City of Cambridge

The Housing and Community Development Committee held a public meeting on April 1, 1998, beginning at 7:28 p.m. in the Sullivan Chamber for the purpose of discussing a report from the Community Development Department on establishing a policy which would achieve the goal of maintaining and fostering new small businesses.

Present at the hearing were Councillor Kathleen Leahy Born, Chair of the Committee, Councillor Sheila T. Russell, and City Clerk D. Margaret Drury. Also present were Beth Rubenstein, Deputy Director, Community Development Department, and Jeanne Strain, Director of Economic Development, Community Development Department.

Councillor Born convened the hearing and explained the purpose. Councillor Born stated that she submitted the order which led to the report now before the committee in response to a request from a citizen asking her to file reconsideration of an adopted order she did not submit welcoming Starbucks to Central Square. Instead, she decided it would be more productive to discuss steps that the city could take to support and strengthen local businesses.

Councillor Born then introduced Beth Rubenstein, Deputy Director of the Community Development Department, and Jeanne Strain, Director of Economic Development, Community Development Department, to make a presentation. Ms. Strain provided a brief summary of the key points of the report. Ms. Strain stated that there are two types of commercial districts, those that serve regional needs and those that serve local needs.

Ms. Strain continued to explain that retail can be divided into three classifications. One is convenience retail, such as prescriptions and small items that people like to purchase close to home. Convenience retail requires small stores and tends to be both chains and independent. The second category is specialty retail, such as jewelry, hand crafts, or ethnic groceries. These also tend to involve smaller items that can be carried home. They also tend to require small spaces of less than 2,000 square feet. These service local and regional markets and are more local in origin, rather than chains. The third kind of retail is destination retail, such as department stores, furniture outlets and appliance stores. The use frequency of this type of retail is more occasional, and the cost can be relatively high. The basis for competition is low prices, high volumes and consistent quality. These retailers tend to locate in regional shopping centers, where they can secure large floor areas and parking accommodations. Destination retail is often carried out by chains.

Some neighborhood districts have been concerned that there could be a predominance of destination retail that would displace local businesses. But the real issue is maintaining the mix of goods and services that is needed by the nearby residents.

Ms. Strain said that Cambridge tends to have old buildings with small floor plates. National retailers do not want to do business in small spaces. They also want parking that is not available in Cambridge. These issues will tend to protect the neighborhood districts.

Finally, Ms. Strain continued, the report lists possible protection measures for discussion.

Councillor Russell stated that the small businesses that she knows have left for many reasons. In a lot of instances, it is just a natural change that happens over time.

Councillor Born stated that she has realized that there were at one time more chains in Central Square than there are now. The question really should be how can the City Council affect a retail mix to try to make it fit with the community's needs? How can we decide what the community's needs are and help to get them filled. She pointed to the fact that there used to be an A&P on Massachusetts Avenue; now there is only the Evergood in that neighborhood. She pointed to the turnover of Huron Avenue businesses which has occurred without any change in store sizes or layouts.

Councillor Russell noted that Huron Avenue is a good example. The retail depends on what the neighborhood will use. Councillor Russell gave the example of Carberry's; Central Square residents said that they wanted a bakery in the neighborhood in the survey that was done by the neighborhood association, and Carberry's is doing very well.

Robert Boulrice, Soden Street, stated that the issue is not controlling the retail mix; it is affecting it, with the tools the city can use. For example, Woolworth's owns Footlocker, so they got a good lease. But Central Square does not need 6,000 square feet of sneakers. He does not believe the neighborhood will support it.

Peter Bruckner, Cambridge, agreed.

Mr. Boulrice stated that the city can use economic incentives to affect the retail mix.

Councillor Born noted that once the city had commissioned and produced a study which identified the need for affordable food, the city was able to negotiate more effectively with food stores seeking to locate in the city.

Ms. Strain stated that there was a 1987 neighborhood survey of Central Square which identified as the residents' top priorities a bakery, a bookstore, a clothing store, and a movie theater. We have not been able to bring in are the bookstore and the clothing store because they want the larger floor plate. Bookstores want 10,000 square feet, clothing stores want 30,000 square feet. Addressing the issue of economic incentives, Ms. Strain noted that when the possibility of a tax abatement was put on the table in the attempt to attract a food store, no one was interested. It is necessary to match the incentive to the need.

Mr. Boulrice stated that the city should prepare itself for the eventuality of TAD leaving Central Square and try hard to influence the re-use of that space.

Sherry Tucker, Cambridge, asked what will replace Bread & Circus. Ms. Strain stated that their lease lasts three more years; they will be there for another year or two; but the city has approached the owner to indicate its interest in having discussions about the re-use.

Peter Bruckner stated that the city needs to go after stores that it needs, like a five and dime or a Bradlee's.

Alexis Hayes, Magazine Street, stated that most of the people she knows really miss Woolworth's. Ms. Strain stated that there are several stores in Central Square that supply similar retail products, like the Friendly Family Center and the dollar store.

Pebble Gifford, Hilliard Street, stated that there is no one answer. The Harvard Square Defense Fund has tried everything. There are cities that have decided to keep these places. Paris has commercial rent control. These squares have been very important to the quality of people's lives. There has to be a collective will to do something to protect them.

With respect to the list of possible tools, Ms. Gifford stated that affordable housing, indeed any housing, helps to keep local goods and services. Merchants that she talks to in Harvard Square tell her that the commercial tax rate is onerous and discourages small operators. Historic preservation is a good idea; it preserves the small floor plates. She noted that the stores in the new Cambridge Savings Bank space (Read Block) are going to be big. No agency actually took on the issue of trying to keep small floorplates to protect local businesses. Ms. Gifford stated that perhaps zoning can deal with the issue of floorplates.

Councillor Born noted that in some places like Aspen, Colorado the Gap has responded to floor plate limitations by dividing up into smaller segments like the Baby Gap, Kids' Gap, etc. Zoning may have difficulty controlling how many small stores one entity owns.

Ms. Gifford encouraged conversations with landlords. Some landlords appreciate the importance of preserving local businesses.

Peter Bruckner agreed.

Ms. Strain agreed that this is very important, and will be important as Central Square moves toward a business improvement district (b.i.d.). Residents must keep reminding landlords that what makes a business district valuable is its local character and ability to met local needs. She said that it is necessary to have the information about what people want and then to communicate that to the landlords.

Michael Eisenberg, Western Avenue, said that in Central Square it is not a question of what you want, but rather a question of what you want to protect. Central Square needs an affordable eatery. You have to decide what you want the square to feel like.

Ms. Strain said that there are 147 retail establishments in Central Square and 137 of them are small. The question is what is needed.

Mr. Bruckner stated that he worries about breaking everything down into small floorplates; we need clothing stores.

Mr. Boulrice stated that the city needs to know what the unmet needs are and how to negotiate using all available tools. He noted the negotiation strategy with regard to the landlord of Starbucks, where there was a trade off that retained the other local businesses.

Ms. Gifford said that the city needs policies with some teeth; just talking to landlords is not enough.

Councillor Born asked whether a new survey of residents needs and wants would be useful.

Ms. Strain stated that a formal and statistically valid market survey could be very useful. The last scientific study was done in 1987. Since that time, the ring of malls has increased. She would like to see something quite fine-tuned and sophisticated. She would recommend starting with Central Square for cost and staff capacity issues. Over time, she would like to see all of the districts studied.

Councillor Russell stated that northern Massachusetts Avenue needs to be studied also.

Alexia Hayes stated that a large family clothing store is definitely needed in Central Square.

Michael Eisenberg stated that the city should hire Alexia to do the study.

Ms. Strain stated that some focus groups would be useful.

Councillor Born noted that the Central Square Business Association has submitted a letter of opposition to any regulation of the type of business. Attachment A.

Mr. Bruckner suggested building a process that includes dialogue and incentives like tax breaks.

Councillor Born said that some years ago there was a state program that financed tax breaks for landlords who rented to small businesses. However, the rules were so restrictive that it did not work. In particular, landlords were not required to pass their savings onto their tenants in the form of lower rents.

Mr. Bruckner stated that the city needs to hold out a carrot, an incentive.

Robert Winters, 366 Broadway, asked whether there are any other places in the country that offer the "little guy" tax exemptions. Ms. Strain stated that small businesses occupy small spaces and do not pay much taxes. Also, it is the big businesses that provide the jobs.

Mr. Winters noted that the city could think about some requirements in exchange for business improvement districts, somewhat like affirmative action. The question is whether creating a business improvement district is worthwhile.

Robert Boulrice stated that a business improvement district proposal will come before the City Council soon. The city will have some leverage to set requirements. There are many things that can be done in the business improvement districts that are helpful to small businesses.

Mr. Boulrice also stated that the enabling legislation for business improvement districts has been changed to remove the option for local business to "opt out" of the business improvement district.

Ms. Hayes said that a big bookstore would not do well in Central Square but "Buck A Book" might. She added that Central Square needs a deli.

Councillor Born summarized themes the committee believes should be pursued:

1. A marketing survey;
2. Looking again at tax incentives in exchange for meeting with public need; and
3. Further pursuit of the business improvement districts.

Councillor Born thanked all those present for their attendance.

The meeting was adjourned at 8:45 p.m.

For the Committee,

Kathy L. Born

Councillor Kathleen L. Born
Chair

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.

Fast Food Cap

Benefit

- May protect from too many fast food uses.

Issues

- 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.

Target Business Development Services to Commercial Districts

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.

Soft Loans

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.

Property Tax Abatement

Benefits

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

Issues

- Property would have to meet legal standard as blighted, decadent, sub-standard in order to qualify. Project may also have to meet job creation criteria.
- Landlord would have to agree to pass saving on to tenant.

Historic Preservation

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

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

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.
- Danger of supporting unsound business deal.
- Presents legal issues, in terms of public purpose and City resources being used for private gains.

Purchase Building for Low Cost Lease

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

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

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.
- Not a technique used widely by municipalities.

Commercial Rent Control

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.
- Would trigger legal/legislative challenge.
- Not a technique used widely by municipalities.

CENTRAL SQUARE
BUSINESS ASSOCIATION

Carl F Barron, *President*
Putnam Furniture Leasing Co., Inc.
617-354-3358 Fax 617-547-6636

March 31, 1998

Councillor Katherine L. Born
Cambridge City Council
City Hall
795 Mass. Avenue
Cambridge, MA 02139

RE: <u>NATIONAL CHAIN BRANCHES IN ANY LOCATION IN CAMBRIDGE</u>

Dear Councillor:

Please be advised that we strongly oppose any such attempt to regulate.

Any type of retail establishment survives only because of demand for its goods and services. A so-called "national chain" probably began as a small enterprise and, then, because of the demand for its products, grew as the demand continued to grow. To be specific, in the Central Square area, we had two jewelry stores a few years ago, both of which voluntarily closed because there was little demand for their services and goods. The same applied to Corcoran's and the Harvard Bazaar, both of long-standing existence. As the demand died, so did their ability to survive.

We firmly believe that the open marketplace should determine the logistics of any legitimate business.

Furthermore, we believe that any landlord is entitled to select good tenants as long as they provide him with a degree of financial security which, in turn, is based upon the tenant being able to supply the needed goods and services for its stay in business. Anything else to interfere with this concept would be interfering with a free economy to which this nation is dedicated and on which our sound economy has been built.

We also believe that there are many other aspects of fairness and economic soundness, above what is listed herein, that would be called into play in trying to make any fair determination. We trust that you will record our strong opposition to any attempt to regulate the above.

Sincerely,

Carl F. Barron

CFB98/Born

614 Massachusetts Avenue • Cambridge, MA 02139-4088

Committee Reports # 2 S-330 Cal. 5

Communication was received from D. Margaret Drury, City Clerk, transmitting a report from Councillor Kathleen L. Born, Chair of the Housing and Community Development Committee, for a meeting held on April 1, 1998 for the purpose of discussing a report from the Community Development Department on establishing a policy which would achieve the goal of maintaining and fostering new small businesses

In City Council April 27, 1998

CHARTER RIGHT
BY Councillor Born

5/4/98

Report Accepted
PLACED ON FILE