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CITY OF CAMBRIDGE  
COMMUNITY DEVELOPMENT DEPARTMENT

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SUSAN B. SCHLESINGER  
Assistant City Manager for  
Community Development

BETH RUBENSTEIN,  
Deputy Director for  
Community Development

TO: Robert W. Healy, City Manager

FROM: <sup>5/8/97</sup> Susan B. Schlesinger, Assistant City Manager for Community Development

DATE: January 28, 1997

SUBJECT: Response to Council Order 37 of December 22, 1997 Regarding a Policy to Maintain and Foster New Small Businesses and to Discourage Displacement by Large National Chains

Cambridge's commercial districts can be classified into two sectors: those serving a predominantly regional market (Harvard Square, Galleria Mall, and Fresh Pond) and those serving a predominantly neighborhood market (Central Square, Cambridge Street Corridor, and Porter Square). Those serving a regional market have many national chain stores providing the types of goods that are generally found in suburban malls. They are attractive to national chain stores because of the regional market they serve. Neighborhood commercial districts offer goods and services oriented to the residents living nearby and have fewer national chain stores.

Although the question of maintaining healthy neighborhood commercial districts is frequently framed as chain stores versus independents, the reality is more complex. For example, the strip of clothing boutiques along Massachusetts Avenue between Harvard Square and Porter Square offers small boutiques owned by independent operators selling merchandise not available at chain stores. Neighbors like the uniqueness of this district, yet few in Central Square would think that these stores would serve their neighborhood's needs. On the other hand, the national chain store Pearl Art, offers art and craft supplies that are unavailable in such variety elsewhere in the community and is a popular store in Central Square. The real issue is how to maintain a diverse mix of goods and services that is responsive to the needs of the nearby residents.

This memo includes three sections: I. Locational Requirements of Chain Stores, II. Market Factors, and III. Interventions to Protect Neighborhood Commercial Districts. We hope this response and the recent report on the Central Square Retail Sector will stimulate discussion among neighborhood groups, businesses, the City Council, the City staff and others on the best means to foster new small business and protect the character of our neighborhood commercial districts.

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## I. Locational Requirements of Retail Stores

### **Destination Retail**

Destination retailers offer goods that are typically purchased less frequently than weekly, that may be high enough in price to be subject to comparison shopping, and which people are willing to travel outside the neighborhood to purchase. Furniture, major clothing purchases and consumer electronics are examples of destination retail goods. Destination retailers have adopted a strategy of making a low level of profit on sales but selling in high volume. For this reason they rely on regional markets to support their business. The low price, high volume strategy is particularly well suited to chain stores which can attain economies of scale by owning many stores. Harvard Square and the Cambridgeside Galleria have many destination retailers, who choose these location because they draw a large customer base. The Galleria serves a regional market and Harvard Square draws visitors from around the world. The mall form of organization is particularly valued by destination retailers because they can be near other stores selling complementary products. For example, a department store can benefit from being near a store that sells items for the bed and bath.

Destination retailers generally require larger floor plates than are typically available in traditional commercial districts. In the last thirty years, floor plates desired by destination retailers have increased from under 10,000 square feet, to a 20,000-40,000 square foot standard common in existing department stores and supermarkets, to the super store concept which requires 60,000-70,000 square feet and is the standard for "big box" retailers such as Wall-Mart. Many destination chain retailers find small spaces and neighborhood market areas unattractive, preferring to locate in regional malls where high volume sales can be achieved. For this reason, small floor plates may protect a district from domination by destination retail chains.

The standard parking ratio preferred by large chain retailers is 5.0 parking spaces on-site per 1,000 square feet of build out. This amount of parking is seldom available in neighborhood commercial districts. Some chain retailers will accept an on-site parking ratio of 3.0 spaces per 1,000 square feet of build out in urban areas, but this amount is difficult to obtain in Cambridge, where few stores have substantial on-site parking. Harvard Square, with low parking ratios, is an exception to the chain store preference for ample parking. Harvard Square draws visitors from around the world seeking its academic, historic and cultural venues making it an exceptionally strong market. Low parking ratios and shortage of dedicated parking also serve to protect neighborhood commercial districts from large chains.

The addition of some destination retailers to a neighborhood commercial district can enhance the district by widening the array of goods available and attracting shoppers from outside the neighborhood who then have lunch or make other purchases in neighborhood businesses. However, the small floorplates, limited parking, and lack of clustering opportunities limit the attractiveness of neighborhood commercial districts to large destination stores.

### **Convenience Retail**

Convenience retailers offer the types of goods and services that people prefer to purchase close to home and that typically do not represent major outlays of money. Convenience purchases are often made several times a week and may include such items as health and beauty aides, prescriptions, hardware, groceries and fast food. An adequate mix of convenience retailers gives a commercial district a neighborhood orientation not typically found in more regionally

oriented commercial districts. For example, Central Square has a rich mix of convenience retail but the regionally oriented Cambridgeside Galleria Mall has limited convenience retail.

In general, convenience items are small in size and can be sold in high volume from a small storefront, making convenience stores well suited to the older buildings with small floorplates found in Cambridge's neighborhood commercial districts. Convenience retailers include a mix of independent operations and chains. Independent establishments that offer unique goods and services or a high level of convenience are able to prosper alongside chains. For example, cafes and sandwich shops can provide unique menu items to distinguish themselves from fast food operations. Hair salons rely on the unique skills of their beauticians. Neighborhood hardware stores provide goods available at destination chains, but are nearby when something needs repair. On the other hand, independent pharmacies have almost disappeared because large chains are able to offer better prices on prescriptions to cost conscious insurers than small independents.

Because convenience retailers derive their competitive advantage from being close to home, they do not require the large amounts of parking that destinations seek. While they prefer districts with ready parking, they also rely on foot traffic and mass transit. The availability of mass transit supports a commercial district in important ways. The stations themselves become hubs of activity as people enter and exit the subway and wait for buses. These commuters are customers for retail goods and services as they stop for a cup of coffee, buy lunch or make a purchase on the way home.

### **Specialty Retail**

Specialty retailers offer goods and services serving a niche market which is generally not served by chain stores. Specialty clothing stores such as Pepperweed, bookstores such as Groliers and food stores such as Shalimar India are all examples. These concerns draw shoppers from a regional market but are often located in neighborhood commercial districts whose small storefronts suit their needs. Many restaurants function as specialty retailers, offering unique menu prepared by a skilled chef, whose food draws patrons from outside the neighborhood. Like convenience retailers, specialty retailers are able to work with the limited parking available in neighborhood commercial districts. Specialty retailers continue to thrive despite the existence of chain stores by defining a market niche, offering unique products or services and providing excellent customer service.

## **II. Market Factors**

Demographics are a very important determinant of the retail location decision. Each retailer has a target market which is defined by demographics, such as age, income, education level and population density within defined geographic areas. Retail market analysts study the purchasing habits of consumers and develop profiles of spending patterns which stores rely on in choosing locations. For example, the group that spends the most on books is college educated with a median income in the \$50,000s, not in the work force full time. Filene's Basement also looks for median incomes in the \$50,000's. Stores that sell sneakers know they are a status purchase by teenagers across a variety of income ranges and look for a high concentration of youth.

The presence of other local commercial areas also limit a neighborhood district's market capture. Harvard Square, the Galleria, Fresh Pond and Twin Cities (Somerville border) all offer significant destination retail alternatives within 3 mile. In addition, the market area in contiguous communities is ringed with malls: Watertown, Assembly Square, Arsenal Mall, Downtown Crossing, Copley Place, Chestnut Hill and South Bay. Suburbs throughout the metro

Boston region also offer easy access to malls on major highways: Burlington Mall, North Shore Shopping Center, Liberty Tree Mall, South Shore Shopping Plaza. The nearby presence of so many malls limits the appeal of neighborhood districts to destination retailers. While this competition has protected the district from domination by chain stores, it has also made it difficult to attract some of the retail uses desired by residents.

Although many physical features and market features of neighborhood commercial districts prevent them from being a first choice for destination retailers, there are some circumstances under which destination chains could find a neighborhood location desirable:

- **Large vacancy at attractive rent.** The R. W. Woolworth Corporation's decision to replace the Woolworth's Division with the Footlocker Division was driven by the long term lease at low rents they held on the property. The combination of a strong youth market for sneakers and sports clothing across all income groups and the low rent create very favorable conditions for a highly profitable store.
- **Saturation of mall locations.** Sometimes a chain with many mall locations will change strategy and consider locating in urban commercial districts when it believes it has saturated the available malls. Value priced houseware chains such as Caldors avoided older urban commercial districts while they were expanding rapidly in malls. Once they reached saturation they saw openings in urban commercial districts as the way to keep generating growth. Movie theaters have gone through a similar cycle, closing in urban locations in favor of malls and now showing more willingness to consider urban locations.
- **Strategic Preference.** To differentiate themselves from competitors and appeal to a variety of market segments Gap stores serve distinct market segments: Gap Kids, Old Navy (discount) and The Gap. This strategy clusters stores in close proximity and in individual sites. Gap stores locate in malls but they also locate in commercial districts which have a cluster of apparel stores, such as Porter Square. This strategy makes Gap clothing available as a convenience item.
- **Market Strength.** A large space which became available in a neighborhood district might also be desirable to destination chain stores offering products for which the marketplace has a very strong preference. For example, a computer store might consider a neighborhood district desirable, based on educational characteristics and current spending patterns.

### III. What Can Be Done to Protect Neighborhood Commercial Districts?

Although neighborhood commercial districts have many features that protect them from dominance by large chain stores, vigilance is warranted to insure that the goods and services desired by neighbors are available and that these districts serve a wide variety of tastes and incomes.

Some possible actions listed below have emerged through conversations with businesses, neighbors and City staff. The ideas on this list are the outgrowth of those initial conversations; the City is not proposing any of them at this time. The City looks forward to a continuing dialogue with residents, businesses, and others over ways to ensure that neighborhood commercial districts continue to serve a diverse population.

### **Promote Affordable Housing by Adopting Inclusionary Zoning and Continuing to Develop New Units**

#### **Benefit**

- Neighborhood commercial districts serve a customer base centered on people residing in and around the district. Changes in this customer base will drive changes in the retail mix. The creation and preservation of affordable housing in and around the neighborhood districts is critical to retaining a diverse market.

#### **Issues**

- Promotion of affordable housing has an indirect impact on the commercial district.

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#### **Benefit**

- May protect from too many fast food uses.

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- Existing stores would be grandfathered, so the present number will not be reduced.
- Fast food chains can organize future stores to conform to the standard of non-fast food, if they really want to be in a location.

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#### **Benefit**

- Existing City technical assistance and small business loan programs could be targeted to a district through intensive outreach to businesses.

#### **Issues**

- Current programs are available to all businesses, with the exception of the facade improvement program, which is nearly complete in Central Square and which is underway on Cambridge Street. Targeting would require additional staff to do outreach and provide assistance.
- Other districts might receive less attention.

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#### **Benefit**

- City has capacity to make soft (low interest rate, long term) loans to CDBG-qualifying projects. This was done to help the Dance Complex/CMAC acquire their building. This could be done to promote another desired use.

#### **Issue**

- Limited supply of funds.

### **Business Improvement District**

#### **Benefits**

- Could improve maintenance and security in districts.
- Keeps landlords invested in maintaining their property.

#### **Issues**

- Difficult to obtain support from all property owners to pay the assessment.
- Would not insure diversity of specific uses.

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#### Benefits

- Could make a marginal deal work.
- Doesn't require up front expenditure (unlike rent subsidy or building purchase)

#### Issues

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- Landlord would have to agree to pass saving on to tenant.

### Historic Preservation

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#### Benefit

- Landmarking existing structures of historic merit would preserve them and prevent site assembly.

#### Issues

- Landmarking is an extensive and time consuming process.
- Might prevent desired flexibility in use of building.
- Would not insure diversity in terms of specific use.
- Limited number of structures would qualify.

### Regulate Floorplate Assembly Through Zoning

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#### Benefit

- Limit the number of large floorplates to those currently existing and prevent the net addition of large, new stores.

#### Issues

- This could prevent some desired uses from coming to a district and prevent the expansion of a desirable existing use.
- Experience in other communities shows that chains will reduce their size and come anyway if they feel the market is very strong.
- Does not prevent small spaces from becoming boutiques which serve a higher income population.

### Guarantee Lease

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#### Benefit

- Could provide an incentive for a store not confident of the market to take the risk.

#### Issues

- Long term financial exposure for the City.
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#### Benefit

- This could be done by a community group. Owners could select tenants and establish the rent.
- This could be done by the City with formal criteria for tenants and leases at a rent that covers costs.

#### Issues

- A community group may not have the expertise to manage a real estate asset.

- This would be an expensive undertaking . The Cambridge market is near a peak, making it a costly time to buy.
- The City does not have a property management department and staff.
- The City faces legal issues related to expending public funds to aid for-profit enterprises.
- One building would have a limited impact on such a large and diverse retail base.
- Equitable criteria would be challenging to develop.

### **Subsidize Rents**

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#### **Benefit**

- Could provide an incentive for a desired store to come to a commercial district.

#### **Issues**

- If the location is not profitable, the tenant would leave as soon as the lease subsidy ended.
- Is the need for a particular type of store so urgent that the public sector should subsidize the private sector? The development of criteria would be difficult.
- Danger that the subsidy would promote unsound businesses.
- Very expensive; similar to rent subsidies, the cost potentially increases over time.
- Unclear if this is legal.
- Not a technique used widely by municipalities.

### **Inclusionary Commercial Zoning**

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#### **Benefit**

- Could create a supply of affordable retail space by requiring set aside in new buildings.

#### **Issues**

- Few new buildings have been built in neighborhood districts in recent years. Proposal would not likely have much impact.
- How would requirements for tenants be set. Successful businesses, even small ones, are not "low income". Could promote failing businesses.
- This would make neighborhood commercial districts less desirable to property owners.
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### **Commercial Rent Control**

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#### **Benefit**

- Could limit increases in commercial rent and keep neighborhood districts affordable.

#### **Issue**

- Proposal would meet with intense opposition from property owners.
- Proposal could cause disinvestment because rent increases may not cover cost of improvements and because investors would choose other locations.
- Would require expensive regulatory body to establish and monitor rents.
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OFFICE OF THE CITY MANAGER

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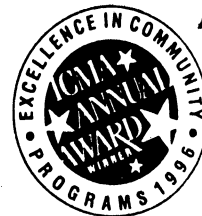
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EXECUTIVE DEPARTMENT  
ROBERT W. HEALY  
City Manager

RICHARD C. ROSSI  
Deputy City Manager

February 2, 1998

To The Honorable, The City Council:

Please find attached a response to Awaiting Report Item No. 7, regarding a report on establishing a policy which would achieve the goal of maintaining and fostering new small businesses, received from Assistant City Manager for Community Development Susan Schlesinger.

Very truly yours,

Robert W. Healy  
City Manager

RWH/mec

Relative to Awaiting Report Item Numbr  
Seven, regarding a report on establishing  
a policy which would achieve the goal of  
maintaining and fostering new small  
businesses.

In City Council February 2, 1998

Referred to  
Housing and  
Community Development  
Committee on motion  
of Councillor Sullivan.