

Date: May 1, 2008

To: Gary Napper
City Manager
The City of Clayton

From: Jim Harrigan
Managing Principal
Economic Development Systems

Re: **Draft #2-** Downtown Clayton Retail Project Area
Retail Analysis, Strategies and Recommendations

City of Clayton Downtown Retail Report

Definitions and Delineations

The City of Clayton commercial district that is being analyzed by Economic Development Systems (“EDS”) in the following Retail Analysis, Retail Strategies and Retail Concept Recommendations will be delineated as follows:

Commercially zoned properties/parcels that are located in:

- **Historical Downtown Clayton.**

Before preparing the following retail report and determining the recommended retail category increases, upgrades and diversifications, as listed below, the following protocols, definitions, sources and methodologies were applied:

- Careful consideration was given to the increase, upgrade and diversification recommendations for the shopping and/or dining uses in Downtown Clayton that have previously been commercially developed. The reason for this concern is to validate that the upgrades and diversifications within Downtown Clayton would be complementary, rather than competitive, to the existing *successful* retail businesses;
- The recommendations given for the commercially undeveloped parcels in Downtown Clayton were made knowing that "time is money" when it comes to the "carry" on all such properties;
- When the term "retail" is used, we include the categories of "traditional" retail stores, restaurants and entertainment venues;
- The inventories of available retail space opportunities were determined by a field survey by Economic Development Systems and supplemented with property owner and commercial real estate broker information. (Further inventory review and analysis will follow final receipt of the Property Owner Questionnaires. Cover letter and questionnaire example attached.);
- Direct and paraphrased excerpts in this report were gathered from statistical provider Claritas, Inc.; the International Council of Shopping Centers' Reference Center; the Arlington, Virginia based CLUE Marketing Group; the Solimar Research Group; the United States Census Bureau, and; Hyett-Palma and Associates;
- EDS has used Claritas information services for all demographic and psychographic source information used in this report. Since 1971, Claritas has been the pre-eminent source of accurate, up-to-date demographic data and target marketing information about the population, consumer behavior, consumer spending, households and businesses within any specific geographic market area in the United States. Claritas demographic data estimates include US demographic data, market demographic data and demographic/psychographic population estimates;

The result of Claritas marketing research analysis, market demographic data and psychographic population information allowed EDS to go beyond conventionally accepted target marketing strategies to capitalize on new market segment opportunities and existing market potentials;

- EDS working knowledge of retail trends in other downtowns, commercial corridors and neighborhood shopping districts were applied, and;
- Many interviews, to identify market perceptions and conditions, were held with professionals knowledgeable with Downtown Clayton including brokers, tenants, property owners, developers and representatives of the City of Clayton.

It should be prominently noted that the assistance provided by the City of Clayton City Manager Gary Napper was invaluable in the support given during this fact-gathering and analysis phase.

Executive Summary

Historical Downtown Clayton

Since the Middle Ages, downtowns functioned as the commercial, government, and social hubs of their communities - the places where people came together to conduct business, shop and dine, administer government, relax, and celebrate.

But, communities throughout America have gone through a series of profound transformations over the past several decades that have changed the economies of the nation's downtowns and, as a microcosm, Downtown Clayton.

Many of these transformations are a consequence of the expanding highway system, that has stimulated suburban development and made it possible for people to move farther away from town centers. As people have moved outward, the retail industry - always a market follower, rather than a market

leader - has moved outward, also. With the advent of regional shopping malls like Walnut Creek's Broadway Plaza outdoor mall and Somersville Towne Center and discount superstores like Fry's or Best Buy, downtown retailing - the bedrock of a traditional main street district's economic foundation - has slowly eroded...yet, the three historical retail categories are still valid:

- Convenience: Retail goods and services for which shoppers tend to patronize the closest business, like gas stations, dry cleaners, and the "neighborhood" grocery store. "Impulse" retail - like card shops, florists, and gourmet cookies - also fall into this category;
- Comparison: Retail goods and services for which shoppers like to compare styles, brands and prices before making a purchase, like apparel, shoes, automobiles, electronics and (sometimes) furniture. For this reason, comparison retail businesses tend to cluster together (e.g., clothing stores in traditional shopping malls; car dealers in auto malls), and a comparison business is likely to be more successful if located in a cluster than if it is freestanding, without related businesses nearby. Internet shopping has also exploited the comparison category;
- Destination: Retail goods and services for which shoppers will travel significant distances. These might include specialty businesses (like western wear), large clusters of related businesses (like restaurants or antiques), or businesses that offer exceptional products/services and that have developed a very loyal clientele.

In the mid-twentieth century, following World War II, many downtowns offered a blend of businesses in all three categories. Shopping malls, though, specialize in comparison retail businesses (particularly apparel and apparel accessories, like shoes and jewelry) and typically offer enough of a concentration of these businesses to dominate the local market and make it very difficult for downtowns like Clayton to successfully compete in this category. Subsequently...we have to find another way.

Discount superstores and 'category killers', which began appearing in the 1970s and 1980s, respectively, have created additional challenges for traditional Main Street districts by saturating additional retail niches. Discount superstores offer such a broad range of merchandise that they put a broad range of existing businesses in the community at risk. By siphoning away even relatively small percentages of sales from existing downtown businesses, discount superstores often make it difficult or impossible for those businesses to achieve the gross sales levels needed to remain in business.

These late twentieth century-shopping options also coincided with the fact that consumer buying power – the amount of money people have available to spend on retail goods and services – has not kept up with the rate of growth in the amount of retail space that has been built. This economic fact has exacerbated the “leakage” of consumers and sales, further diminishing the collective downtown.

This effect has not only affected the profitability of the downtown retailer...but it also drove down rental rates, leading to property/ building owners’ deferring or ignoring maintenance responsibilities (as well as decreasing the feasibility for new construction). The result of this syndrome has been the physical and visual blight to the downtown shopping district/shopping experience.

Interestingly, lower rental rates, while attractive to the under-performing retailer, is no panacea to the successful businessperson who understands that fair rental rates are a necessary component to a successful business district. (It is not coincidental that the most successful retail districts in the world also have the highest rental rates...although, one could argue the primacy order of the “chicken-egg/rental rates-success” theory.)

Another historic feature of an under-performing/low rental rate commercial district is the influx of service businesses (example: medical/dental; insurance; real estate offices, etc.) and/or strictly office-type uses in what one would consider “first-floor retail” locations.

The mixing of these “non-retail” business categories (that in more successful retail districts would - because of the higher retail and lower office rent structure - be located above the first-floor or on secondary/tertiary streets) has the detrimental effect of limiting the “browsing” factor that every successful retail district exhibits. This fragile retail consumer trait of browsing (e.g., the store-to-store strolling of

both casual and serious shoppers) is upset if the retail line-up on the street is interrupted with non-retail storefronts, vacancies, empty lots and/or even the lack of attractive/interesting window displays/merchandising.

In communities similar to Clayton - that have experienced steady, sustained residential growth and increasing demand for retail goods and services - the typical evidence of change in these downtowns has been most apparent in the same changing types of retail businesses, with community-serving retail businesses that provide the staples of everyday living - like supermarkets, hardware and department stores - gradually giving way to the aforementioned office and service businesses. In Downtown Clayton these phenomena are present...but will start to change as our recruitment program is effected through the development of undeveloped land and the natural rise in retail rental rates as the increase, upgrade and diversification of retailers occurs.

This shift that communities have undergone for the last fifty years - from concentrating retail activity in a central business district to diffusing retail activity throughout a number of commercial centers and along highway strips - transformed downtowns like Clayton into districts that are unable to support the number and mix of retail businesses they once embraced. This means that:

- We must find new combinations of *"destination"* retail uses to occupy Downtown Clayton's first-floor retail spaces and developable retail land as fully *and as soon* as possible...*followed by new neighborhood-serving "convenience" shopping and service businesses;*
- We must find new ways for the locally owned retail businesses to reach new customers, and;
- We must be very strategic in implementing our retail revitalization program.

It is therefore the charge of EDS, in the building of Downtown Clayton's economic viability, to restructure the economy of the district, focusing intently on one or two specific, tightly coordinated economic development goals.

Fortunately, there are many opportunities available for older and traditional

downtowns like Downtown Clayton. Among the many paths other California districts have successfully pursued:

- A district might develop one or more retail niches unique within a 0 to 10-mile radius. Many districts have focused on gourmet food items, books, neighborhood-serving and regional restaurant opportunities, home furnishings or any number of other niches with little regional competition.
- A district might create or expand an arts and entertainment cluster, often anchored by one or two theatres and a group of restaurants and after-hours live entertainment.
- A district might create enough residential units and small industries or professional offices (on second floors or on secondary/tertiary streets) within the district to provide enough "captive" customers (residents and workers) to support convenience-oriented businesses in many or most of the district's retail storefront spaces. (An added benefit: because this path does not depend on attracting many customers from outside the district, it does not increase demand on parking and traffic infrastructure.)
- A district might intensively target a particular demographic segment whose needs are not being well met within the community or region - "Generation Xers", for example, or "empty nesters" - and might provide an array of housing, shopping, work, and entertainment options for them.

Each of these is an example of a market-based strategy - a strategy that is based on the district's specific economic opportunities - that has a specific economic goal. Many districts can successfully pursue more than one market-based strategy simultaneously - but it is unlikely that a district can successfully implement more than two market-based strategies without losing focus and diluting the impact of their work.

Successfully implementing these market-based strategies involves thinking and

acting locally and regionally; marketing the district and its businesses creatively and collaboratively by:

- Creating and implementing an effective, professional, district-wide retail recruitment plan as in what you have contracted with EDS to provide;
- Building strong, collaborative partnerships between the many organizations, agencies and constituents with vested interests in the district, like the Summer Concert Series at The Grove, and;
- Crafting a carefully synchronized work plan that reinforces the district's market-based strategies, has the strong support and involvement of all the district's partners, and helps ensure that all the downtown-related tasks undertaken by the district's partners focus tightly on these strategies.

With this charge clarified...the EDS goal for Downtown Clayton will be to initially increase, upgrade and diversify the current tenant mix with destination retail businesses that are listed as a retail category void - or a void within a sub-category - as listed in the 0 to approximately 10-mile "opportunity gap" trade areas.

And why do we want to "increase, upgrade and diversify the current tenant mix with 'destination' retail businesses" rather than recruit "comparison" or "convenience" retail?...because, at this time, EDS believes that the "comparison" consumer (e.g., ...retail goods and services for which shoppers like to compare styles, brands and prices before making a purchase) is being served by East Bay regional malls and the ubiquitous Internet...while the "convenience" consumer (represented by just 14,044 households in a 3-mile radius) is being served by larger neighborhood centers like the two retail locations at Clayton and Kirker Pass Roads.

Even though Downtown Clayton is somewhat of a cul-de-sac – with limited regional access to the district from the south and east - it is the charge of EDS to find a way to turn Downtown Clayton into this 0 to 10-mile retail destination rather than the largely neighborhood serving retail/office/service business

district that it is today.

With this methodology established...from our analysis and interviews with knowledgeable Downtown Clayton stakeholders...at this time, EDS, with knowledge of retail space opportunities today and projecting into the future, has culled the *Claritas Opportunity Gap* listings into the following Downtown Clayton retail category recommendations:

- Independent Full-Service Restaurants

- Seafood
- Barbecue/Cajun
- Asian
- French
- Latin/South American
- Indian
- Thai
- Vegetarian, etc.

- Jazz/Blues Entertainment Venue

The recruitment of independent "destination" restaurants, by cuisine that is not currently represented in Downtown Clayton, will provide the critical mass for establishing a "restaurant district" and, therefore, the "niche" that the Downtown does not now have and will differentiate itself from other downtowns and shopping districts in the East Bay.

It is the belief of EDS that independent destination restaurants, and the aforementioned recommendation of an entertainment venue, will be especially important draws for consumers from outside the City's resident population and will assist in establishing longer hours of operation for the Downtown into the mid-to-later evening with the entertainment venue complementing the restaurants...and the restaurants complementing the entertainment venue.

Independent restaurants - versus national and regional restaurants - are being recommended because the "footprint/square footage" of the independent is usually smaller and has a more conducive "scale" for the Downtown ...and the demographic profile of the 14,044 households in Clayton's primary trade area does not reach these national/regional restaurants' minimum requirement.

EDS also believes that, although this retail strategy is valid, credible and sustainable, the implementation will take a number of business cycles to complete. Vacancies are now at a premium, but our instinct and research tells us that a majority of leases are on a month-to-month basis or will be coming to term within a two years period, including first-floor office and service uses. (Our property owner questionnaire results, template attached, has verified that feeling.)

EDS will also emphasize to the property ownership of the Downtown that, to validate this retail strategy, the lease of future vacant first-floor retail space should be made with their and the Downtown's "long-term" goals in mind, rather than offering the space to whomever first shows up on their doorstep. The incentive to the landlord will be an increase in property rental rates and sale prices, but...a heightened awareness of Downtown real estate market potential and patience will be needed.