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How can cities save their small businesses?

5

New ideas and city initiatives are trying to solve a crisis that threatens the stores and shops that make our cities unique

BY PATRICK SISSON | OCT 17, 2016, 10:01AM EDT

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Closed store in Queen Anne neighborhood of Seattle | Curtis Cronn: Flickr/Creative Commons

While tech's swift rise and booming real estate prices have remade the stores and streets of San Francisco, Macchiarini Creative Design, a small metalworking shop on Grant Street in Telegraph Hill, remains distinctly old-fashioned. It's not just the antiquarian sight of a forge or the clinking sounds of blacksmithing. Founded more than 60 years ago by jeweler and artisan Peter Macchiarini, a man who counted Frida Kahlo as a friend and forged a wedding ring for Beat Generation figurehead Neal Cassidy, the store has literally and figuratively forged a link to the past, a direct connection to the city's more bohemian era. It even helped organize one of the country's first artist-run street fairs in the nation in the '30s.

Ask current owner Daniel Macchiarini, Patrick's son, about the rent, and he quickly shifts from nostalgia to worry.

"It's a huge problem for retailers," says Macchiarini. "We've been in business for 67 years and my father was run out of three places due to rent increases by the landlords. They're not looking for guys like us, they're looking for a restaurant or bar so they can charge more rent."





Like anyone who's grown up in one of the most rapidly gentrifying cities in the country, which earned the distinction of having the country's highest office rents, Macchiarini has seen plenty of change over the last few decades: the smell of sourdough baking and coffee roasting, an everyday feature of the area near the store when it was lined with Italian bakeries, has disappeared. His father opened the family business in the '40s and '50s, one of many artists who, attracted by cheap rents, helped developed this neighborhood into a magnet for bohemians, and then waves of new businesses. Macchiarini's has managed to hold on, despite an increasingly difficult real estate landscape, where rising rents seem as certain as gravity and many other small businesses have called it quits.

"We hang in there and manage," Macchiarini says. "That's the magic and the miracle of what we do, and speaks to the dynamism and creativity of our business. I've been lucky enough to work with my father, and now my daughter. What's better than that?"

When many Americans talk about what they like about where they live, often, long-established fixtures such as Macchiarini's are the first things they list. Small, independent, often family-run stores not only knit neighborhood's together, they provide a sense of place and uniqueness.

But as Macchiarini noted, hanging on in the face of commercial pressures can sometimes feel like a miracle. According to *Affordable Space: How Rising Commercial Rents Are Threatening Independent Businesses, and What Cities Are Doing About It*, a report released by the Institute for Local Self-Reliance (ILSR) earlier this year, commercial rent for small businesses isn't an issue, it's a crisis, skyrocketing by double-digit rates in cities across the country (12% in Cleveland and Milwaukee, and 26% in Charleston). One member of a chamber of commerce in Queens, New York, said the displacement of independent retailers in her neighborhood was "like a tsunami."



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Rising Retail Rents a Problem Nationwide

Data from the Affordable Space report shows how rapidly rising rents are affecting small

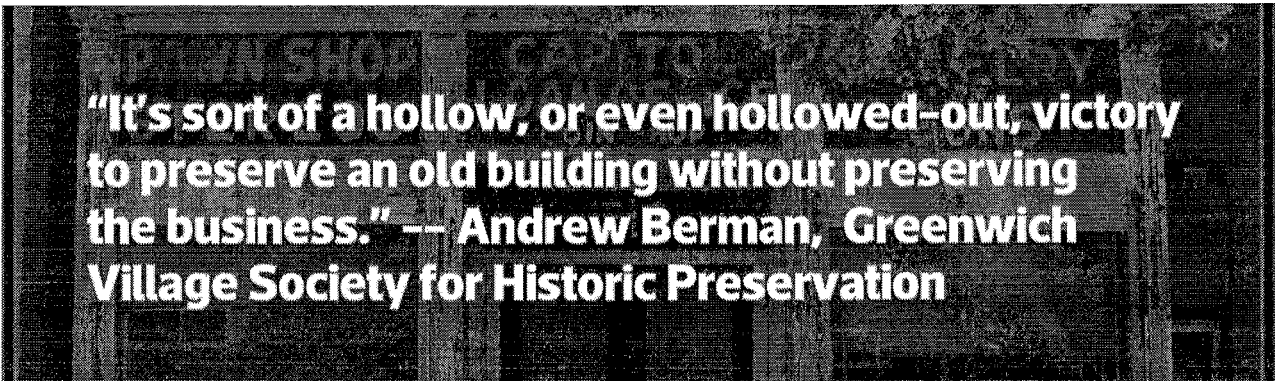
"Small businesses are being squeezed on the supply and demand side," says Olivia LaVecchia, an ILSR researcher who co-authored the report. "On the demand side, cities are booming, with increased demand for walkable storefronts, and national chains moving in to make the space crunch even worse. And on the supply side, the built environment is also changing. Newer developments often have larger retail

spaces meant for national brands with large footprints. New space for smaller businesses is increasingly rare." TWEET SHARE

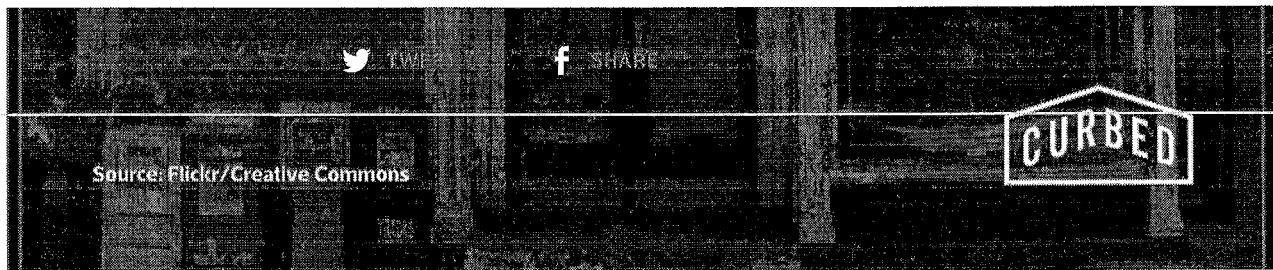
While numerous cities and neighborhoods have local business associations and local businesses assistance, as well as programs to recognize decade's-old stores, many think that's not nearly strong enough of a response to the problem. Independent businesses are often the canaries in the coal mine of gentrification, and successful urban development has driven out many classic stores and businesses; commercial lenders and banks, seeking the stability that chain stores offer over mom-and-pops, often favor big names, putting further pressure on independent stores.

Supporting small businesses is perhaps one of the few bipartisan cliches left in politics; why can't we come up with measures to help?

Many are trying. One of the most interesting of a slate of new measures being debated and considered is San Francisco's Legacy Business Registry and Preservation Fund, established by public vote a year ago. Placed before the voters as Proposition J and set up to aid historic small businesses, the measure not only puts the city's promotional muscle behind businesses such as Macchiarini Creative Design, which is part of the inaugural class of nominees, but also promises to provide an employment subsidy (\$500 annually per full-time worker), as well as a rent subsidy for their landlord if they can agree to a 10-year lease (\$4.50 per square foot per, with a cap of 5,000 square feet). Final program details are still being worked out, but during interviews with staff at the city's Office of Small Business, which administers the Legacy program, numerous employees said they're swamped with applications.



"It's sort of a hollow, or even hollowed-out, victory to preserve an old building without preserving the business." — Andrew Berman, Greenwich Village Society for Historic Preservation



It's a progressive measure, the kind you might expect to emerge from San Francisco, a wealthy city that, like many others, has mixed emotions about gentrification and change. But it also exposes the difficult questions that come from attempting to preserve something as relatively ephemeral as an enterprise. Why support famous, older businesses instead of encouraging new ones? Does this initiative interfere with the real estate market? Should the free market be negotiated? A historical building is a lot easier to landmark and protect, as scores of adaptive reuse projects in warehouses and factories across the country clearly suggest, than the original tenants.

Andrew Berman, executive director of the Greenwich Village Society for Historic Preservation in New York City, which often supports small businesses threatened by rising rents, says it's a tricky balance.

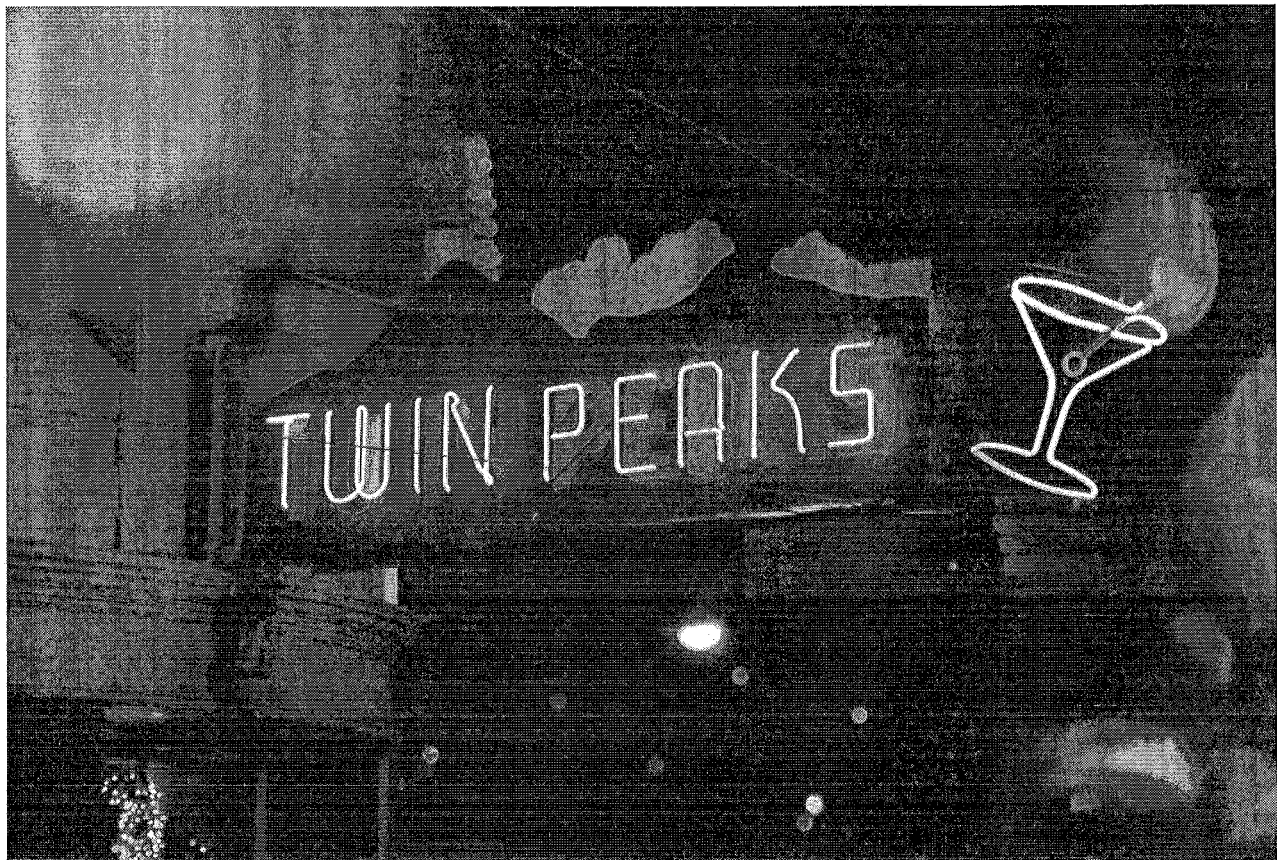
"Landmark provisions only regulates the physical structure, and there aren't really protections for commercial tenants," he says. "It's sort of a hollow, or even hollowed-out, victory to preserve an old building without preserving the business."

A new focus for historic preservation

The effort to preserve small businesses in the Bay Area grew out the efforts of local preservation group San Francisco Heritage. According to president, Mike Buhler, the organization realized that, in the face of rapid turnover in many city neighborhoods, a different set of tools were required. The case of the Gold Dust Lounge—a Union Square fixture since 1918 where Janis Joplin once drank, which was forced to relocate in 2012 to Fisherman's Wharf—was a wakeup call, since traditional preservation was ineffective.

SF Heritage started a program to recognize legacy bars and restaurants, and in 2014, published a report, Sustaining San Francisco's Living Heritage, noting that "the preservation issue of the moment: how to conserve the city's cultural and social heritage." Like the Greenwich Village Society in New York, as well as the National Trust for Historic Preservation, which has also supported legacy business programs, preservationists are getting more involved in protecting this aspect of urban culture.

"These small businesses offer connection with a neighborhood, and an unparalleled sense of place," says Buhler. "That's why people are so distressed by the recurring closures of legacy businesses. We felt we needed to look outside the tools we normally use to save buildings, to help save these neighborhood anchors."



The neon sign outside Twin Peaks, a historic LGBT bar in San Francisco that's part of the SF Heritage Legacy Bar and Restaurants project | **Thomas Hawk: Flickr/Creative Commons**

Traditional landmarking and recognition wasn't working; while it can raise awareness and even generate customers, it doesn't stop rent increases, evictions,

challenges with leadership succession, and other factors that threaten longtime institutions. San Francisco has had a Formula Business Restrictions on the books since 2004, which discourages chain stores by making licensing dependent on a Planning Council vote, and in the case of big box stores, an economic impact analysis. That does even the playing field, but what if the playing field itself is shifting due to skyrocketing rents?

SF Heritage and others decided more dramatic steps were needed, and drafted the proposed legislation that would become the Legacy Business Registry. The first-of-its-kind act makes businesses 30 years or older that are nominated by city supervisors of the Mayor eligible for an employee and rent subsidy.

According to Regina Dick-Endrizzi, the Executive Director of the city's Office of Small Business, which is overseeing the Legacy Business program, there's nearly \$2 million set aside from the city's general fund to support the program. So far, nine businesses including Maccharini have been named to the inaugural class, but she expects many more, since the law allows up to 300 new businesses a year, and there's no shortage of San Francisco neighborhoods affected by rent issues.

"It's all about land use demand," she says. "We're just seeing phenomenal increases in rent."

Many businesses have applied, and there have been complaints from potential Legacy Businesses that implementation and rollout have been slow and uneven. Dick-Endrizzi says the specifics of the rent and employee subsidies are still being ironed out, and she hopes to have a proposal finalized by October 24, details welcomed by the businesses accepted or applying for Legacy status.

Community Boards, a non-profit organization that teach conflict resolution techniques, was part of the inaugural class. According to the organization's community director Jim Garrison, being a non-profit renting space in San Francisco can feel like "walking around with a bull's eye on your back"—you're always wondering who's next to be forced to vacate or close. The organization welcomes the city's support—on the verge of its 40th anniversary, they're branding everything

with legacy right now—but the specifics of the program may not work as well as supporters expect.


"I don't know any landlord willing to provide a 10-year lease," he says. "We've moved between three different locations since I started, and we're now in a great spot in Opera Plaza, which is near a lot of the organizations we partner with. The problem is, there are no other alternative spaces we can afford in the city."

Garrison says that leadership is currently negotiating its lease, but with the added hurdle of securing a 10-year agreement to tap the Legacy program's subsidies, it's become more difficult.

"We don't know what'll happen on the other end of the negotiation," he says.



Some have questioned the efficacy of the Legacy program, suggesting it may encourage favoritism, both from the politicians who bestow the Legacy status and the landlords seeking out the type of business that will provide them extra. Others just feel the city shouldn't muddy the natural business cycle.

LaVecchia feels that criticism is unfair, especially considering how many tax incentives,  tax abatements, and subsidies flow towards big businesses in the city, especially tech firms. In 2014, the so-called "Twitter Tax" cost the city \$34 million.

"There's something flashy and attractive with bringing in big businesses," she says, "but these small businesses are the ones adding economic vitality and mobility to the city."

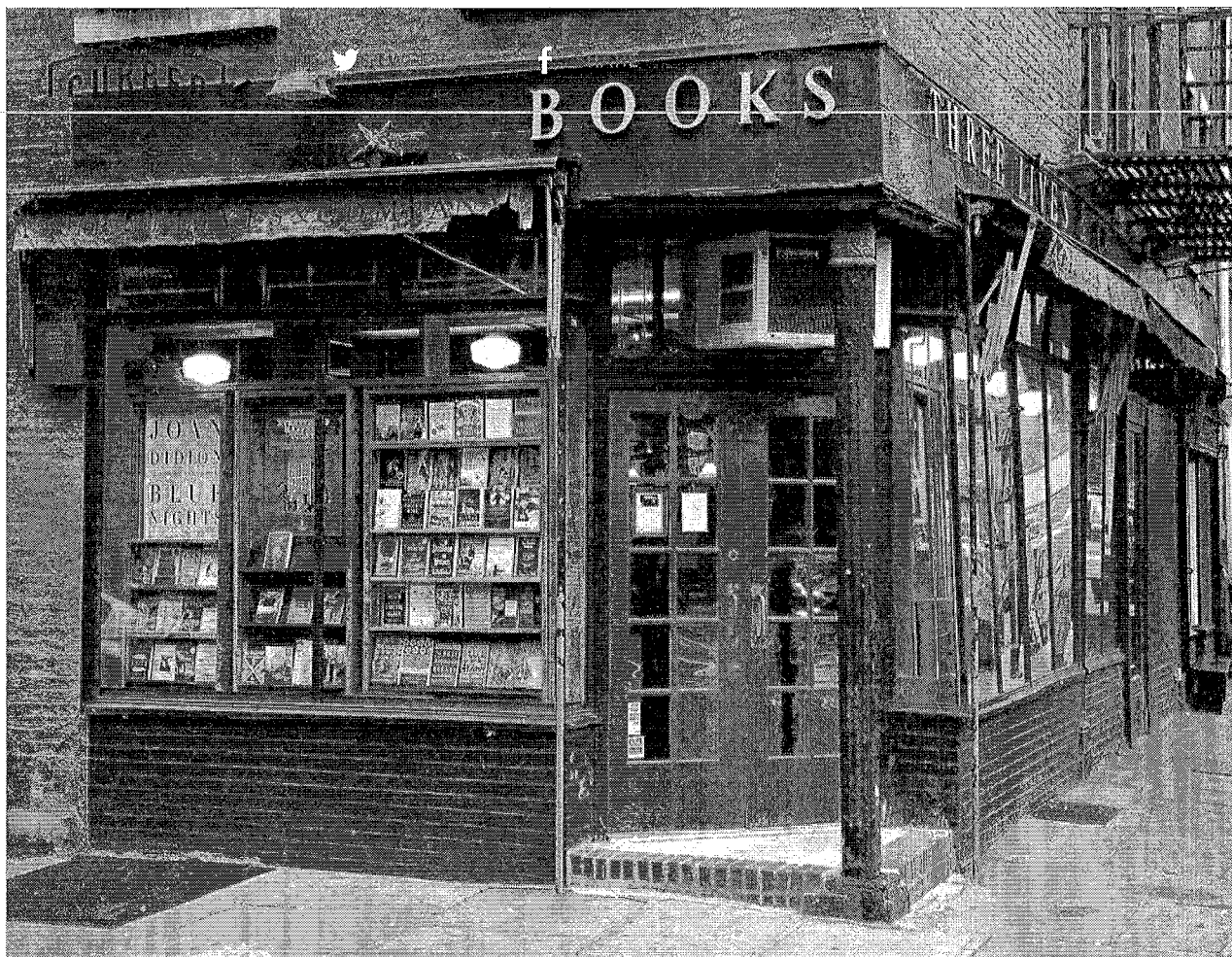
Complications and Challenges in New York City

New York City also offers a good test case about the challenges and complexities of the issue. Ahmad El-Najjar works for Take Back NYC, a coalition of small businesses, advocacy groups, and residents campaigning for independent businesses in the city. He says crisis isn't the right word to use to describe the situation small businesses find themselves in right now. That's an understatement.

"The eviction rate is higher under Mayor de Blasio than it was under Bloomberg," he says. "It's now at a little over 500 businesses a month being evicted, most of those due to leases coming to term."

According to statistics cited by El-Najjar, the approximately 220,000 small businesses in New York City employ half the city's workforce and provide a gateway to social mobility, especially in the Bronx, Brooklyn and Queens. And while there are plenty of city programs and support initiatives for these businesses, there isn't training or a loan program that can cover a sudden, massive rent increase.

The rise in online shopping has also taken a heavy toll on many local retailers. Consumers vote with their pocketbooks, and the savings offered by stores such as Amazon have cut sharply into independent businesses. According to an analysis prepared by Civic Economics for the American Booksellers Association, Amazon sold \$44.1 billion in retail goods in 2014. The report estimates that sales volume was the equivalent of 31,000 retail storefronts operating on 107 million square feet of commercial space, which would have generated \$420 million in property taxes.



Three Lives & Company Bookstore in Greenwich Village, New York, which has been open since 1968 and whose owner recently said faces increasing pressure from potential rent increases | **Garrett Ziegler: Flickr/Creative Commons**

To help support these businesses, Take Back NYC and its allies and politicians have promoted the Small Business Job Survival Act (SBJSA). The act would help owners of these enterprises by providing more support during lease renewal and renegotiation. Commercial tenants would receive a minimum 10-year lease with a first right of refusal, a restriction that would forbid owners from passing on property taxes to renters, and third-party arbitration for rent disputes if fair terms can't be worked out.

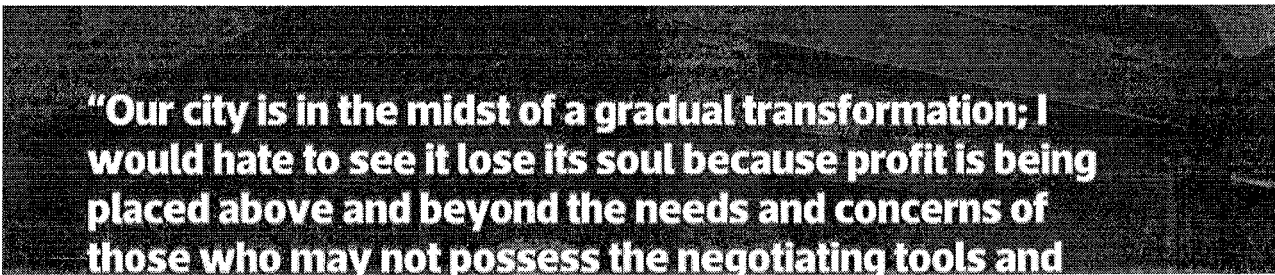
The act promises to end rent-gouging and other alleged unfair practices by landlords. Berman believes this program is just the tool he's looking for to save legacy businesses.

"Rarely is there a week that goes by when we don't hear about a neighborhood institution that's threatened or closed," he says. "And this isn't based on pure sentimentality. Successful, profitable businesses are forced to move. Look at Three Lives Books, a famed local bookstore that's now nervously waiting through a month-to-month lease after their landlord sold the building to condo developers."

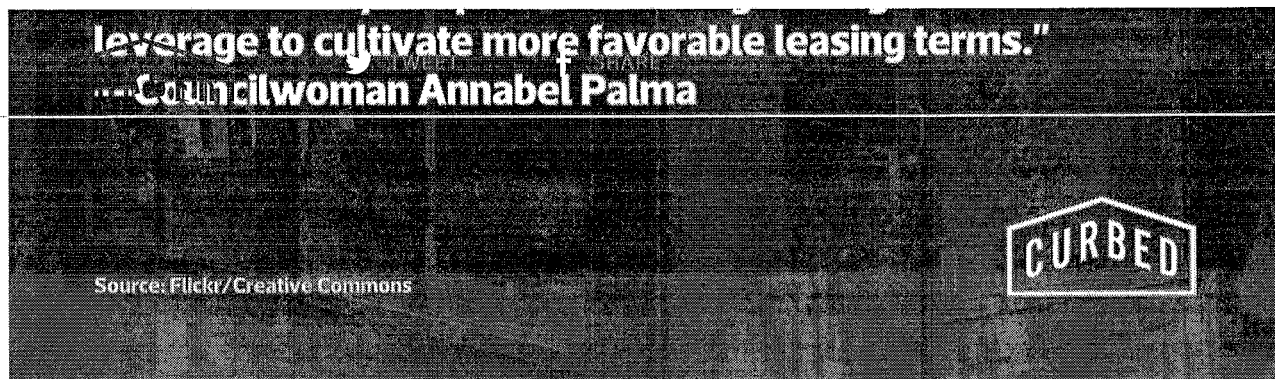
According to Berman, the act has the support of a majority of the city council, including Council Member Annabel Palma, who represents a district in the Bronx and introduced the SBJSA to the council in 2014. While legacy stores in high-rent neighborhoods such as Greenwich Village or the Upper East Side may get more press, businesses in the outer boroughs are facing a lot more pressure. Business evictions in the Bronx were up 30 percent in 2014, due in part, says Palma, to "landlords who oftentimes possess far more resources and leverage to impose their will."

"Label me a sentimentalist, but I still believe this counts for something," she says. "Our city is in the midst of a gradual transformation; I would hate to see it lose its soul because profit is being placed above and beyond the needs and concerns of those who may not possess the negotiating tools and leverage to cultivate more favorable leasing terms. I stand for this; I stand for the small business operators who are looking to continue to be a part of our city's revitalization."

One would think the SBJSA would be a great and necessary tool, offering mom-and-pops a leg up as chains continue to expand their footprint in New York City. A report by the Center for an Urban Future found a 1 percent increase in chain stores in the five boroughs in 2015 (including 568 Dunkin Donuts). But the bill, which has been floating around the City Council in one form or another, hasn't been put up for a vote, or even gotten a committee hearing.



"Our city is in the midst of a gradual transformation; I would hate to see it lose its soul because profit is being placed above and beyond the needs and concerns of those who may not possess the negotiating tools and



"There are a number of influential stakeholders who consider this bill problematic in that it curtails the profits for many in the real estate industry," says Palma. "Within the Council itself, there is ambivalence on this matter due to some members--the leadership included--not feeling especially inclined to officially support this legislation."

An inquiry to the Real Estate Board of New York about the law produced no official statement. But a spokesman pointed to the following editorial, by James R. O'Neill, who works for Brooklyn-based CPEX Real Estate Services New York. He argued that the bill would be "incredibly disadvantageous to new and growing businesses" by diminishing the supply of available commercial space, would bring uncertainty to the market due to prolonged lease negotiations, potentially leading to chronic vacancies, and finally, solves a problem that doesn't exist.

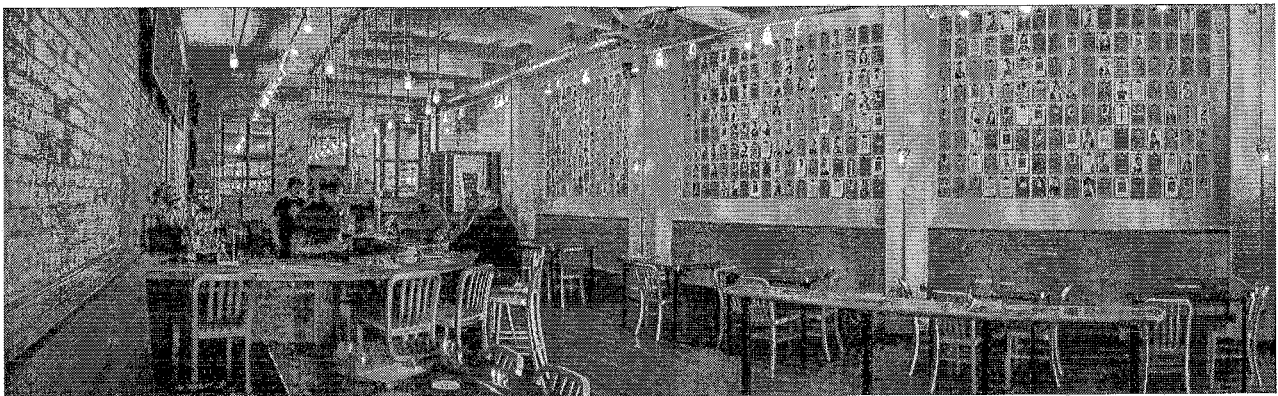
"As a neighborhood resident, I've watched restaurants, bars, shops and clubs come and go," he writes. "The strong ones have remained, and the weak ones have either adapted or left. As communities grow and change, businesses that are priced out of hot commercial strips move to the periphery of the neighborhood, bringing exciting new shops and services to these areas. In order to succeed in any aspect of life, people and businesses have to adapt to change, and it should not be the government's role to foster stagnation."

If the rent's too damn high, why not push ownership?

With so many challenges making it hard to provide rental relief for commercial tenants, maybe renting is the problem. While it's ridiculous to suggest the corner hardware store just pinch a few pennies so it can afford to buy the pricey building it operates out of, a new model in Minneapolis, Minnesota, has shown many that ownership, or at least collective ownership, is a possibility.

Founded in 2011, the NorthEast Investment Cooperative wasn't set up to be a business incubator or small business group. A group of citizens in an outlying area of Minneapolis, inspired by their local food co-op and frustrated by the lack of more change in their neighborhood, decided to be their own neighborhood developers, and collectively purchased a former mattress warehouse on Central Avenue.

"We were all frustrated by lack of action in terms of rejuvenating this part of town," says Chris Bubser, an architect and chair of the group's Property and Tenant Committee." It just seemed like a coop might provide a little more boost and help people want to become a part of the change."



Fair & State, a cooperative brewery in Minneapolis that operates inside a NorthEast Investment Cooperative space | NorthEast Investment Cooperative

The mission, Bubser says, was promoting the community, not businesses. But those two goals went hand in hand. Over the five years the group has been in business, they've picked up a pair of commercial spaces and rented them out to local tenants that provided services they wanted, including Recovery Bike Shop, Aki's Bakehouse bakery, and Fair State, a cooperative brewer. Since the NEIC is more concerned about the neighborhood thriving than pure profit, they offered more flexibility, often

adjusting and retrofitting spaces to serve the businesses they want in their community



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"We're trying to be a catalyst for change in the community, and while our rental rates are fair, they're not super low," says Bubser. "But for us, keeping the right tenant is more important than making a whole lot of money."

The stakes to become an investor are manageable and relatively small, just \$1,000. And as Bubser and others see their initial efforts multiply, with more and more local investors sinking money into adjacent projects, they feel their model is working. The group's second property is located a few miles from the original because they've been outbid by other developers, who see more opportunity in the neighborhood since the NEIC began.

"It feels so different shopping at a store that you own," Bubser says. "We have a community bike shop now. It's close, I know the owners and the people working there. It's a whole different feeling."

Bubser and the NEIC experiment is relatively small. But he says it's already spurred interest from around the country and overseas, including the New York City Real Estate Investment Cooperative, which is trying to purchase its first property by 2017. Other cities have started similar initiatives, such as Salt Lake City, have been toying with a "Buy Your Building" program for small business owners. While the logistics and funding for such programs seem challenging at best, especially for red-hot markets such as New York or San Francisco, they present a model for civic engagement and connection, pushing local control of the urban landscape at a time when many feel bigger market forces are displacing and uprooting the stores they hold dear.

"Preserving legacy is important," says Maccharini. "You don't know where you're going until you know where you've been. North Beach and Chinatown are the heart and soul of the San Francisco, and they're not just important for the city, they're important incubators for new businesses, too."

Like affordable housing, commercial rent support or stabilization for small businesses,  offers a relatively new challenge to preservation groups and city officials.

The relative handful of real successes pales in comparison to the number of losses that preservationists, neighborhood groups, and loyal patrons have suffered over the last few decades. Perhaps the greatest irony about the situation is, like many aspects of cities that helped spur the current renaissance, they're a victim of the current success of our urban areas. Hopefully a solution can be found and implemented, before much more of the character and soul of these places gets lost.

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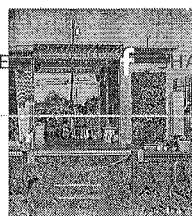
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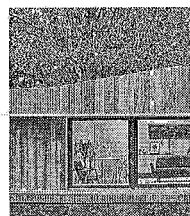
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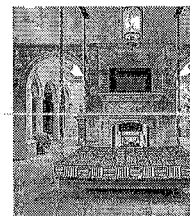
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stache

This is too 'encased in amber' for me. If you travel around the world you see the same stores everywhere. It's just the way we're headed, economy of scale.

Posted on Oct 17, 2016 | 1:03 PM

connectedspace

Yeah, I hate the relentless 'CVS/Chase/Big Box' march as much as the next guy. But the **only** solution to this is supply. No more parking lots, parking garages, downzoning or monolithic walls.

Streets must be filled with doorways and windows and almost all of those should be storefronts. Build arcades. Hell, even build **three story** arcades, which cities like London beautifully exemplify.

Look at this one in Sydney.

SHOW IMAGE

Do that.

There has to be room for the little retailers **after** the big guys bite off all they can chew. And that means supply, supply, supply.

Legislative fossilizing will simply destroy markets and freeze out newcomers. We have rent control as a legacy of such stupidity. Don't apply it to commercial real estate, too.

Posted on Oct 18, 2016 | 4:03 AM

Buster57

connectedspace: I believe you are showing me a picture of a mall. There are tons of them in the US. Still didn't keep my local hardware store from being priced out of his space that he's been in for 50+ years or the local coffee shop,

etc etc. Change may be inevitable, but I think it sucks! When I travel across the pond I don't like to find McDonald's or Walgreens. I like to find LOCA, BUSINESSES....not so easy

Curbed

Posted on Oct 18, 2016 | 4:21 PM

Alz Junkyard

This article is a great summary of what some of our larger cities are doing to preserve a sense of community that residents seems to treasure at heart, even if they still get in their cars and drive to WM. I think that without the effort, wonderful small businesses would drift away and the naysayers wouldn't even notice until it is too late. How many small towns cannot get their local grocer back because the consumers have already moved on? Its great to at least try to retain those small businesses. The ones that employ the less employable, that are subject to every single rule on the book, that provide extra customer service.

Posted on Oct 18, 2016 | 4:37 PM

travelking

Small stores, "Buh By". Hard to keep up with technology (web design/maintenance), coupon offers/acceptance, customer service/showcasing, etc.

Posted on Oct 22, 2016 | 1:16 PM

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THE LATEST

GREEN DESIGN URBAN PLANNING

Cities fighting climate change: a hopeful story from 2016

BY PATRICK SISSON

Urban centers continue to become centers of green innovation and reasons for cautious optimism for environmentalists.

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The best architecture and design books of 2016

BY SELINA CHEAH, JESSICA DAILEY, AND ASAD SYRKETT

We've rounded up 17 of the year's best books about architecture and design—from the engaging textbook-style tome to the heavy-on-the-pictures monograph and many other genres in between.

1, 1★

ARCHITECTURE OFFICE SPACE

This sleek coworking space was inspired by NYC's High Line

BY ASAD SYRKETT | @ASADSYRKETT

The two-story, 32,000-square-foot workspace, called Fosbury & Sons, comprises a mix of circular communal worktables and bar-height stations, along with a library, cushy reading nooks, and amphitheater-style seating.

1, 1★

INTERIOR DESIGN DECOR

5 charming cabins and bungalows offering peace and escape

BY LAUREN RO | @BLAURING

Whether a weekend getaway or an oasis in the city, small cabins and bungalows charm with their simple construction and cozy-making capabilities.

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TRANSPORTATION

Why did Uber's self-driving program fail in San Francisco?

BY ALISSA WALKER

California's DMV just shut down Uber's autonomous vehicle pilot, but not because of the technology.

1, 1★

NEWS

Ikea reaches \$50 million settlement with families suing over dresser deaths

BY ASAD SYRKETT | @ASADSYRKETT

The New York Times is reporting that Ikea will settle lawsuits brought against the Swedish retailer by families of children killed by overturned furniture.

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