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Re: Retail Tenanting Strategy for Downtown San Rafael

Attached is a draft version of the 'Retail Market Study and Tenanting Strategy' for Downtown San Rafael. This analysis was prepared by MJB Consulting, a nationally recognized retail planning and recruitment firm.

The City of San Rafael, in partnership with the Downtown Business Improvement District (BID), commissioned this study as part of a contract to analyze the current state of downtown retail (including restaurants and service businesses) and develop a strategy to strengthen the Downtown retail business climate.

The attached analysis and strategy is the first phase of the scope of work for this retail recruitment project. The next phase of the contract will involve outreach to key stakeholders to review the findings of the tenanting strategy. As part of the outreach, the consultant and staff will be meeting with landlords, brokers, merchants and other parties to discuss the strategy further. The final phase of the contract will involve outreach to potential tenants to 'pitch' Downtown San Rafael and refer interested leads to landlords/brokers with spaces that match their leasing criteria.

City staff looks forward to working with our residents, merchants, and business community to develop ways to improve the Downtown. We are excited for the opportunities and we want to hear your thoughts as we proceed.

IMPORTANT NOTE

It is important to note that the analysis and the recommendations put forward in this study are those of the consultant and they do not necessarily represent the views of City staff, the City Council, or the BID. Some of the recommendations may warrant further analysis and/or discussion of potential funding sources. Prior to implementing any new policy or program proposed by the study, there will be a public process to allow residents and the business community to comment and help shape the proposals.



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Memorandum

To: Thomas Adams
Economic Development Coordinator, City of San Rafael

From: Michael J. Berne
President, MJB Consulting

Cc: Carol Thompson
Director, Downtown San Rafael Business Improvement District

Re: Retail Market Study and Tenancing Strategy / Downtown San Rafael
Draft Findings and Conclusions

Date: July 20, 2015 (DRAFT #5)

In June 2014, the City of San Rafael, in concert with the Downtown San Rafael Business Improvement District (BID), retained MJB Consulting (MJB), a Berkeley-based retail planning and real estate consultancy, to undertake a retail market analysis and devise a positioning and tenancing strategy for Downtown San Rafael.

MJB's due diligence for this assignment consisted of the following:

- Review of past analyses and strategies, including the January 2014 "Downtown Retail Recruitment Action Plan" presented by Tom Adams to the Economic Development Sub-Committee
- Guided tour of Downtown San Rafael and extensive follow-up discussions with Tom Adams and Carol Thompson

- Self-guided walking and driving tours of the study area and immediate vicinity as well as other San Rafael neighborhoods, including (but not limited to) Montecito, Canal District, Gerstle Park, Dominican, Sun Valley and Terra Linda
- Observations of existing retail mix and dynamics in Downtown San Rafael and each of its individual sub-districts and corridors, including review of available spaces and sites, relevant projects and initiatives, etc.
- Gather available information on non-residential sources of consumer demand in Downtown San Rafael, including (but not limited to) daytime workers, the Christopher B. Smith Rafael Film Center and Albert Field
- Initial Meetings with Retail Steering Committee and the City Council's Economic Development Subcommittee (consisting of Mayor Gary Phillips and Councilman John Gamblin)
- Review and analysis of aggregate data from pedestrian-intercept surveys undertaken at different times of the day and week in Downtown San Rafael as well as Downtown San Anselmo and Downtown Novato
- Survey and assessment of competing districts and centers, including (but not limited to) Montecito / Third Street, Miracle Mile / Fourth Street, U.S. 101 / Francisco Boulevard, Downtown San Anselmo, Downtown Fairfax, Northgate, Corte Madera (Town Center and Village), Vintage Oaks Shopping Center, Downtown Novato and Downtown Petaluma
- Interviews with property owners and leasing professionals, including Mel Dagovitz (landlord), Peter Gettner and Dirck Brinckerhoff (HL Commercial), Matt Brown (Meridian Commercial), John Williams (Sperry Van Ness), Bob Berry (landlord), Tom Renshaw (landlord) and Matt Hughes (residential broker with Holmes Burrell Real Estate)
- Retrieval and analysis of demographic and sales-leakage data for Downtown San Rafael's primary trade area, along with comparisons to Marin County as a whole

In undertaking this scope-of-work, MJB's Principal, Michael J. Berne, applied the firm's unique "total immersion" methodology, visiting San Rafael numerous times between June 2014 and July 2015.

Detail

The following is a first draft of MJB's findings and recommendations, in the format of an "executive summary" memo as agreed upon in the initial contract. Note, however, that not only will this be edited and refined in response to client feedback, but also, it is just the first step of a more extensive engagement that includes additional outreach for the securing of "buy-in" as well as an initial round of retail recruitment.

Identifying the right "positioning" of a retail mix requires an assessment of two discrete "markets", one in which consumers demand goods and services from businesses, and the other in which tenants seek street-level space from landlords.

I. Consumer Demand

- Intercept surveys conducted in the downtown area suggest that roughly two-thirds of the foot traffic along Fourth Street resides in San Rafael, and nearly half live near Downtown. Furthermore, the surveys indicate that 70% of those surveyed visit two or more times per week. While these surveys were a small sample of the downtown foot traffic, they indicate that the downtown draw appears to be primarily local, not destination. Inasmuch as the primary trade area is typically defined as the polygon within which a given business district derives approximately 70% of its sales, it would not be unreasonable in this case to set the boundaries at roughly the city line.

- Basic demographic data for this primary trade area is as follows, with the numbers for Marin County provided for the sake of comparison:

	Downtown San Rafael Primary Trade Area	Marin County
Population		
Population	59,863	260,082
Population Density	3,364 persons per square mile	500 persons per square mile
Demographics		
Percent Non-Hispanic White	58%	72%
Percent Latino	31%	16%
Median Age	41.9	46.1
Percent Aged 25 to 44	27%	21%
Percent Households with Kids	28%	29%
Education and Employment		
Percent College-Educated	46%	55%
Percent Creative Class Jobs	40%	50%
Percent Blue Collar and Service/Farm Jobs	39%	27%
Income and Wealth		
Median Household Income	\$77,642	\$92,999
Percent Households Earning \$100K+	39.3%	46.9%
Percent Housing Units Owner-Occupied	53%	62%
Median Home Value	\$785,784	\$887,453
Percent Homes Valued at \$1M+	29%	41%
Mobility		
Percent Households without Cars	9%	5%

Source: Nielsen-Claritas, MJB Consulting

- Not surprisingly, the primary trade area lags Marin County when measured in terms of percentages and medians. However, due to the much higher population densities, Downtown San Rafael can actually tap a far greater *absolute number* of nearby “blue-chip” consumers than its chief competitors. Indeed, the city contains 19,962 college-educated residents, 9,301 households earning \$100K+ and 6,626 owner-occupied housing units valued at \$750,000 or more.

Looking more closely at the demographics, the primary trade area can be segmented into three distinct sub-markets, each of which accounts for approximately one-third of the total: the well-educated, well-off “blue-chips” noted above; the Latino contingent, comprised mostly of working-class immigrant families, with roughly even percentages from Mexico and Guatemala; and finally, an assortment of middle-income whites who earned an A.A. or otherwise attended some college and who currently work in sales or administrative jobs.

- The San Rafael downtown neighborhoods have been welcoming an influx of refugees from San Francisco, largely due to its escalating housing costs. According to a local residential broker, over half of the new arrivals to purchase homes in central San Rafael have relocated from the city, drawn by the relative affordability in combination with easy access to San Francisco via car, bus, or ferry. They consist primarily of childless couples locating within walking distance of Downtown, as well as young families purchasing their first homes in the Gerstle Park and Sun Valley areas.

These new residents, especially the childless couples, bring a different sort of psychographic to San Rafael, with a lifestyle that values walk-ability to a mix of businesses and services as well as proximity to a vibrant dining and nightlife area, and a sensibility that skews more towards the artistic and independent businesses. Their preferences have already started to find expression on Fourth Street, with businesses like Johnny Doughnuts, Green Chile Kitchen and Knimble.

- In addition to trade area residents, the Downtown also draws on certain non-residential generators of demand such as daytime workers. An estimated 7,000 people work within a half-mile radius of Fourth and C Streets, with leading employers including BioMarin Pharmaceutical and the City of San Rafael. Furthermore, BioMarin is adding to its headquarters with a new R&D facility and will soon have 1,000 employees, while still more office development is expected with the arrival of the SMART train in late 2016.

Other demand generators include entertainment draws like the Christopher B. Smith Rafael Film Center, which attracts roughly 150,000 annual patrons – largely well-off, well-educated baby boomers from across Marin County – to its art-house fare, and Albert Field, just a five-minute walk from Fourth Street, which sells approximately 30,000 tickets per year – with a significant percentage to families with kids – for the 42 home games of the San Rafael Pacifics professional minor league baseball team.

Finally, Downtown contains a number of destination businesses that attract patrons from beyond San Rafael. These include (but are not limited to) nightlife/live-music draws like Fenix night club; restaurants such as Sol Food and Il Davide; purveyors of “must-have” confections like Johnny Doughnuts; specialist shops such as Bananas At Large; retailers with established customer bases, like Bella and Sunrise Home; as well as “Third Place” venues (hang out spots other than home or work) such as Gamescape and Open Secret Bookstore.

- Partly due to these non-residential generators of demand, the foot traffic on Fourth Street is not necessarily representative of the trade area population. Indeed, according to the intercept surveys, 69% of the pedestrians are white (versus 58%) while just 11% are Hispanic (31%), and overall they skew younger, with a far higher percentage under the age of 30 (i.e. the so-called “Millenials”) and a much lower proportion aged 50 or above (i.e. “Baby Boomers”). While the results of the intercept surveys are a rough approximation and should be treated as such, anecdotal evidence suggests that the downtown foot traffic is younger and whiter than the population as a whole.

Sales leakage figures indicate considerable float in women’s and men’s clothing, shoes and accessories, and given the composition of the foot traffic along Fourth Street, the “Boomer” and Latino submarkets are probably the ones leaving the most often for such purchases, with the former accounting for a far greater loss in absolute terms as it

gravitates instead to the selection and atmospherics in Corte Madera and, to a lesser extent, smaller towns across Marin like San Anselmo and Mill Valley.

Partly due to the larger draws noted above, the primary San Rafael trade area imports expenditures in dining and nightlife, yet this should not obscure the competition that it faces in the dining category from nearby communities such as San Anselmo, Fairfax, Corte Madera, and Larkspur. Fairfax appears to be the primary nightlife competition with the county's only multiplex with stadium-style seating, a collection of bars and live-music venues and a well-established brand as an eclectic and freewheeling community that offers a vintage Marin feel to it.

- In addition to trade area expenditures leaking to such competitors, the Downtown is also forgoing the opportunity to attract additional patronage from those who live beyond the primary trade area, like Boomers residing elsewhere in Marin County. Indeed, one of the dangers in relying on intercept survey responses in the drawing of trade area boundaries is that it fails to account for consumers who are *not* visiting the given business district.

One might conceive of a secondary trade area for Downtown San Rafael. Given its centrality to Marin's population centers, these boundaries have been drawn to encompass the entire county, yielding a demographic that is considerably older, better educated, and more affluent than San Rafael (see table above). Hypothetically, a more compelling retail mix would draw higher numbers of this desirable demographic.

- Finally, one other submarket that Downtown San Rafael does not penetrate to any significant degree is tourism. Despite sitting in an enviable location adjacent to U.S. 101 and near I-580 as well as offering direct connections to points west, it does not draw heavily from among the considerable number of out-of-town visitors and Bay Area day-trippers who are in Marin County (or headed to Sonoma County) to enjoy the scenic beauty and outdoor recreation, 'foodie' destinations, and charming small towns. Sol Food and, to a lesser extent, Mission San Rafael Arcangel, might be viewed as the only exceptions.

II. Tenant Demand

- The retail industry is in the midst of a profound transition, driven in large part by the real and perceived threat of e-commerce. Leasing activity is today driven to a significant extent by food and beverage purveyors and service uses, with traditional shopping figuring less prominently. Moreover, the shops that are surviving and thriving in Downtowns like San Rafael's tend to specialize in categories that are less vulnerable to e-commerce (e.g. fashion), emphasize high levels of customer service and/or draw on other sources of revenue besides walk-in trade (e.g. web sales, wholesale accounts, etc.).

- That said, San Rafael enjoys a location the heart of one of the most affluent counties in the United States, where nearly half of all households earn \$100,000+ per year and more than two-fifths of the owner-occupied homes are valued at \$1,000,000+. Furthermore, the County's retail inventory remains very tight: DTZ reports a shopping-center vacancy rate of just 4.4% in the first quarter of 2015, with older product accounting for almost all of the available space, and no new supply is likely to materialize until at least 2016.

- Within Marin County, San Rafael's Downtown is considered a solid "B" location in the minds of most prospective tenants. It cannot compete with the Corte Madera shopping centers (The Village at Corte Madera and Corte Madera Town Center), nor does it rank alongside the destination character of the core business districts of Sausalito or Mill Valley. At the same time, the San Rafael Downtown holds greater appeal than some smaller downtown areas such as Old Town Novato.

Among competing Downtowns that still have available spaces (or soft tenancies), it vies most directly with San Anselmo. This rival offers boutique co-tenancy, free parking, no hint of homelessness and slightly lower occupancy costs. Intercept surveys indicate that it is more effective at attracting older females. However, it lacks direct U.S. 101 access, it is considerably smaller in scale, and its mix and draw are less diversified. Due to these constraints, San Anselmo appears to have a relatively high turnover and vacancy.

Among shopping centers, The Mall at Northgate boasts several popular draws (i.e. Macy's, Kohl's, H&M, Forever 21, Century Theatres 15, etc.), a national mall REIT as an owner/manager (Macerich), free and ample parking, as well as a privatized setting without vagrancy. Yet while the above anchors typically set the table for strong in-line leasing, stubborn vacancies persist and various sub-optimal tenancies give some cause for concern.

- Meanwhile, Downtown San Rafael can point to a number of advantages as a retail location. It is easily the most urbanized and intensely developed Downtown in Marin, with the highest number of nearby residential densities as well as non-residential demand generators (e.g. daytime workers) and a diversified retail mix (e.g. comparison shopping, nightlife/entertainment, etc.), resulting in varied streams of foot traffic at different times of the day and week.

Downtown San Rafael also enjoys enviable automobile access, sitting along U.S. 101 and just slightly north of that freeway's intersection with I-580, which connects to the East Bay. Of the estimated 240,000 daily motorists driving along this stretch of U.S. 101,

roughly 50,000 take the exit ramps to Downtown, according to City of San Rafael traffic counts. Furthermore, nearly 50,000 cars use the Third Street/Second Street one-way couplets parallel to Fourth Street, with another 10,000 utilizing Fourth Street itself.

Downtown San Rafael also offers ample off-street parking for a Downtown of its size and scale, with the two municipal garages and eight publicly owned lots within one block of Fourth Street aggregating to 1,439 total stalls. Unlike its direct competitors, the spaces are not free, with hourly rates from \$0.75 to \$1.50, although they become free evenings and Sundays, and merchants can purchase one-hour validations for patrons.

Reasonable retail rents for Marin County are another selling point. The top-tier shopping centers are charging \$5 to \$6 per square foot NNN plus percentage, while Sausalito is priced at \$4 to \$5 per square foot NNN and Mill Valley, \$4 to \$4.50 per square foot NNN. On Fourth Street, while the surfeit of banks has pushed levels between A Street and Rafael Town Center to as high as \$3 per square foot NNN, prime space can be had for as little as \$2 per square foot NNN.

With occupancy costs (rents plus NNN) on Fourth Street ranging from \$2.50 to \$3.00+ per square foot (\$30 to the low \$40's on an annual basis), industry standards suggest average gross sales in the \$300's per square foot. Given that alcohol-serving uses likely drive these numbers upward, one can assume that higher-caliber retail shopkeepers average in the \$200's – well below the \$475 per square foot in regional malls and unlikely to attract the interest of larger chains, yet still quite respectable for an inner-ring suburban downtown like San Rafael's.

Prospective tenants would also take notice of some of the new tenants in Downtown San Rafael. While the failures of businesses like Odalisque and J. Grigg Home Furnishings might have cast some doubt on its ability to sustain higher-end offerings, the arrival of Copperfield Books, a well-known North Bay chain-let, along with the additions of contemporary concepts such as Taylor Maid Farms, Knimble, Green Chile Kitchen and Johnny Doughnuts portray Fourth Street in a new and different light.

- The homeless and other social service related issues no doubt deter certain kinds of prospective tenants, as does the unpredictability of co-tenancy in a business district with multiple property owners. While both of these issues are undeniably a drag upon the overall success and vibrancy of the downtown, some tenants are willing to overlook them if they see significant opportunity in the local market.

- Fourth Street itself must also vie for prospective tenants with nearby automobile-friendly corridors that offer fast and free in-and-out parking. For example, there are possible sites along 3rd Street in the Downtown, which sits on the drive-home side and handles 20,000 to 25,000 cars per day. Indeed, Walgreens is located on 3rd Street even though in many Downtowns it occupies a prominent space on the traditional pedestrian-oriented shopping street.

- According to local retail brokers, the kinds of tenants showing the most interest in Downtown San Rafael are, as in the retail industry more generally, restaurants and personal/professional services (e.g. beauty salons, fitness studios, dentists, chiropractors, etc.). The prospects in the food and beverage space tend to be undercapitalized start-

ups or small chain-lets, the latter expanding from either San Francisco, the East Bay, or Sonoma county.

A modest number of available spaces still exist – the City reported a vacancy rate of 4.7% on Fourth Street in December 2014 (versus roughly 5.3% for the Bay Area as a whole) – but not necessarily in the size and configuration that tenants are seeking. The proverbial “sweet spot” is 1,500 square feet, yet many of the smaller bays are far deeper than they need to be for most modern retailers. In addition, there are several larger floor-plates (of 6,000 square feet or more) that are only plausible for a limited subset of prospects. Finally, nearly 40% of the empty square footage is located in the less desirable West End.

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III. Recommended Retail Positioning and Tenanting

- It is hard to escape the feeling, when visiting Downtown San Rafael for the first time, that *there is something missing*. Walking the length of Fourth Street from U.S. 101 to its intersection with 2nd Street, one passes many successful and compelling businesses, yet somehow the retail mix never quite coheres into anything in particular, or leaves a distinct and lasting impression. While reasonably healthy by conventional metrics, with a relatively high occupancy rate and few cases of visible blight, it nevertheless seems to lack definition and personality.

- To a certain degree, this is to be expected for a Downtown in which 250 ground-floor businesses and 640,000 square feet of retail space sits along a linear corridor roughly one mile in length. A typical strong retail area is much more concentrated, as proximity is one of the keys of retail success. There is no one “silver bullet” for Fourth Street: rather, the mix *has to be* multi-dimensional, catering to several different sub-markets and day-parts. However, it then becomes even more important that the businesses corresponding to each of these niches are clustered together, so as to generate cross-traffic for each other and coalesce into a visible and identifiable *something*.

- Given the current state of the downtown market place and the potential opportunities for increased sales, retail tenanting efforts should be targeting the newer arrivals, the childless couples and young families in their late 20's, 30's, and early 40's (the Gen Y and Gen X crowd) who are relocating from other parts of San Francisco and the East Bay. Fourth Street, even with its imperfections, was reportedly an important part of what sold these new residents on San Rafael in the first place. This new demographic values the proximity to a walk-able (or park-once) mixed-use Downtown with services and amenities as well as evening activity – which can be difficult to find elsewhere in Marin -- and have shown little interest in the more traditional suburban residential communities further north, east and west. These new residents value the experience of a traditional downtown that features authentic and eclectic independent businesses.

With this growing sub-market, it makes some sense to think of Downtown San Rafael as not just the central business district of San Rafael, but also, as similar to a business district for an “up-and-coming” neighborhood of San Francisco, and similar in certain respects to others within San Francisco and the metro area that have emerged in the last decade or so as addresses for maturing young adults in the process of household and family formation. As with other areas that are transitioning to a newer demographic, there are opportunities in the downtown area to meet the needs of the new residents.

This newer demographic of young couples (or ‘Yo-cos’) suggests a potential market niche for small and aspiring “chain-lets” -- typically with a contemporary “curated” feel - - that started in or have already expanded to East Bay neighborhoods like Downtown Berkeley, Elmwood, Temescal and Grand-Lakeshore. A representative list might include restaurants such as Chow, Bowl'd, Farmburger and The Melt; hangouts like The Trappist and Lanesplitter; live-music venues such as the ones operated by the Parish Entertainment Group; shops such as Therapy, Crossroads Trading and Five Little Monkeys; and various kinds of non-traditional formats (as will be described below).

The above eateries, it might be noted, also include quick-service formats (e.g. Farmburger, The Melt), which have not been associated in the past with destination dining. However, as is clear from the explosion of “fast-casual” restaurants in the last decade, younger patrons do not necessarily consider waiter service and formal surroundings as essential to a gourmet or up-market experience, and have been known to venture farther afield for top-shelf food that is ordered at the counter and consumed in an unpretentious setting.

- The most promising location for such businesses along Fourth Street is the East End, where Downtown’s dining and nightlife is presently concentrated, a number of daytime draws (e.g. Mike’s Bikes, Copperfield Books/Taylor Maid Farms, Knimble, etc.) are located, a sizable and growing contingent of BioMarin employees are within walking distance, and several vacant and underutilized storefronts can be found. The greatest potential exists along the stretch between Lincoln Avenue and Lootens Place, as well as the one block south along Lincoln (owing to the pull of Sol Food).

While the West End also has welcomed representative businesses (e.g. Johnny Doughnuts, Red Dragon Yoga, etc.) and can offer lower barriers-to-entry, it still suffers from limited foot traffic and lower visibility, meaning that, at least for the foreseeable future, tenants there will continue to bear much of the responsibility for generating customers. For the most part, for the West End this implies eating and drinking establishments, as well as retail or service businesses that come with a built-in clientele and who depend less on foot traffic and/or visibility for their ultimate success.

- Of course it is important to note that the ‘young couples’ sub-market is still a fledgling one, and not yet proven as a foundation for sustainable retail, at least on the scale that would be needed to support a large swath of Fourth Street. Another opportunity, perhaps more certain in light of San Rafael’s diversity and challenges, is in the so-called “crossover” space, with mid-market concepts that can be expected to appeal across cultural and socioeconomic lines and thereby draw large volumes of foot traffic to Fourth Street.

An example of such a crossover draw -- one that could serve as an anchor -- is a modern multiplex showing first-run films. Marin contains four cinemas with six screens or more, yet only one of them, the Fairfax Theatre 6, is outfitted with stadium-style seating – an innovation first introduced two decades ago – and none offer the extensive food and beverage programs and other upscale amenities of today’s cutting-edge exhibitors like Alamo Drafthouse Cinema or even AMC.

Certain foods and cuisines, in settings that feel welcoming to everyone and at price points that are broadly accessible, can also attract a wide range of sub-markets – for example, the East Bay’s Zachary’s Pizza. But also, Fourth Street and its side streets already boast Marin’s largest concentration of ethnic eateries by far, and it could expand this selection still further, with additional eateries like Pollo Campero, the famed Guatemalan chicken chain that would exert quite a pull on San Rafael’s Latino population and has also been known to draw more upscale Anglo “foodies”.

Crossover possibilities also exist with shopping. In addition to its presence in outlet malls, Gap has been bringing its 8,000 to 10,000 square foot Factory Store concept to standalone locations in diverse Downtowns. Stein Mart, a larger national off-price

fashion retailer has recently arrived in the Bay Area. These crossover businesses are most appropriate for the East End, given the diversity of its existing tenant mix and foot traffic as well as the potential capacity to accommodate larger floor-plates at certain locations.

- Finally, the well-established, mostly older “high culture” elites within and beyond the trade area – the ones, that is, who watch art-house fare at the Rafael Film Center, who support the small gallery cluster centered on Artworks and who patronize various other creatively inflected businesses – collectively represent another retail sub-market on Fourth Street. One must be very careful, however, not to confuse their level of influence (and loudness of voice) with their actual numbers along Fourth Street, which fell well below those of their younger cohorts in the intercept-survey data. In the absence of a new anchor, this analysis suggests that the ‘high culture’ demographic could support at most a modest addition of new businesses to the existing co-tenancies.

The need for caution is partly attributable to the deterrent effect that urban inconveniences such as homelessness and parking issues tend to have with this consumer, with avoidance behavior rising in relation to median age. And in the case of Marin, this consumer can very easily avoid such hassles at competing centers and districts like Corte Madera, San Anselmo and Fairfax. Indeed, survey intercepts in Downtown San Anselmo indicate that the foot traffic there skews much older.

In order, then, to attract this desirable yet reluctant consumer, Downtown San Rafael needs to piggyback on existing draws, with, say, new up-market eating establishments that attract cinema patrons. Or it can appeal to the desire for discounted labels (especially with the help of a Stein Mart anchor) and/or “treasure-hunt” shopping – and avoid direct competition with all of the full-priced competition -- by adding upscale consignment stores.

Generally speaking, interested leads should be steered towards Central Fourth Street, with new restaurants located so as to enjoy clear sight lines to and from the evening-oriented cinema anchor, while comparison retailers are clustered near existing shops between B Street and D Street, west of the stretch where the vagrancy tends to be most heavily concentrated.

- In terms of the kinds of operators that should be targeted for Fourth Street, the primary focus ought to be on local and regional “chain-lets” with established track records, which can not only add some distinctiveness to the retail mix but also, provide some level of comfort to landlords. Select national brands – specifically the ones noted above -- should also be pursued as possible anchors. Finally, start-up entrepreneurs might be considered as pioneers for fledgling stretches along the corridor, like the West End.

- Lastly, as previously mentioned, the homeless situation in the downtown area acts as a deterrent to certain types of consumers. In a future situation where homelessness is reduced, Fourth Street might be capable of drawing additional empty nesters and families who previously had been avoiding it, as well as increasing the frequency of visits from those who already occasionally patronize the downtown district. In addition, a broader pool of boutiques and eateries might start to consider Fourth Street more

seriously, including established regional chain-lets (though, with some exceptions, larger national chains likely would still pass).

It would be a mistake, however, to think that homelessness represents Downtown's only challenge. Even in its absence, Fourth Street would still struggle with the implications of multiple property ownership and have to compete against shopping centers with superior co-tenancy and higher-volume anchors. And it would still suffer from a relative lack of iconic spaces or features. This is not to dismiss the impact of the homelessness issue or the aspiration to improve the situation, but rather, to caution against oversimplifying the often lengthy and arduous process of getting to a more vibrant and successful downtown business district.

For these reasons, the retail tenanting efforts outlined above should proceed within the current downtown environment. While a reduction in homelessness will increase retail opportunities, the issue of homelessness is complicated and requires a multidisciplinary approach beyond the scope of this study. The various challenges facing Downtown San Rafael (including homelessness) should be addressed simultaneously, along parallel tracks, with progress on one front to reinforce efforts on the others. Indeed, attracting new businesses today could, by increasing levels of foot traffic, help to create a more vibrant downtown and, over time, create a less welcome environment for negative social behaviors.

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IV. Recommendations and Next Steps

- A positioning and tenancing strategy such as the one outlined above is not meant to solve or even address all of Downtown's issues. Such an initiative should include an element of reach, an aspiration for something more, a willingness to pioneer – and yet it must also always be careful not to get *too far* ahead of the curve, for retail is in most cases the *effect* rather than the *cause*, and ultimately, retail is just one component of what has to be a far broader, more comprehensive approach.

Again, the following does not presuppose that current challenges and constraints in downtown San Rafael will change overnight. That, for example, the providers of social services suddenly will decamp to Mill Valley, parking availability will no longer be an issue, difficult landlords will become more reasonable, etc. Rather, it outlines what should be done within the existing context with the caveat that additional opportunities will arise as circumstances change.

- The City of San Rafael should loosen the reins on various kinds of non-permanent retail, one of the most dynamic areas in the industry today. Formats like shipping containers and fashion trucks not only help to lower the barriers-to-entry for the kinds of creative entrepreneurs that appeal to the newer arrivals, but also offer a potent symbol for the sort of progressive and contemporary community that San Rafael aspires to become.

Indeed, Sol Food started as part of the Thursday Night Downtown Market and Johnny Doughnuts first started as a food truck with Off The Grid, which runs 35 weekly public markets across the Bay Area -- including ones at Marin Country Mart Red Hill Shopping Center and Vintage Oaks, but *none in San Rafael*. The City might also work with the BID to identify third-party operators for other sorts of incubator concepts, perhaps on City Plaza, municipal parking lots in the vicinity of Fourth Street's East End or even privately owned lots in partnership with their respective landlords.

The City and BID should also be exploring additional formats and innovations that would serve both to animate the public realm as well as rebrand San Rafael in the minds of visitors, entrepreneurs and even locals. One illustrative example is San Francisco's wildly popular Sunday Streets events, in which city streets are closed to automobile traffic on Sunday afternoons and refashioned as temporary public spaces for physical activities, vendor stalls, etc.

- While less regulation is generally better for spurring entrepreneurialism, the City needs in some cases to assert and apply its available forms of leverage towards the preservation of Fourth Street as Downtown San Rafael's primary retailing corridor. For example, in light of the relatively healthy market for ground floor space and the importance of retaining a continuous fabric of active storefronts, the City should be actively enforcing its prohibition on non-retail uses at street level from U.S. 101 to D Street.

In addition to such "sticks", the City of San Rafael should consider "carrots" as a means of incentivizing the sorts of catalytic retail anchors and small-scale entrepreneurs that are central to the positioning and tenancing strategy outlined above. This might include business friendly programs such as matching funds for façade improvements,

streamlined/expedited permitting for desired businesses and locations, as well as forgivable loans to help with build-out costs. Of course, such programs are subject to city funding and staffing constraints.

While this last carrot in particular might be viewed by some as inappropriate or ill-advised public sector “meddling” in the workings of the free market, they are actually no different from the ones that have been utilized by private developers for decades. Indeed, the business model of the shopping center only works because the property owner is incentivized to offer a sweetheart deal to a popular anchor(s), knowing that it will more than recoup that investment by charging premium rents to the smaller “in-line” businesses willing to pay dearly for the resulting visibility and cross-traffic.

The difference, of course, is that in a Downtown setting with multiple small-scale landlords, no one of them is motivated to subsidize such a “loss leader” because, without control of the adjacent and nearby real estate, he/she will not be able to amortize the cost of that up-front expenditure or capture the increase in value that it helped to create. It is at this point that the public sector’s role becomes critical, as the actor that can help to fill that gap.

A different logic applies to early-stage entrepreneurs. Some landlords might be willing offer a period of free rent, but the reality is that even this concession is usually not enough, as it presupposes that the operator can still somehow front amounts in the tens or hundreds of thousands. And while some continue to view an inability to secure start-up capital as a red flag of sorts, the recent revolution in micro-scaled, “curated” retail and food service has underscored how undercapitalization is not necessarily an indication of business acumen or a predictor of success.

This points to the urgent need for a robust support infrastructure that can attract, cultivate and nurture promising yet raw and undercapitalized entrepreneurs with both financial and technical assistance. And in the case of San Rafael, which remains an emerging, still somewhat off-the-radar location for this particular brand of small business, it will be especially important that such backing is locally based as well as widely marketed, with a focus on alternative channels (e.g. *Pacific Sun*, social media, etc.)

The City’s investment in such an effort need not be particularly expensive: not only can it partner with the BID and with well-established service providers like the Renaissance Entrepreneur Center Marin, but also, it can require funding recipients to participate in the Center’s training and counseling regimens as well as share underwriting risk with Working Solutions and its micro-lending efforts, both of which should help to minimize the number of business failures and write-offs.

There is a need to develop leasing collateral to help in selling Downtown San Rafael as a retail location to both prospective tenants as well as leasing professionals, and then to feature it as part of an ongoing effort to market the opportunity more proactively and aggressively within the industry.

This piece would not just offer a collection of data points that any retailer or broker could easily find on her own, or rehash conventional arguments that she has heard many times before. Rather, with a combination of narrative and visual flourish, it would *reframe* the opportunity that Downtown San Rafael presents and compel readers to

reconsider what they had always assumed about the market and the location – in other words, it would aspire to *change* the conversation.

The brochure would then serve as a basis for the content and appearance of a new joint City/BID online portal dedicated to the recruitment effort. Unlike the City of San Rafael's current website, which contains a host of useful links but otherwise assumes a rather generic recruitment stance, it would take the case directly and forcefully to the retailer -- focusing in particular on the kinds of businesses outlined in the positioning and tenancing strategy -- while also including all of the practicalities and serving as a sort of one-stop resource.

Such an assertive approach will be critical in trying to get and keep Downtown San Rafael on the industry's radar screen, especially in light of the Bay Area's tendency towards provincialism. In addition to the brochure and the website, this effort also should consist of presentations at local and regional ICSC events – like, for example, the “Retail Project Runway” that is fast becoming a fixture at the annual Northern California Alliance Program forums – as well as articles in local business and lifestyle publications – like the *San Francisco Business Times*, *TheRegistrySF*, etc.

Other such initiatives would include the staging of tours and “Open Houses” for leasing professionals and desired businesses, so as to showcase available spaces/sites and to strengthen connections between possible co-tenants, as well as the development, production and distribution of a quarterly newsletter that keeps the industry informed about what has been happening in Downtown San Rafael (e.g. new businesses, proposed developments, public realm improvements, etc.).

- Finally, it is important to keep in mind that this is a *long-term play*. **Retail revitalization and recruitment is a marathon, not a sprint.** It does not happen overnight, or even over the course of a year. Indeed, some of the most well-loved and highly touted projects across the Bay Area offer cases in point: as just one example, Berkeley's Fourth Street needed decades to get to its current state, and would have taken still longer if almost all of it had not been in the control of one property owner! In other words, the City, the BID and other stakeholders must be prepared to stay the course amidst the inevitable onset of impatience and disappointment from various stakeholders.

V. Next Phases of Contract

Since retail recruitment is only successful with the participation and cooperation of the multiple stakeholders, it is imperative to engage the various interested parties and develop champions for the retail recruitment program. After review of the strategy outlined in this memorandum, MJB will work with the City and other stakeholders to arrive at a consensus for the appropriate retail positioning and tenancing strategy along with approval of the next steps for the retail recruitment program. The next phases for the scope of work as outlined in the attached contract consist of Outreach (phase 2) and the first round of retail attraction (phase 3).