</tr>
</tbody>
</table>

Per Capita Sales Surplus/Leakage, Total Surplus/Leakage, and Percent Surplus/Leakage:

<table>
<thead>
<tr>
<th>Location</th>
<th>Surplus/Leakage</th>
<th>Total Surplus/Leakage</th>
<th>Percent Surplus/Leakage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lynwood</td>
<td>($0.7K)</td>
<td>$1.2K</td>
<td>(12%)</td>
</tr>
<tr>
<td>Bell Gardens</td>
<td>($0.5K)</td>
<td>$1.2K</td>
<td>(6%)</td>
</tr>
<tr>
<td>Bellflower</td>
<td>$3.4K</td>
<td>$1.2K</td>
<td>51%</td>
</tr>
<tr>
<td>Paramount</td>
<td>$2.4K</td>
<td>$1.2K</td>
<td>27%</td>
</tr>
<tr>
<td>Norwalk</td>
<td>$5.6K</td>
<td>$1.2K</td>
<td>86%</td>
</tr>
<tr>
<td>South Gate</td>
<td>$2.0K</td>
<td>$1.2K</td>
<td>19%</td>
</tr>
<tr>
<td>Downey</td>
<td>$0.9K</td>
<td>$1.2K</td>
<td>7%</td>
</tr>
<tr>
<td>L.A. County</td>
<td>$7.6K</td>
<td>$1.2K</td>
<td>88%</td>
</tr>
<tr>
<td>Pico Rivera</td>
<td>$1.2K</td>
<td>$1.2K</td>
<td>19%</td>
</tr>
</tbody>
</table>
IMPLEMENT ...

“GROUND GAME” OPPORTUNITY SITE MARKETING
IMPLEMENT ... digiConversation™:
USE SOCIAL MEDIA AND INTERNET AS “AIR GAME” TOOLS

Community Discussion

Digital Messaging

Public Transparency & Clarity

Website

Social Media Ads

Deliverables

1. Identified Target
2. Message Memo
3. Online Public Conversation

Source: https://oppsites.com
CASE STUDY 2: POWAY ROAD CORRIDOR
digiCONVERSATION™ USED TO SUPPORT “BLENDED USE” CATALYST PROJECT
IMPLEMENT:
DEVELOPMENT OPPORTUNITY RESERVE (D.O.R.)™

D.O.R.™ is an economic development tool a City can control and utilize to incentivize private investment by allocating density (not to passive property owners) in return for targeted community benefits.

Buellton D.O.R.™ Case Study via adopted Ave of Flags Specific Plan October 2017

- Receives Reduction in Required On-Site Parking
- Builds Public Parking Lot
- Receives Residential Density Bonus
- Builds Public Restrooms
- Receives Increase in Max Building Height
- Provides Off-Site Public Improvements

Developer A Project
Developer C Project
CASE STUDY 3:
D.O.R.™ - AVENUE OF FLAGS, BUELLTON, CA

Overview

• Kosmont was retained by the City of Buellton to prepare a Market & Economic Analysis and Economic Development Implementation Plan (“Plan”)

• Kosmont collaborated with the Buellton Visitors Bureau/Chamber of Commerce to identify opportunity sites, prepare marketing collateral, solicit retailer interest, and conduct developer outreach at ICSC conferences from 2013 to 2015

• In January 2017, the City approved to finalize the Plan document

• Kosmont was retained to assist the City with Plan implementation and utilizing an Economic Development tool called Development Opportunity Reserve (D.O.R.™) to induce private investment downtown.
NEXT STEPS:
KOSONT’S PRESCRIPTION FOR “AILING” RETAIL CORRIDORS

1. **Millennials** are the economic force - need to attract and retain them
2. **Price, place, trips, and convenience** are key factors to consumers
3. **Tech and Automation** changing the job market, land use, and the way we eat and work
4. **Sharing** is a part of life – office, car, bike (shared economy)
5. **Convergence in Work & Play** environments are here to stay
6. Retail store models are changing. It’s not **JUST** Retail anymore
7. Industrial is key – “**Redustrial**” (Retail & Industrial merging based on last mile delivery)
8. Retailers – **embrace omnichanneling** and **invest in technology** to be successful
9. Focus strategies on **digital lifestyle, demographic, and retail shifts**
10. Lead with **placemaking, food, and blended use** (led by housing & special attractors)
QUESTIONS?

Contact Information:
Larry J. Kosmont, CRE®, President & CEO | 213-507-9000 | lkosmont@kosmont.com

Source: www.wordle.net