

DOWNTOWNS GET CREATIVE TO KEEP RETAIL HUMMING

With many employees still working from home, California's major downtowns have had to find new ways to lure both retailers and customers.

By Nellie Day

California's major downtowns, including San Francisco, Los Angeles and San Diego, have weathered COVID very differently. The pandemic's impacts seem to be a direct result of that particular downtown's pre-COVID fundamentals, major industries, city policies and — the most important for retailers — foot traffic.

"San Francisco's downtown retail is largely dependent on three segments: office employees, tourists and convention attendees," explains Kipp Kjeldgaard, founder of Real Active, a San Francisco-based retail consulting firm. "While footfall has slowly started to build, it's still off 40 percent to 50 percent compared to pre-COVID traffic."

Using San Francisco as a further example, Cameron Baird, senior vice president of Avison Young's San Francisco office, notes downtown retail sectors are often dependent on the live-work portions of the live-work-play equation to make their numbers pencil. This has been a big problem as offices closed and residents fled to the suburbs.



Cameron Baird
Senior Vice
President,
Avison Young

"While many Class A high rises still have more than 85 percent of space leased up, the true occupancy numbers of the buildings hover at 10 percent to 20 percent on average, with some towers reporting numbers as low as 5 percent



The Campus at Horton will transform the former Horton Plaza shopping center in Downtown San Diego into a 700,000-square-foot high-tech office campus. The project will include amenities like a food garden, restaurants, quick-service chains, intimate bars and cafes, art, cultural venues, health and wellness options and rotating pop-ups.

if there are tech occupants that have flexible, remote working options," he says. "This is the customer base that retail and restaurants rely on, so until they return, demand for downtown space remains light."

There isn't much anyone can do to bring office workers back before they feel safe returning to their workplaces in dense downtowns. Knowing they can't pull from significant populations right now, however, cities, landlords and brands are getting creative as they drum up business and try to ensure retailers succeed.

KEEP PEOPLE COMING

Finding new ways to entertain people has been the cornerstone of retail for some time. In a way, this has gotten both easier and harder during the pandemic. On the one hand, many

people are starved for opportunities to get out of the house. On the other, some are still wary about venturing out.

The level of creativity any one landlord or tenant can undertake is also tied to their respective city and its appreciation for novel ideas. Naturally, an administration that is empathetic to retail's struggles and willing to help has been met with open arms.

"The city has helped with loosening regulations and facilitating new opportunities, such as al fresco dining and takeaway alcohol sales," says Nick Griffin, executive director of the Downtown Center Business Improvement District (DCBID) in Downtown Los Angeles. "The city has also taken advantage of the lack of automobile traffic and invested significantly in infrastructure, ranging from new bike

lanes to bus service, much of which has been focused on supporting local businesses.”

Customers aren’t the only ones appreciating these efforts. Landlords are taking note as well.



Jason Wood
Principal,
Cisterra
Development

“Gaslamp and Little Italy have turned into expansive sidewalk dining areas that create a more engaging pedestrian experience,” says Jason Wood, principal at San Diego-based Cisterra Development, which is building the new 241-unit Radian luxury

apartment high rise between Downtown San Diego’s Gaslamp and East Village districts. “It will be interesting to see how the more merchandise-oriented retailers adjust and gain approval to create and work with this type of environment.”

And Downtown San Diego isn’t quite done yet. The area is still adding creative new concepts.

“We are seeing an influx of experiential, high-quality restaurants in the Downtown San Diego market like the addition of Wolfie’s Carousel Bar in Little Italy that combines the whimsical nature of a carousel mixed with the refinement of a Parisian bistro, or Callie in the East Village, infusing local ingredients with the flavors and traditions of the Mediterranean and earning national acclaim,” notes Betsy Brennan, partner and CEO of the Downtown San Diego Partnership. “We’re also providing support and advocacy as a variety of Down-



Betsy Brennan
CEO,
Downtown
San Diego
Partnership

town neighborhoods join other parts of the country in reimagining their public spaces to better create connections between businesses and pedestrians.”



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One of these reimaginings is the Gaslamp Promenade project, which will turn part of the Gaslamp Quarter into a pedestrian promenade.

“When complete, this area will become eight distinct plazas fostering a pedestrian-friendly connection with ground-floor retail through additional foot traffic and amenities,” Brennan adds.

One retailer that already sees the value of a downtown ground-floor location is Target. The big box retailer will occupy a 36,000-square-foot space on the ground-floor and basement levels of Radian, which broke ground in July and is slated for completion in

summer 2023.

“Downtown residents locate in these environments because they want the convenience of the live-work-play lifestyle,” Wood says. “Along with that, they don’t want to get in their car to shop, or pay the higher prices historically charged for these items in the more traditional downtown stores.”

This may be an ideal time to bring Target to Downtown San Diego as the residential population flourishes and the region’s emphasis on life sciences, healthcare and biotech means fewer employees can work from home.

“What we have seen set Downtown San Diego apart from other urban areas is the healthy balance of residential and commercial populations in our neighborhoods,” Brennan says. “A strong mix of residential and com-

mercial is an important distinction because we have observed — especially during the pandemic — that other markets with a heavier proportion of commercial have faced additional struggles.”

Brennan further adds that the number of residential units currently under construction or planned is equal to 40 percent of Downtown San Diego’s existing inventory. Griffin is seeing a similar story play out in Downtown LA — and thankfully so.

“The biggest retail revelation occurring in DTLA right now is the increased importance of DTLA’s expanding residential population as a driver of the economy,” he says. “In the absence of office workers and visiting tourists, DTLA’s 80,000-strong residential population has been instrumental in keeping local retailers afloat. The significance of this was not lost on those businesses, who found innovative ways to accommodate these loyal customers whether it was through new outdoor dining opportunities, catering, to-go services or delivery. And because the residential sector is now growing despite the pandemic, it’s an increasingly appealing market for retailers.”

Unfortunately, Downtown San Francisco hasn’t had the same experience as the area boasted 80,000 office workers (pre-COVID) and only 15,000 residents.

“Downtown San Francisco — the Financial District, South Financial District, East Cut — has seen a significant



Kazuko Morgan
Vice Chairman,
Cushman &
Wakefield

amount of vacancies or businesses still shut down, waiting for the office workers to return to work,” says Kazuko Morgan, vice chairman of Cushman & Wakefield’s San Francisco office.

That doesn’t mean new projects aren’t emerging,



The ROW DTLA contains more than 35 retailers, restaurants, wellness concepts, creative office spaces and boutiques in Downtown Los Angeles.

however. Real Active co-developed the Crossing at East Cut, a community space in SoMa (south of Market) that took over a former Transbay temporary terminal. The space now contains soccer fields, a pickleball court, beer garden, food truck section, outdoor cinema, dog park, kid’s play area and event space.

“Given that East Cut is largely vertical and lacking open and communal space, the Crossing will add badly needed space for people to socialize, play with their families and dogs, exercise and be entertained,” Kjelgaard says.



Kipp Kjelgaard
Founder,
Real Active

“In light of the impact of COVID-19, the project has taken on a broader importance to downtown. The mayor and her team have been personally involved to strategize on how the site can be used to safely bring people back downtown.”

KEEPING PEOPLE SAFE

Even in the best of times, crime and downtowns can sometimes be synonymous. Like COVID, crime’s impact on a downtown depends on a few factors.

“Landlords and tenants are frustrated with the city’s lack of effective response to crime and homelessness,” says Baird. “Many felt San Francisco’s soft stance on crime started with the passage of Proposition 47, which decriminalized theft of product less than \$950 and meant many misdemeanor

crimes have six-month maximum jail sentences. San Francisco residents are frustrated with the D.A.'s apparent unwillingness to prosecute these crimes. Until some real meaningful change to the current policies occurs, retail will continue to struggle and will bear the brunt of increased security costs and insurance premiums due to theft and crime."

Carlos Lopez, executive vice president of Hanley Investment Group Real Estate Advisors in Corona del Mar, agrees that these officials hold a lot of power when it comes to whether retailers and customers feel safe in a given downtown. What they do with that power can somewhat determine the fate of their retailers.

"I think it will be a long-term approach involving how our elected politicians address the critical issues of crime and homelessness," he says.

"I think we have learned through COVID-19 and the events of the summer of 2020 how our political leaders responded — both right and wrong — to the pandemic and other events. The bottom line is that if people do not feel safe, they will not visit, live or seek to do business in your community over the long run."

Kjeldgaard has seen this sentiment firsthand in Downtown San Francisco.

"I recently spoke with an owner of a high-profile building in Union Square and he said he couldn't bribe customers to attend a VIP evening with free champagne, food and rideshare service," he says. "When asked why, people responded that what they saw on the news made them feel it was unsafe."

Walgreens announced in October it would close five stores in Downtown San Francisco due to organized theft,

while Target has changed its downtown closing times from 10 p.m. to 6 p.m.

Morgan believes a stronger stance and safety measures from the city and enforcement agencies can begin to solve Downtown San Francisco's crime problems. A zero-tolerance policy may also curb crime, she suggests.

Officials in other downtowns also have these issues on their radar, with many taking a proactive approach to ensure their key retailers don't abandon them.

"The Downtown San Diego Partnership's Clean and Safe program strives to optimize the streets and sidewalks of downtown as a conducive place to have a business," Wood says. "As a city, we need to look at what has recently been happening in other major downtowns and learn from their mistakes."



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The Clean & Safe program is a public service for Downtown San Diego's 275 blocks. It includes placemaking and beautification projects, including colorful planter boxes, bold murals and creative parkettes, as well as maintenance projects like pressure washing and trash pickup, in addition to safety and homeless outreach services.

"During the pandemic, the Downtown Partnership also increased service hours to provide 24-hour security to keep our urban core as safe as possible for residents and businesses alike," Brennan adds. "This will continue for the foreseeable future."

KEEPING TENANTS HAPPY

Many of the creative efforts undertaken by downtown city officials and landlords have paid off. In some instances, this creativity has resulted in the experiential environment they were chasing pre-COVID.



Al fresco dining allowed main streets like Colorado Boulevard in Old Town Pasadena to weather the COVID storm. Many diners have since expressed a desire to keep this tradition going.

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"I think it was a great move by many cities, including Los Angeles and Pasadena, to be flexible in allowing restaurants to enact outdoor or 'al fresco' dining and alcohol service on sidewalks, curb parklets or parking lots," Lopez notes. "I recall visiting Colorado Boulevard in the Old Pasadena district on a sunny day last November. The outdoor street dining created a sense of vibrancy and energy that I had never felt or seen before in the district. I hope it can stay."

Griffin notes creative actions like these have resulted in about 65 new businesses opening in Downtown LA since the pandemic began; 54 of those businesses are stores and restaurants.

Making customers happy makes retailers happy in return, though Lopez knows it'll take more than an



Nick Griffin

Executive Director,
Downtown Center Business Improvement District



Downtowns are always known for their cultural meccas, and Chinatown in Downtown Los Angeles is no different. The area contains numerous authentic food outlets and places to stroll with a family or pets.

outdoor dining setting to attract and retain today's top brands. That's why creativity in lease terms is also very much encouraged right now.



Carlos Lopez
Executive Vice
President,
Hanley
Investment
Group Real
Estate Advisors

"One thing that landlords are doing is leasing space with a going rental rate that is much lower than the market rate for a starter rental rate and then gradually stepping that level up over a two- to three-year term," Lopez adds. "This flexibility enables the tenant to have a break on the rental rate as the customer

base gradually grows and returns to pre-pandemic levels. It also enables landlords to return to market rate in a shorter time period and not have their

property values impacted over the long-term."

Lopez has also seen tenants request pandemic clauses that would trigger rent abatement (of either full or half rent, depending on negotiations) for a specific period of time if a retailer is forced by the government to close again. Tenants are also requesting longer fixturation periods or receiving larger tenant improvement allocations to offset the cost and hassle associated with protective equipment, air filtration systems and other pandemic-related accessories.

Michael Peterson, vice president of CBRE in San Diego, sees that landlords are ready to play ball. Target's lease at Radian shows national brands are still eyeing downtowns when the project, location and deal terms are right.

"As we see institutional money flowing into Downtown, we are seeing more landlords willing to con-

tribute heavily in tenant improvement allowances in an effort to amenitize the ground floor of their office or residential towers," he says. "Thoughtful retail allows for higher residential and office rents. Landlords are increasingly showing they are willing to lower rates or contribute to a tenant's build out to ensure they attract their desired tenant mix."

Though Morgan notes additional police have been dispatched to San Francisco's Union Square — a helpful and encouraging strategy — she hopes more will be done to bring businesses back. Some of the notable tenants to vacate Downtown San Francisco recently include Gap, Uniqlo, Walgreens, Forever 21 and Marshall's.

"Landlords are offering concessions and are willing to get creative with lease terms," she says. "We know that the city is trying to be helpful, but unfortunately we haven't really experienced the results. Other cities that we do business in are so proactive and pro-business and willing to bend over backwards to spur vitality and new tenants to their cities. SF can really learn a lot from those cities."

Still, Morgan knows that where there are vacancies, there are opportunities. They may just take a little time to fill as the city works on crime prevention and workers slowly trickle back into the office. It isn't likely, after all, that commerce powerhouses like San Francisco will fall off the map.

"For years we had such limited availability, so for the first time ever, there are a lot of opportunities for a tenant looking at San Francisco," she continues. "The good news is that as long as we do not have another variant or surge in COVID cases, the tourism, office workers and conventioners will be back next year." **CC**



Michael Peterson
Vice President,
CBRE