

# Future of Retail White Paper

**Background Report**

*November 1, 2021*



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# Introduction and Background for this White Paper

The City of Petaluma has undertaken a general plan update that is presently in process and expected to be completed in late 2022. Greensfelder Real Estate Strategy was asked to draft this White Paper on the future of retail in Petaluma to provide context for decisions that will be made as part of this process.

A successful retail ecosystem is one in which the built environment matches the market. Since markets and built environments evolve over time, it is important to understand how each functions so that good decisions about the built environment can be made, and so the built environment has the flexibility to accommodate market evolution over time. This White Paper is intended to be a living-working document for Petaluma's residents and City staff to provide background and context for retail policy creation as Petaluma's general plan is being updated, and to inform more meaningful retail-related and built environment decisions over the longer term.

Today's shopping centers and main street retail districts need to function differently than in the past. In order to survive, retail projects will increasingly provide a wider variety of reasons to visit including quasi or non-retail uses such as medical, educational, and service uses, and these non-retail uses will drive foot traffic which will in turn drive retail sales. Particularly for communities dependent on sales tax revenues, the key to generating sales tax is to identify where a dominant project or district can flourish, eliminate regulatory hurdles, recognize that some other retail projects simply should be repurposed, and understand that allowing non-dominant projects to evolve to other uses will have the added benefit of creating incremental demand for the dominant retail project. This white paper will set the stage for how Petaluma could think about its retail spaces (i.e., downtown, along commercial corridors, in larger strip commercial center, etc.) relative to the City's future growth.

Like with many communities across the Country, Petaluma seeks to balance growth, economic vitality and increased opportunities for entrepreneurs, and to create a diverse and equitable retail offering that serves residents and visitors alike. Retail context outlined in this White Paper will support a more informed discussion about the City's desire to maintain a diversified employment base, reflecting labor force capabilities and recognizing the community's quality of life, and strengths in a variety of sectors including a vital and diverse retail base that serves the needs of all.

In Part One, we discuss the main factors influencing how retail is being conducted, including consolidation and reorganization of the retail industry as a whole. We also describe how large retail commodity anchor tenants have come to syphon economic energy away from downtowns and redirected it to regional and sub-regional destination shopping centers, a trend that has been detrimental to downtown and Main Street shopping districts.

Our analysis relies on differentiating between commodity and specialty retail uses and the consumer behaviors associated with accessing each, and understanding the "new retail equilibrium" which explains how retail's footprint is evolving, the impact of e-commerce, influencers, and platforms on the retail ecosystem and on bricks-and-mortar retail in particular, the changing landlord-tenant relationship including the value proposition each provides to the other, the importance of active as opposed to inactive uses, and how travel patterns and "gravity" affect shopping behaviors.

To foster Petaluma continuing to compete effectively and enjoying a competitive and fluid retail environment, a discussion about how traditional retailers and cities alike need to find new and better "beacons" than traditional signage for consumers to find and patronize their stores and shopping districts.

Because retail real estate is generally well located, even retail projects that have significant vacancy or are functionally obsolete have excellent locational attributes for being repurposed as other uses. We will discuss location and facility attributes, and their importance for understanding the potential a given site might have as part of the City's overall retail ecosystem.

In Part Two, we have included a high-level retail market demand analysis that takes into account Petaluma's competitive position in the broader marketplace, expected population growth, implications for retail repositioning and expansion, and an economic analysis explaining how larger trends and market consolidation will impact the City's ability to attract and maintain a diverse retail base capable of serving both residents and visitors.

This demand analysis will also provide context for realistically thinking about retail business attraction. A summary of demographic, employment, and real estate market conditions and trends in Petaluma, with comparisons against competitive market areas including the Petaluma's retail catchment, provides a backdrop against which retail initiatives and strategies can be developed, decisions about how to avoid overbuilding can be made, how successful retail as part of mixed-use development can be promoted, and how a small-town feel can be maintained.

The City of Petaluma's Petaluma current General Plan 2025 (May, 2008) has the following goals related to retail:

- Section i3 - Guiding Principles: Expand retail opportunities to meet residents' needs and promote the City's fiscal health.
- Goal 2-P-14: Promote the development and intensification of the Downtown commercial core as both a visitor destination and a neighborhood retail center.
- Goal 2-P-19: Maintain the grid street pattern within Downtown, and improve connections between Downtown and surrounding areas.

In addition, the Economic Health and Sustainability Element has the following goals related to retail:

- Strengthen and expand the local retail sector.
- Existing retail businesses meet the daily needs of most local residents and many of their needs beyond the everyday. However, the range and variety of local shopping opportunities for more specialized products and for purchase that call for comparison of prices and features and limited.
- Goal 9-P-14: Plan and located retail uses appropriately to their types and the sites available.
- Goal 9-P-18: Strengthen the tourism sector.

The amount, type, and location of retail that is ultimately accommodated in Petaluma's General Plan will depend on the community's values and objectives and numerous other issues that will be considered during this General Plan update process. All of the General Plan 2025 goals listed above are still relevant, and this White Paper is intended to build on them as more focused and nuanced land use, economic development, and other retail-related policy decisions are crafted in the Petaluma General Plan update.

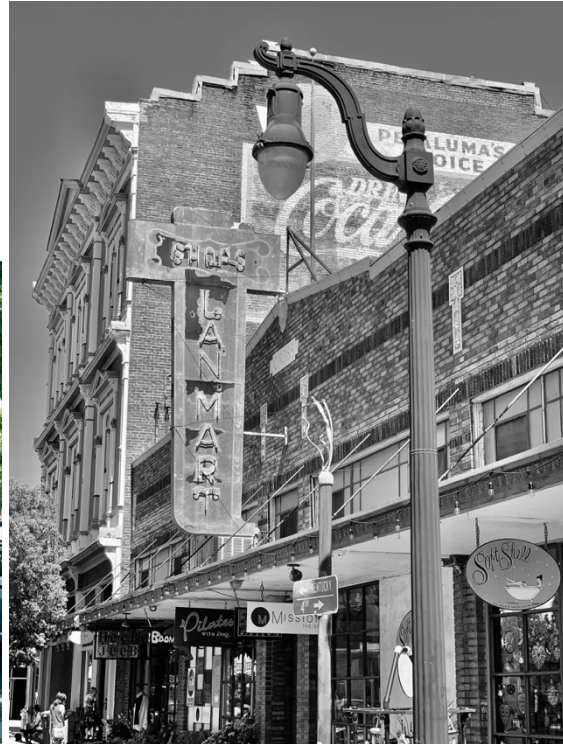
# Executive Summary

*Following is a summary of key points contained in this Retail White Paper.*

## Part 1 – Market Trends, Challenges, and Resilience

- Understanding the distinction between commodity and specialty retail, and how they lend themselves to the analysis of and any recommendations related to various retail projects and districts is important. In its simplest form, commodity retailers sell the goods and services that we use every day, while specialty retailers sell what we splurge on.
- The driving force behind current retail evolution is a combination of bricks-and-mortar consolidation and the expansion of e-commerce. “Place” and “environment” are key elements for some sorts of retail uses, but a sense-of-place is less critical for commodity than specialty retail areas and businesses.
- Retail isn’t dying, it has reoriented to more efficient platforms that give consumers one-stop comparison and shopping, and is as or more robust and diversified than at any time in memory. What’s new is that specialty goods that have traditionally been purchased through brick-and-mortar retail channels are also increasingly being purchased through on-line channels once reserved for commodity goods.
- Petaluma already has ample commodity retail to meet its residents’ daily needs, and yet even more options in close-by Rohnert Park, Novato, and Santa Rosa.
- Petaluma’s Historic Downtown has a unique retail offering not found elsewhere in Petaluma, and excepting perhaps Downtown Healdsburg or Sonoma anywhere in Sonoma County. This differentiation from other retail districts is one of the reasons that the Historic Downtown has continued to grow and thrive, and survived Covid-19 relatively in-tact.
- It is the sidewalk where the public realm meets the private realm -- between the moving world and the built environment. It is imperative, particularly where vibrancy is desired, to think in terms of “complete sidewalks.”
- Thought should be given to active versus inactive storefronts, and transparency requirements as they relate to creating a compelling experience for consumers.
- A key element of sustainability will be to create a resilient retail environment in advancement of the goal of creating and maintaining a vital and productive retail base that is economically, culturally, and environmentally sustainable, and that meets the needs of residents. The Retail Resiliency™ methodology used in this evaluation gives context for integrating local aspirations, emphasizing accessibility and the local built environment, and promoting economic stability.





A number of key trends are impacting retail today. These include:

- COVID-19 has accelerated retail trends that were already in place. Customers are not abandoning physical stores, but increasingly using them as a convenience fulfillment mechanism, and contactless pickup and on-demand contactless delivery are a new normal that are here to stay.
- “Home” has taken on a new meaning. We are re-centering more of social life around home, and this trend will continue to evolve. More of the Gen X and boomer generations are living in the suburbs and have more space at home from which to work remotely.



- The pandemic has damaged our wellbeing, and retail could help fix that. We need our inner circle, but we also need our “outer circle” for our social health. We miss the people we only sort of know (our “weak ties”) that includes people we see infrequently, near strangers with whom we have some familiarity such as a barista, people in the neighborhood, or people who frequent the same businesses.
- Adaptation of public spaces and common areas will be key. Encouraging consumers to stay longer translates into a greater spend which is important for retailers’ bottom lines and for maintaining

the City's sales tax base. Thinking about "experience goods" as a guiding design principle is recommended. Controlling aesthetics (such as landscaping, music, or water features) makes a statement about the shopping experience and lets customers know that a shopping district or center is open and worth visiting.

- Last mile issues affect quality of life and all land use typologies. Planners need to start developing policy to address supply chains, and a city's general plan could include policies for distribution centers in strategic locations and how goods are delivered to both commercial and residential areas.

# Part Two – Retail as a Cornerstone of a Resilient Commercial Environment in Petaluma

- Retail is demand driven. There are a number of different sources of demand. From a retail perspective, the most important sources of demand are the residential population base and residential population growth. If a so-called “build it and they will come” strategy was successful, it was because the project was in the right place to capture demand, not because additional supply created the need to shop.
- For purposes of defining Petaluma’s trade area, the City is part of two “superdistricts”: “South Sonoma County” which includes the incorporated cities of Rohnert Park, Cotati, Petaluma, and Sonoma, and “North Marin” which includes the City of Novato.
- Petaluma’s population growth over the past decade plus the extremely modest household growth going forward translates into only a modest increase in demand from residents for new or additional retail. We expect there to be more growth in specialty retail in Petaluma because these uses draw from a wider catchment allowing a greater reservoir of demand to be targeted.
- Petaluma is a self-selecting community. Population groups that make up 6.7% of the total US population make up 41.3% of the Petaluma retail catchment’s population. Also, Petaluma compares favorably with other nearby communities in terms of higher incomes, education levels, and other key demographic attributes.
- There are a greater quantity of small retail projects on the West Side, and fewer, larger projects (i.e. shopping centers) on the East Side. Most of these larger projects are occupied by commodity retailers while much of the smaller retail, particularly in and around Downtown, are specialty in nature.
- Petaluma has higher sales than the County in the Food Services and Drinking Places, as well as Clothing and Clothing Accessories specialty retail categories. The opportunity Petaluma has today is to create yet more robust specialty retail districts.



- An estimated 37,000-62,000 net new square feet of retail space is estimated to be supportable over the coming 10 years, a relatively small amount, however, redesigning, repurposing, rebuilding, and replacing existing space can still create the same hype as a new project. Turning functionally obsolete space into modern, functional space designed for today and tomorrow’s retail environment can lead to increased sales per square foot, and by extension incremental sales tax revenues.





- Residents had strong opinions about Petaluma’s strengths and weaknesses, and how they would like to see their community evolve. Respondents identified downtown as their #1 favorite place in Town. There is a high level of interest in increasing retail and eateries, in improving recreational open spaces, and in increasing street life. Increased access to alternative modes of transit instead of automobiles is desired.

- On the East Side, which is generally suburban and auto oriented in form, a specialty retail district could be aimed principally for residents with the goals of addressing the more urban sensibility expressed in community outreach meetings, creating community, and overcoming a lack of a place. In other words, the East Side needs a community gathering place.
- The Petaluma River represents an underutilized opportunity to compliment and amplify the unique environment found in the Historic Downtown, and the Theater and Warehouse Districts. The River has the potential to differentiate further Petaluma’s Historic Downtown as a place to visit, to unify development along its east and west banks, for recreation, and to compliment an increasingly robust inside-outside environment.
- Incorporating retail into mixed-use projects can be quite complicated, especially when there is retail on the ground floor and other uses above the retail, however, having uses side-by-side (i.e. horizontally integrated mixed-use) is much easier to design and execute. Both approaches have the potential to create the sense of place and vibrancy that is often the goal of such projects.
- For mixed-use projects (and for street-retail generally) objective design standards for ground floor retail should be developed in order to ensure maximum opportunity and flexibility for retail uses as part of a mixed-use development, and to make sure that commercial spaces remain flexible and viable for ever evolving commercial space needs over the longer term.
- Petaluma has a balancing act that it needs to consider: maintaining its small-town feel while at the same time expanding its economy. From a retail perspective, the opportunity to expand is directly related to expanding specialty retail offerings. In order to support this expansion, a focused campaign to attract Sonoma County’s 10+ million annual visitors, Wine Country visitors in particular, will likely be required.
- The Warehouse District is one of Petaluma’s most interesting neighborhoods with a dynamic mix of uses including residential, retail, warehousing, and food & beverage. The Theater District is the bridge between the Historic Downtown and the Warehouse District. There is an opportunity for these areas to connect, and to create a connection with the depot site and adjacent

neighborhoods on the other side of the Petaluma River that already have an interesting character of their own.

- “15-minute City” principles can be helpful in thinking about how to organize commercial centers in and around Petaluma. As part of this approach, adopting some strategic “retail pruning” strategies may be helpful.
- Covid-19 has upended the retail ecosystem worldwide. Local retailers may be better positioned to withstand future shocks than their chain competitors. Local operators know their customers. They are in a unique position not only to capitalize on having their ear to the ground in a way that chains do not, and they are in a position to lead our shopping districts' recovery.

# Part One – Market Trends, Challenges, and Resilience

## Transformation of the Retail Sector

In some respects, retail has never been more diverse, and consumers have never had more options readily at their fingertips. How retail is being conducted and how consumers behave are in the midst of a sea change. Examining how shopping centers and “Main Street” or “Downtown” retail districts are evolving, how on-line shopping continues to evolve, and how the landlord-tenant relationship is evolving help to explain how retail goods and services are consumed and how they will be consumed going forward, and can offer insight into the future of downtown commercial districts.

## Consolidation and Reorganization, and the E-Commerce Revolution

The driving force behind current retail evolution is a combination of bricks-and-mortar consolidation and the expansion of e-commerce. But how did we get here? In the early 20th century, cars were a rarity. Most towns and cities had downtown districts that served as the community’s commercial hub and were characterized by a massing of retail that evolved to serve the community’s needs. Towns often had their own homegrown department stores that sold a wide variety of goods. Well-known examples of these include Emporium and May Co. on the West Coast, Dayton’s and Marshall Field in the Midwest, and Filene’s and Macy’s in the Northeast. These were department stores in the truest sense, having separate departments under one roof for a variety of goods including clothing and shoes, electronics, housewares, books and records, pets, home goods, and the like.

When retail was clustered in a downtown or town square environment, there was not a need for today’s ubiquitous suburban shopping center, but then, in the 1950’s, the by-then commonplace automobile enabled a trend towards suburbanization. The need for shopping centers was born. Over a period of time, shopping centers and regional malls replaced downtown shopping districts in the increasingly decentralized urban landscape.

As the advent of shopping centers and malls began to erode the downtown shopping district’s market share, discounters began to erode the traditional department store’s market share. Wal-Mart and K-Mart started nationwide expansions. Even traditional department store companies began to enter this market, perhaps the most notable example being Dayton-Hudson’s Target division. At the same time, the suburban regional mall would often be anchored by department store chains that expanded their market share by focusing on suburbs.

The next step in the evolution away from traditional department stores was the advent of retailers who became more efficient by specializing in a particular “department.” Clustered together in what have come to be known as power centers, these “big box” and “category killer” stores were more convenient, focused, offered a wide variety of merchandise within a specific category, typically a commodity category such as electronics, office supply books, pet, etc. These chains developed supply and distribution advantages by focusing narrowly on a single category, and as a result was better able to offer everyday low prices. They also started killing off the departments in department stores. In-turn, department stores increased their focus on soft goods, thereby limiting the overall variety of merchandise and giving the consumer fewer reasons to visit.

Like many businesses, department store chains began to consolidate in order to increase scale, decrease expenses, and maintain competitiveness ... or simply to avoid going out of business all together. By extension, the number and variety of regional mall anchor tenants contracted, and by the 1990's the contraction and consolidation trend of regional malls was in full swing. In some instances, even traditional department stores (Kohl's being one example) began to abandon malls and join the category killers in power centers. With fewer anchors, so-called "category killer" tenants finding each other in power centers, and the advent of the exurb, fewer and fewer truly successful regional malls and even fewer downtown shopping districts remained.

## Commodity and Specialty Retail – How Retail is Organized Today

Each mature community's retail offering organizes and calibrates itself to local demand, and each community's commercial strategy must be calibrated for a variety of local conditions including the local real estate market, consumer demographics, changes in consumption patterns, community vision, perspective and capabilities of property owners and tenants, a city's available resources, available public-private partnership (P3) resources, and other factors. Any strategy should be clear, deliberate, and most importantly should differentiate the subject area from other destinations.

Understanding distinction between commodity and specialty retail, and how they lend themselves to the analysis of and any recommendations related to various retail projects and districts will be extremely useful. In its simplest form, commodity retailers sell the goods and services that we use every day, while specialty retailers sell what we splurge on. As a prelude, the shopping behaviors exhibited at East Washington Place whose stores generally sell commodities are much different than behaviors in the Historic Downtown shopping district whose stores are generally specialty in nature.

Based on over 30 years of experience performing market analysis, repositioning retail projects and districts, and developing retail real estate (including overseeing strategic store deployment programs for both independent and chain retailers), GRES recommends not thinking about retail as "box stores" or "malls," but instead in a way that clearly distinguishes between "commodity" retail uses and "specialty" retail uses. Because the factors that maximize performance of commodity retail projects and specialty retail districts are so different, we seek to clearly differentiate each in our analysis and strategic recommendations. This approach is further discussed in the Urban Land Institute's Professional Real Estate Development handbook.

The goods commodity retailers sell generally are the same regardless of the origin of purchase. A cell phone or a reusable water bottle, for example, are exactly the same regardless of whether purchased from an airport vending machine, a store, or online. For this reason they are purchased with the trade-off between price and convenience being the primary decision making function for the consumer who is asking the question, "Do I need it right now, or can I wait and get a better price?" An emotional connection to the purchase is not a part of this equation.



In contrast, specialty goods and services involve allocating discretionary income (i.e. income not earmarked for necessities like shelter or groceries) and discretionary time (i.e. time not devoted to required activities like work or school). Because discretionary income and time are limited, we have more of an emotional connection to how we allocated these scarce resources. For this reason, the physical environment and a sense of place in which these purchases are made become increasingly important. When we go out for a "white tablecloth" dinner, we prefer a High Street or a Lifestyle Center's neighborhood (location) and environment (improvements or facilities) to a quick-serve restaurant located on the outparcel of a big-box retail store or a power center.



It is important to understand that retailers and service providers are not strictly commodity or specialty in nature; they can straddle the line and be both. By extension, it is important to remember that commodity and specialty retail describes shopping behaviors as much, and perhaps more, than it describes a specific retailer or service provider. For example, all of the products sold in an Apple store strictly fall under the definition of commodities; the products are the same regardless of where we get them. That said, Apple has carefully curated its brand and their stores are designed to maximize “retail theater.” Similarly, the majority of the SKU’s in a Whole Foods store are commodities, however, Whole Foods continues to add specialty and prepared foods to its in-store offerings. In some cases, Whole Foods stores have restaurants and the on-sale of alcoholic beverages. We shop the Apple Store much differently than we might shop for electronics at Costco or Walmart, and while we might buy commodities at Whole Foods, we often take advantage of offerings that are not readily available at a Safeway supermarket. Like the attention to branding and retail theater, both Apple and Whole Foods have a level of fit and finish meant to elicit a more emotional connection than we have at competing retailers. It is important to think about all of these factors when deciding if a retailer is commodity or specialty in nature, or about the sort of consumer behaviors that will be created when such a store opens. The same retailer might be either depending upon context or location. Do the project's location, neighborhood, customer base, and traffic patterns lend themselves more to commodity or specialty purchasing behaviors?

Some department stores including Macy’s, Sears, and JC Penney have evolved away from their all-things-under-one-roof model to more closely resemble commodity retailers. In other words, their product offerings are less distinguishable from what could be purchased in a variety of other places and through a variety of retail channels, and their fortunes as retail powerhouses have similarly waned. Furthermore, with the exception of chains such as Nordstrom, Bloomingdale’s, Neiman Marcus and the like, department stores have ceased to distinguish themselves for their service and environment. With the homogenization of department stores has come the demise of many regional malls. Certainly, there are many high-performing malls including Valley Fair in San Jose and Stanford Shopping Center in Palo Alto. There are far more that are similar to Santa Rosa Plaza or the former Vallco Fashion Center in Cupertino that are in the process of falling by or have already fallen by the wayside.

The retail industry is now undergoing another round of consolidation and restructuring that represents a further evolution of prior industry trends. While smaller downtown and neighborhood shopping centers continue to lose their commodity retailers – like groceries, pharmacies, and electronics stores – many of the nation’s malls and lifestyle centers are similarly struggling to retain their commodity-oriented anchors – including many of the major department stores that have failed to differentiate themselves from the likes of Macy’s, Sears, and J. C. Penney. Either means the loss of vehicle and foot traffic, but at the same time it may be an opportunity for retailers that operate in downtowns or on so-called High Streets.



At the outset, online retailing was best suited to the purchase of commodities, and this still applies today. Part of the reason is that when buying online, buyers cannot inspect the product in the same way that they can at a brick and mortar establishment, giving bricks-and-mortar an advantage for the sale of specialty goods for which there is a greater emotional attachment. Put differently, we're less concerned about touching and feeling a water bottle than we are new clothing.

During the Covid-19 pandemic, most buyers were still visiting brick and mortar stores for more urgent purchases, as the shipment of products purchased online could take days or weeks to arrive. Covid-19 forced supply chains to streamline, and (excepting supply chain shocks such as this month's port backup) shipping is less of a barrier to access than before. With the development of robust private logistics networks such as Amazon Prime, online retailers have broken down many of the convenience barriers that once limited their scope to commodities, and increasingly they are making headway into specialty goods. Platforms, however, still struggle to replace "atmosphere" and "place," so they are trying to level the playing field by investing and innovating in artificial intelligence and other technologies that allow consumers some in-store benefits while shopping on-line.

## The Continued Evolution of Malls and Shopping Centers

The pithy quip, "We're not over-built, we're under-demolished" has merit. The United States had approximately 24 SF of retail per-capita in 2016, the highest in the world, compared to Canada's 16 SF, Australia's 11 SF, Europe's 4-5 SF, and China's 3 SF [GGP Investor Presentation, March, 2017]. Commodities can be purchased across multiple retail channels, a "channel" being a place such as a bricks-and-mortar store, the internet, a catalog, where a purchase can be made. Specialty goods, including apparel, jewelry, and food and beverage, which just a few years ago were the mainstay of malls and lifestyle centers are increasingly available through channels other than traditional bricks-and-mortar stores. Evidence of the change in where we buy goods, consolidation particularly among commodity retailers, and the US's outside physical store base is seen in store closures in the thousands, and decaying and dead retail projects.

The headlines should be "How Will We Repurpose Unneeded Retail Space?" and "Which Bricks-and-Mortal Retail Will Survive?"

There are lots of poor-quality centers that have no reason to exist other than tenant demand at the time they were built. Today, an "A" retail project is one that can differentiate itself from competitors. Projects that do not differentiate, or have depth are destined to be "B," "C," or empty. We see examples of each in Petaluma. For example, the Historic Downtown has a unique retail offering not found elsewhere in Sonoma County excepting perhaps Downtown Healdsburg or Sonoma. This differentiation from other retail districts is one of the reasons that the Historic Downtown has continued to grow and thrive, and has survived Covid-19 relatively intact.



There are other retail projects such as Plaza North or Town and Country Shopping Center that have not fared as well. Plaza North, anchored by a former K-Mart and a CVS/pharmacy does not presently offer residents any services that they cannot get

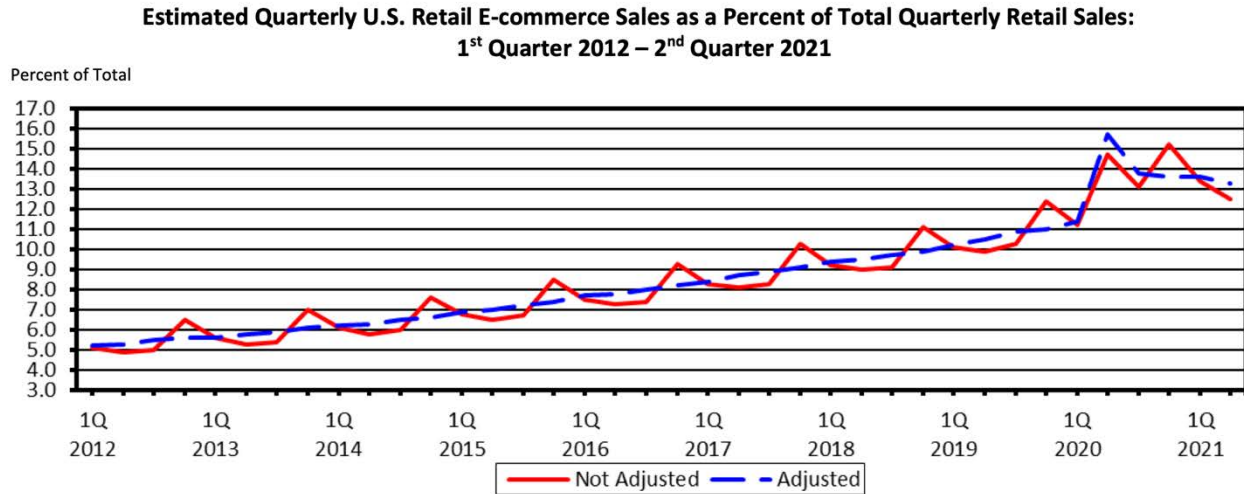
elsewhere. Town and Country has not seen any reinvestment in the center itself or activation of adjacent vacant land in many years.

If “retail Armageddon” is the most abused headline, then “experiential retail” is the next most abused phrase. Experience should evoke an emotion: do I get to go, or do I have to go? A particularly astute retail leasing executive observed that malls and shopping centers need to differentiate themselves by answering the question, “Why?” Why will the consumer want a “super store” version of the same tenant they’ve been shopping at for the past 25 years as opposed to something new? Why will refreshed common areas sway consumers when the store offering is stale? Why are owners filling space with “who cares” tenants rather than looking for fewer and better ones, and recognizing that less supply will generate higher rents and smaller operating costs? Tenant curation decisions need to be made with an eye to the relationship the tenant will have with the customer and the value it adds to the overall shopping experience!

In the future, expected demand simply dictates that we will have less commercial real estate space devoted to retail. Planners and developers concentrating efforts on the projects most likely to be dominant will create the most compelling and productive retail destinations with the biggest draws despite competing retail channels. Particularly for communities dependent on sales tax revenues, the key to generating sales tax is to identify where a dominant project or district can flourish, eliminate regulatory hurdles, recognize that some other retail projects simply should be repurposed, and understand that allowing non-dominant projects to evolve to other uses will have the added benefit of creating incremental demand for the dominant retail project. “Less” may, in fact, be “more.” Again, because retail real estate is generally well located, acknowledging that some retail projects fall by the wayside but their excellent locational attributes make them excellent candidates for being repurposed as other compatible uses.

# Implications of the Online World

As noted earlier, consumers shop differently for commodity as opposed to for specialty retail goods. This change is occurring so rapidly that a further explanation of specialty retail that takes into account how specialty goods are sought and consumed is in order. Consider the following graph showing the percent of retail sales that are generated through e-commerce:



Source: US Census Bureau, 2021. [https://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf)

In short, consumption of specialty goods is increasingly being driven both by online marketplaces, or platforms, and by influencers. Covid-19 is certainly related to some of the incremental rate of growth seen in 2020, however, it is important to differentiate between Covid-19 being the initiating cause of a trend as opposed to it accelerating or bending how goods and services are consumed. We discuss Covid-19 specifically in Part One’s Trends section as well as the Covid-19 section in Part Two.



Retail isn’t dying, it has reoriented to more efficient platforms that give consumers one-stop comparison and shopping, and is as or more robust and diversified than at any time in memory. What’s new is that specialty goods that have traditionally been purchased through brick-and-mortar retail channels are also increasingly being purchased through on-line channels once reserved for commodity goods. For example, the Canadian e-commerce platform Shopify started in 2004. As of today, it works with over 1,700,000 sellers. [www.shopify.ca/about]. Today, there are over 6 million Amazon third-party sellers worldwide, accounting for approximately 50% of total units sold [https://www.marketplacepulse.com/stats/amazon].

The range of commodities sold through platforms continues to increase and box stores continue to consolidate as consumers perfect their price-convenience function. Examples range from electronics to office supplies. Produce boxes ordered online represent an increasingly popular

method of purchasing perishables, an alternative to a traditional grocery channel. The Covid-19 pandemic ushered in an era of significantly increased online grocery shopping. Specialty goods are increasingly moving to non-bricks-and-mortar retail platforms through services such as Trunk Club, Bonobos, and the Real Real. Even food and beverage is being consumed through apps like Uber Eats, GoldBelly, and BeyondMenu -- another platform that saw a significant increase in adoption because of Covid-19. One factor in particular driving on-line sales of specialty goods is the ability to research and order on-line, combined with an increased ease of picking-up and returning goods through other retail channels. The line between on-line and bricks-and-mortar continues to blur as evidenced by BOPIS (buy online, pick-up in-store) strategies and other strategies intended to have consumers use both on-line and bricks-and-mortar as part of their goods acquisition strategies. Best Buy, Warby Parker, and macys.com are good examples of the later.

In addition to evolving shopping habits, consumers are interested in what their peers and friends are buying, and not buying. When an “influencer” buys, endorses, or rejects a product, that message can have a wide-ranging impact, particularly when the influencer has a wide social network. This phenomenon is particularly true with consumables like beauty products. Social commerce also has particular significance for the resale market where, for example, someone might put or see something on-line, and then tell their friends about it...creating hype.

The real estate implications are far reaching. It is no surprise that box stores are on the wane as commodities are being purchased through different channels than in the past. On the one hand, platforms directly refute the idea of retail Armageddon. On the other, a decrease in demand for bricks-and-mortar retail space is leaving cities to grapple with decreased sales tax revenues (although the South Dakota vs. Wayfair, Inc. decision<sup>1</sup> has leveled that playing field to some degree). Retail projects are increasingly being rethought and repurposed, sometimes as part of retail pruning strategies. Examples include malls becoming mixed-use projects, educational campuses, or adding residential components. Chains on their own or in partnerships are increasingly recognizing the value of their physical locations as last-mile distribution nodes as is evidenced by Kohl’s driving additional foot traffic to its stores by accepting and packaging Amazon returns at no cost.

A final, and possibly most important, implication for malls and shopping centers is the redefinition of the location-Location-LOCATION maxim. We are not suggesting that location is no longer important for retail, however, “beacons” are changing from traditional monument signs to influencers and social media. For example, reviews on Yelp and Google Maps drive bricks-and-mortar visits, often to locations other than at the traditional highest trafficked intersections. Traditional retailers and cities alike need to find new and better beacons than traditional signage for consumers to find and patronize their stores and shopping districts, and to continue to compete effectively in an even more competitive and fluid retail environment.

## Omnichannel Retail

Retail is now conducted through many channels (e.g. traditional stores, catalogs, on-line, via mobile devices, television, etc.). A November, 2012 “Shopping Centers Today” article summarizes omnichannel nicely: “The idea is to favor no single retail channel (brick-and-mortar, mobile phone, catalogs) but instead

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<sup>1</sup> On June 21, 2018, The United States Supreme Court ruled 5-4 in South Dakota v. Wayfair that states can mandate that businesses without a physical presence in a state with more than 200 transactions or \$100,000 in-state sales collect and remit sales taxes on transactions in the state (<https://us.aicpa.org/advocacy/state/south-dakota-v-wayfair>).



to sell things to people whenever, wherever and however they want. Omnichannel retail is about providing a uniform experience and top-notch service in every exchange with the customer.”

Omnichannel consumers frequently use more than one channel simultaneously. For example, a consumer might do research using a price check app or looking up product reviews while looking at a product in a traditional retail store. Likewise, omnichannel retailers will track customers across the various channels they utilize (catalog and on-line shopping, or on-line and mobile shopping for example) increasing sale opportunities and more precisely targeting marketing. Social media provides an opportunity to build relationships with consumers by constructing a detailed customer profile and capitalizing on merchandising and advertising initiatives.

Omnichannel strategies work differently for commodity as opposed to specialty retailers. For example, multiple retail channels might be used by a consumer to research and assist in purchasing a particular commodity like a television, or to push out or target a promotion. By contrast, a specialty retailer might use omnichannel strategies to drive customer traffic to a brick-and-mortar store, restaurant, or shopping district. Consumers don't seek channels, they seek solutions: either a retailer satisfies a need or it doesn't. When doing long-range planning for a retail district or city, it is important to think in terms of meeting the customer where the customer already is. Strategies to accomplish this outreach can be developed by individual retailers, property owners, and economic development professionals.



## The Evolution of How to Think About Retailer Vibrancy

We are now in an era where thought leadership about the oversupply of retail space has become paramount. For example, online platforms with the greatest hits are the most robust marketplaces. Similarly, we can now measure footfalls in shopping centers and main street retail districts. Retail centers and districts with an increasing/higher number of footfalls are going to be more robust and resilient. An industry veteran said, “Retail is fine; bad retail, bad retailers, and bad developers are not!” Differentiation will define the most successful projects, and increased customer visits will be their prize.

Customer service has always been and continues to be key, so monitoring a store's social ranking is a way to monitor customer service and operations, and an additional performance-based way to differentiate between tenants. The higher a store, center, or district's social ranking, the greater the expected footfalls. Similarly, a retailer with a higher social media ranking will be sought after by consumers. These measures can also guide landlords and economic development specialists in their decision-making.

As already noted, asking “why” a tenant should be in a project, encouraging shop owners to articulate how they plan to make customers feel special when they show up, and offering a unique product and

excellent customer service are key to curating a tenant mix that’s relevant today rather than a repetition of past strategies. These are best-practice strategies around which the City’s Economic Development team could develop workshops for independent retailers.

## Forward-Looking Trends

While the so-called “retail Armageddon” we’ve already noted grabs headlines, it is a misnomer. A seasoned retail real estate executive noted, “The media always confuses malls with outdoor shopping centers...they lump these together and interchange them when they talk about the death of the mall. They are perpetuating the myth of the death of retail.” As noted earlier with the Amazon and Shopify examples, retail has never been more diverse, and consumers have never had more options readily at their fingertips. It is how retail is being conducted that is in the midst of a sea change. Over the course of discussing not only how malls but also run-of-the-mill shopping centers are evolving, how online shopping continues to evolve, how the landlord-tenant relationship is evolving, and how last-mile issues affects far more than retail, we will explain how retail goods and services will be consumed, and future implications for commercial real estate. In addition, there are a number of emerging retail trends for 2021 and beyond that we are tracking:

- COVID-19 has accelerated retail trends that were already in place. During 2020, online went from 18% to 26% penetration, or approximately 6 years of growth in 6 months. Specialty retail, especially food and beverage, made strong headway during COVID. Customers are not abandoning physical stores, but increasingly using them as a convenience fulfillment mechanism, and contactless pickup and on-demand contactless delivery are a new normal that are here to stay.
- There are surprising short vs. long-term changes at play. The economy will be like a light switch dimmer – it will be freed up and slowed down depending on public health realities. We need to find ways to humanize the in-store experience despite health protocols, making shopping districts and centers more welcoming, healthy, and smart. Offices will be used more for collaboration, innovation/creative, and cross-functional work, and head-down production work will be done more remotely and this will impact commercial districts generally.
- Retail is increasingly key to the success of other land use types. For example, when one sector like office or small retail gets hit, other parts of a mixed-use project help pull the weight, like residential and grocery. Observing solid commercial design principles allow owners to pivot retail space to other uses such as specialty health care, office, and live-work when markets change. Future of work includes more telework and less commuting. This evolution of the distributed workplace means that the demand for daytime serving retail to focus not just on work centers will follow. The impact of the pandemic on the retail environment is an opportunity for healthcare providers to reach more of their patients closer to where they live.
- “Home” has taken on a new meaning. We are re-centering more of social life around home, and this trend will continue to evolve. More of the Gen X and boomer generations are living in the suburbs and have more space at home from which to work remotely. Winning retail home categories include mattress/bedding, home improvement, appliances, grocery, beauty, pet, pool, active/outdoor.

- Malls are yesterday's news, a trend that is accelerating today. Obsolete shopping centers often represent a city's highest profile opportunities to remake space and how people live and interact. These projects are generally really well located, and contain enough land to create change at scale.
- The pandemic has damaged our well-being, and retail could help fix that. A vibrant retail environment, even a safe and distanced one during more restricted periods, can offer social resilience. This resilience is something important that retail has to offer. We need our inner circle, but we also need our "outer circle" for our social health. We miss the people we only sort of know (our "weak ties") that includes people we see infrequently, near strangers with whom we have some familiarity, the barista, people in the neighborhood, people who frequent the same businesses, etc. These people introduce us to new ideas, information, opportunities, and people. Losing incidental, repeated social interactions that physical workplaces foster can be especially difficult for young people trying to establish themselves. "Peripheral connections tether us to the world at large, without them, people sink into the compounding sameness of closed networks."
- "Experience goods" enhance the retail experience. An experience good is a good or service that is not valued until it is experienced. For example, clean air wasn't fully valued in Beijing until pollution cleared at the start of C19. Retail is about more than buying and selling goods and services; it's also about new experiences. Retailer merchandising and retail district design can also be an experience good that offers important emotional and social benefits that translate into longer periods being spent shopping and by extension greater sales and sales tax revenues. We recommend that the general plan address the importance of "place" in fostering strong community gathering and commercial areas.



- Adaptation of public spaces and common areas will be key. Encouraging consumers to stay longer translates into a greater spend. Controlling aesthetics (such as landscaping, music, or water features) makes a statement about the shopping experience and lets customers know that a shopping district or center is open. Controlling public health aspects such as making sure diners are spaced appropriately, creating outdoor workout areas and queuing areas, allowing for curbside pick-up, and making sure

consumers are aware about efforts to sanitize, increase air circulation, and trash pick-up will have positive impacts. Finally, customers tend to linger longer at outdoor events, so strategies to create more indoor-outdoor environments will be key.

## The Last Mile Problem Isn't Just for Retail

The retail industry is now transforming in response to the rise of e-commerce. Strategic Economics notes that communities are increasingly recognizing the traffic congestion, environmental, and equity challenges created by placement of retail such that automobile trips are required to access even the most basic goods and services, however, this analysis does not take last-mile impacts into account. A city's general plan could create policies for distribution centers in strategic locations, the location of which can have a major effect on the cost of deliveries, congestion, and pollution. This would require public works departments to address managing delivery trucks as part of an overall transportation management plan. Such a plan would consider issues such as the rapidly increasing rate of deliveries competing with there being less space in which deliveries can be made, and if packages should be aggregated and delivered to each household once or twice a week (how many deliveries truly are urgent?).

While the evolution of malls and shopping centers, implications of on-line retail, and evolving landlord-tenant relationships are all directly related to the evolution of how we purchase goods and services today, the definitive, most important, farthest reaching emerging retail trend going forward is solving "the last mile problem." Last mile delivery is the movement of goods from a final distribution hub to a final delivery destination, typically a residence or office. The last mile has implications not only for retail, but also for industrial, office, residential, cities, urban planning, the environment (public space, traffic, air quality, sea level rise), and anyone, in any place, who might interact with anything on this list. The issue is how will cities, planners, property owners of every type of real estate, retailers, delivery companies, and consumers cope with the expected continued increase in delivery rate?

Planners need to start developing policy to address supply chains. As people continue to move to cities, there will be an increasing contest for space of all sorts, in particular public space. Both the public and private sectors will need to take into account everything from the location of distribution centers to policies governing the use of public space for delivery vehicles. From an economic perspective, delivery trucks did not create the problem, rather they represent economic activity. Simply managing deliveries or employing schemes like drones is not the answer. Instead, the answer lies in public agencies, retailers, and service providers joining forces to manage externalities, and demand.

From the demand perspective, we live in a world where on-line retailers and delivery companies subsidize deliveries and returns in order to generate top line sales growth. Customers do not pay for the full cost of the convenience of deliveries. While having customers pay for the full cost of deliveries would help, it would be exceedingly unpopular with customers. On-line retailers and their investors would also resist because a damper would be put on sales growth. In particular, there is a conflict between the need to facilitate easy and inexpensive returns (in order to generate consumer confidence and in turn sales), and the economics of those returns.

The last mile puzzle has implications for all other land uses. Consider that packages often are delivered to a customer's office for the customer's convenience and to avoid theft. Office buildings and workplace design have not taken the frequency of deliveries and quantity of packages into account. Likewise, most urban residential buildings were not designed with loading docks, and do not have facilities for handling the quantity of packages delivered. Industrial and R&D space is affected because the rapidly increasing demand for distribution centers now competes for the land on which these distribution centers are built. Finally, public space was not designed with the frequency and quantity of private deliveries in mind, and it is similarly difficult to find locations for delivery lockers.



## Market Analysis and Gravity Direction

It is key to remember that, like retail, real estate is demand driven. While an oft-cited “build it and they will come” attitude may work at times, it works only because of underlying demand that may or may not have been recognized and quantified. At its core, this analysis is about identifying who the customer is (i.e. demand), where they come from, and what a project might be competing with for consumer attention and dollars.

For this reason, it is important to objectively evaluate if the vision for a project is appropriate, and if the vision is for incremental or transformative change. A mixed-use project with 10 apartments and 3,000 SF of commercial space will help set the tone for changing a blighted landscape, but it will not in and of itself transform the blighted landscape in which it is developed.

An objective evaluation about the area in which a development is to be built articulates the area’s assets or lack of assets, and identifies questions that should be addressed before a project moves forward to the design stage. Potential sales for a retailer, a more precise way of describing retail demand, come from residents, daytime workers, visitors, traffic patterns, growth of any of these, and from existing retailers.

It is common to intertwine real estate (the location) and facilities (what has been constructed) when talking about property. With one specific exception, it is important to separate these discussions as each deserves its own separate analysis. The one exception is that both the real estate and the facility need to be evaluated critically and against the standard of whether the attributes each possesses are “equal to or better than” a competing site’s or facility’s attributes. If a given attribute of a project is “better than” competing properties, it makes it more attractive to potential users, and perhaps more valuable than alternatives.

Real estate attributes refer to the characteristics of a given site’s location. The attributes one might evaluate differ depending on product type. For example, a warehouse needs real estate with different characteristics than a coffee shop. The first questions are:

- For what sort of use is a particular site appropriate?
- Is a particular location a good place from which to tap available sources of demand?

Some sites are better suited for commodity retail goods and services than specialty retail goods and services. A neighborhood café doesn’t belong at the confluence of two major freeways any more than a 200,000 SF furniture superstore belongs in a quiet residential neighborhood. What sorts of uses are appropriate to occupy space in a project, commodity or specialty? Daily needs or destination? Competing with alternative channels such as on-line, or not?

Traffic patterns are as important as, and in some ways more important than, demographic data. The power of generating sales from customers who consume “on their route” or who limit their retail consumption to what is conveniently located on their normal “routes” cannot be underestimated. The greater the density, the more pronounced this consumption pattern becomes. For example, in traffic-burdened cities such as San Francisco, a shopping trip may be much more of a commitment than in an easier-to-navigate area such as Santa Rosa. Density and traffic will also provide information about how far people might go to consume a given good or service. Daily needs commodities will be purchased closer to where they are consumed, while customers will travel greater distances for larger purchases and for luxury specialty goods.

Another factor to take into consideration is the “gravity direction” in a given area, and what planners and developers might do assure that projects recognize this important market force that shapes the competitive retail landscape. The gravity direction is defined as the general direction from which residents and daytime workers enter an area and to which they travel in order to leave that area. Generally, a major freeway would be on the “gravity side” of the trade area, and roads that have interchanges with freeways are primary arterials that carry more traffic and in turn define larger traffic patterns. Once the gravity side is identified, it becomes clear which side of the street is the “going to work side” and which is the “going home side.” Some uses have a clear preference for one or the other side of the street that would allow their customers to have easy turning movements (i.e. right turn-in, right-out access being the easiest for motorists). For example, a food & beverage operator specializing in coffee drinks would prefer the “going to work” side of the street while a grocery store would be more convenient on the “going home” side.

Regardless of land use type, understanding the competitive landscape is important. Real estate is developed because there is demand for space that exceeds existing or anticipated supply. Retail is demand driven; retail development rarely occurs without a public subsidy when demand or anticipated demand does not exist! It is also important to size up the retail competition. Visiting competing and complimentary businesses both during non-peak and peak business hours will yield important insights about the viability of a new business in a given location. The peak might be during the morning rush hour for coffee and during the evening rush hour and on weekends for groceries. Consumers behave differently in different places at different times of the day.

“Place” and “environment” are key elements for some sorts of retail uses, but a sense-of-place is less critical for commodity than specialty retail areas and businesses. One approach to evaluating place and environment is to look for an analog project with similar real estate attributes. Evaluate the analog’s specific location, environment, and facility for how it works for tenants and visitors, and then compare the



analog to the specific location and environment for the planned project in question. Like with competing and complimentary businesses, it’s important to spend time both in the area in which you plan to build a project, and in analogous areas. Get to know each. Talk to people. Window shop and talk to merchants.

Facility attributes are a bit more straightforward to evaluate on an equal-to-or-better-than basis than real estate attributes, however, attributes will differ for different land uses. Accordingly, think about the list of attributes should be

addressed. As part of this evaluation, it is important to objectively look at projects that truly are competing. Of all property types, retail is the most sensitive to location, so it is extremely important to evaluate visibility, access, and parking.

The size and dimensions of the space can have far ranging implications. Different retailers have different footprints. For shop space, an ideal depth is 60’ with anything between 50’-70’ being workable. When

space has less than this range, the retailer's operations can be impacted, and when it has more, in order to maintain a reasonable minimum amount of frontage the retailer is likely paying for space that they don't need. For restaurants, it is important to have space for ventilation systems and refrigeration compressors or lines to remote compressors. These systems can be particularly expensive to retrofit after-the-fact.

## Complete Sidewalks, and Active vs. Inactive Uses

The sidewalk is perhaps the most important district-creating opportunity from an infrastructure perspective. It is an opportunity for branding, incorporating urban design elements, and providing amenities...the stuff that helps establish a sense of place and that a destination has been reached. The idea of “complete streets” has been in the planning lexicon for years, however, it is the sidewalk where the public realm meets the private realm -- between the moving world and the built environment. It is imperative, particularly where vibrancy is desired, to think in terms of “complete sidewalks.”



The streetscape should be designed not just with cars in mind, but to be pedestrian and bike friendly. This means thinking in terms of “complete sidewalks.” Areas such as Berkeley’s 4th Street, Seattle’s South Lake Union area, and Downtown Los Angeles’ Arts District have done an excellent job at articulating their distinctiveness, or how they are differentiated from other parts of the metro area, including their street/sidewalk section designs. The complete sidewalk should reflect the unique vision for an area and the consumer behaviors that are desired to be created.

- The sidewalk should provide a way for retail to spill outside while inviting customers to participate in retail.
- Adequate sidewalk width is key for multiple activities to happen successfully. We recommend 15-20 feet between buildings and curb to allow for active sidewalk uses. Examples of activity happening on “active” sidewalks include:



- Dining opportunities.
- Impromptu meetings.
- Auto environments being returned to pedestrians, or rethought with pedestrians and bicyclists in mind.
- Retail activity.
- Involve the local community and local artists.
- Sidewalk improvements including materials should be appealing, practical, and utilitarian.
  - Match parklets with active businesses.
  - Combine seating and landscaping.
  - Street trees for shade.
  - Tree bases can be both ornamental and practical.
  - Utilitarian infrastructure such as bike share.
  - Protection from the elements to lengthen the “sidewalk season.”
- Sidewalk improvements should be durable, appealing, and practical. Focus on...
  - Contemporary seating.
  - Unique bicycle racks.
  - Painted or patterned crosswalks.
  - Street parking treatment (pavers, striping, trees).
  - Consistent street and pedestrian lighting.
  - Planters on sidewalks.
  - Public art installations that compliment the pedestrian experience.

The infrastructure, including complete sidewalks, should support another initiative: a focus on active ground floor uses. “Active uses” refers to situations where shoppers or pedestrians interact with built spaces even if they don’t go inside to buy a good or service. Examples of active uses include specialty and experiential retailers with outdoor spaces and/or interactive window displays, some grocery or drug stores that have outdoor displays, and even yoga studios and art galleries that invite passersby to look in and view the activities going on inside. Design guidelines that include transparency requirements and support ground floor space that is “retail ready,” even if it will not be occupied immediately by retail, will further support a vibrant environment.



By contrast “inactive uses” refer to situations where the flow of a retail district is broken so that pedestrians don’t interact with the built environment. Even active uses with limited hours may become inactive uses when they close and become “dark” during non-business hours. This is the case with office and traditional retail users that are inward facing (with respect to the project in which they are located), or those that rarely stay open after 6:00 pm. Examples include offices, medical facilities, auto repair, and retail stores without outward-facing displays. Inactive uses can be created through poor design just as active uses can be created through ingenuity (think about holiday window displays that are engaging even when stores have closed for the day). Many of the offices and even some of the traditional retail users in a downtown have either unengaging window displays or windows that have been covered up or

removed entirely, creating gaps in the pedestrian retail environment that discourage exploration and detract from commercial vibrancy of the district.

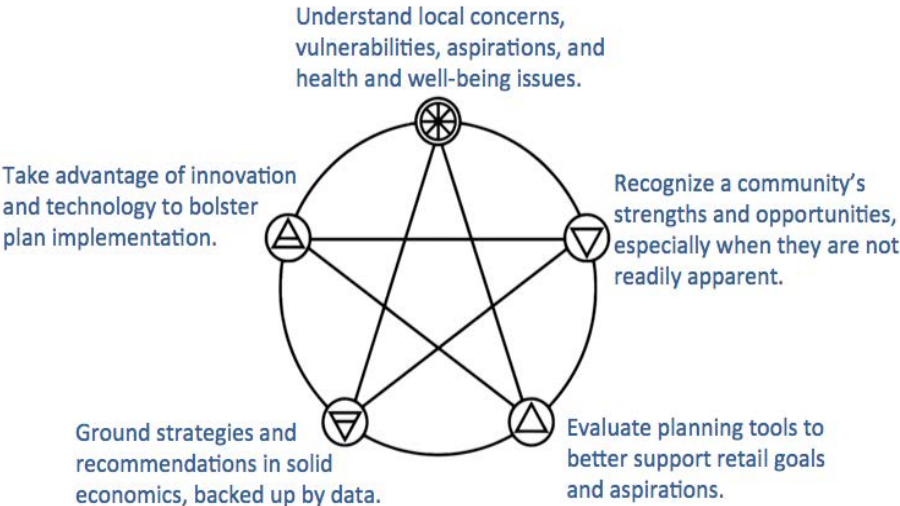


A given site’s ability to attract active uses as opposed to non-active uses is another important component of policy development for a successful retail district, though such policy interventions can be difficult. At one end of the spectrum, a city can simply signal to the market that it would like to see more active store fronts, while at the other end it could establish stringent design guidelines for the downtown that identify exactly what a property owner and/or business must do with its store frontage. An example of a middle-of-the-road approach is for a city to offer incentives, such as low-cost façade improvement loans or grants, to businesses and/or property owners that are interested in undertaking a renovation, in addition to paving the way for such projects by streamlining the approvals process.

## Retail Resiliency™

Now more than ever, retail districts have unique implications for cities that are focused on creating community and also those that rely on sales taxes as an important source of revenue. A key element of sustainability will be to create a resilient retail environment, and there are dividends to be paid from incorporating retail resiliency principles in advancement of the goal of creating and maintaining a vital and productive retail base that is economically, culturally, and environmentally sustainable, and that meets the needs of residents.

### Retail Resiliency™ Model



Greensfelder Real Estate Strategy’s Retail Resiliency™ methodology is based on both the Urban Land Institute and ARUP/Rockefeller’s resilience rubrics, and is a quadruple bottom line model (equity, the environment, economic value, and future outcomes) for integrating local aspirations, emphasizing accessibility and the

local built environment, and promoting economic stability.

- **Understanding vulnerabilities** - Understanding how shocks and stresses increase risks is the first step toward building resilience.
- **Leveraging community assets** - Identifying and leveraging existing assets will enable communities to bounce back better.
- **Redefining how and where to build retail** - Building resilience entails identifying and investing in places and infrastructure that are the most likely to endure.
- **Building a business case for new retail** - Strategies that prepare for and mitigate climate-related risks can create value and provide a strong return on investment.
- **Pricing the cost of inaction** - Recent extreme weather events suggest that the costs of not investing in resilience and risk reduction are dramatically increasing.
- **Maximizing Co-benefits** - Risk reduction initiatives and infrastructure can also include elements that enhance quality of life and economic development potential.

# Part Two – Retail as a Cornerstone of a Resilient Commercial Environment in Petaluma

The population growth over the past decade plus the extremely modest household growth going forward translates into only a modest increase in demand from residents for new or additional retail. This is particularly true for commodity retail categories. We expect there to be more growth in specialty retail in Petaluma because these uses draw from a wider catchment (the two superdistricts defined below), and household growth rates in this larger catchment is higher than in Petaluma proper. For this reason, the retail opportunity Petaluma has today is to concentrate retail activity in areas where it is most accessible, and to help existing specialty retail districts evolve to become more robust and differentiated. Creating a compelling sense of place is what will help attract customers from this wider catchment, and in turn attract new, interesting tenants, especially to the Historic Downtown, Theater District, and Warehouse District.

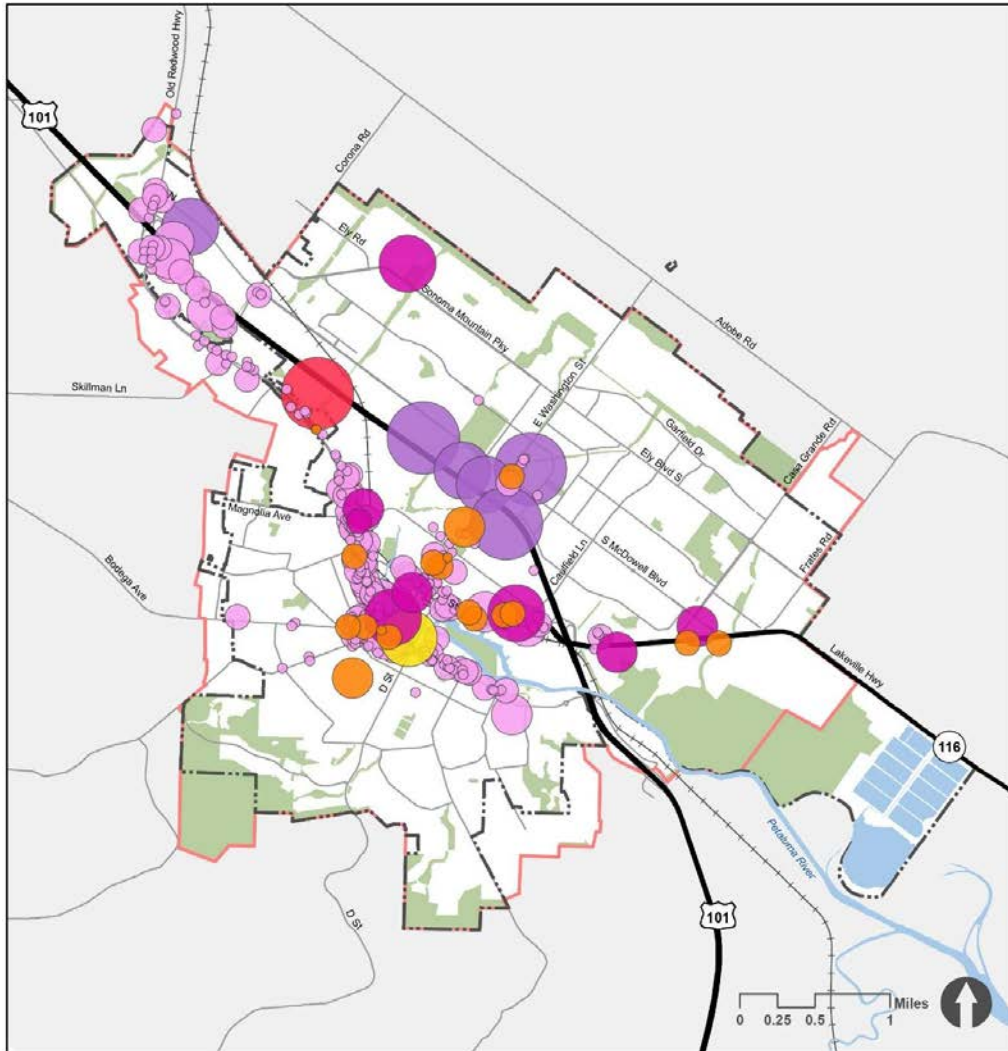
## Retail Market Overview

Strategic Economics published an Economic and Market Analysis Technical Report in August, 2021. The following analysis is partially built on Strategic Economics' findings. Some key points on which our analysis is based are:

- The two “superdistricts” that best represent Petaluma’s residential market area are: “South Sonoma County” which includes the incorporated cities of Rohnert Park, Cotati, Petaluma, and Sonoma, and “North Marin” which includes the City of Novato. ABAG/MTC estimates that by 2050 these two superdistricts could total 113,000 households, an increase of 26,000 units since 2015.
- Petaluma population growth slowed significantly over the last decade with the total number of occupied households growing from 19,932 in 2000 to 21,727 in 2010 and 22,655 in 2019.
- At 2.71 persons per HH, the 2,723 household growth equates to an approximate 7,379 population increase.
- Going forward, Petaluma could potentially capture demand for between 5,570 and 6,460 new housing units by 2050 (192-223 DU/year @ 2.71 persons/HH = 520-604 annual population growth. From a retail perspective, this growth is transparent, meaning that there is no material change to overall demand from City residents from year to year.
- With respect to daytime population, the City serves as a significant employment destination, with over 30,000 jobs (approximately 15% of Sonoma County’s jobs with nearly 80 percent of workers at jobs in Petaluma commuting into the City from elsewhere). Petaluma’s strengths are in manufacturing, health care, retail, hotels, and food services. Food and beverage manufacturing is a significant and growing segment. Petaluma has 34% of the total office space in the market area, with office-based jobs having grown by 38% between 2011-2018. The City is projected to capture approximately 299,000 - 349,000 square feet of new office space and between approximately 537,000 - 654,000 square feet of new industrial space by 2050.

- Petaluma’s primary drivers of hotel stays are tourists visiting wine country and business travelers with destinations in and around Petaluma. Petaluma currently has 845 hotel rooms (213,000 room nights at 70% occupancy), and can potentially capture demand for approximately 244 to 383 additional hotel rooms by 2050 (an additional 79,000 room nights annually).

Strategic Economics’ retail findings primarily compare Petaluma against a retail trade area consisting of the communities of Petaluma, Rohnert Park, Cotati, and Novato, however, the trade area picture is more nuanced than this finding. Residents of these nearby communities are not likely to shop in Petaluma for goods and services also available in their communities. For example, a Safeway shopper in Rohnert Park is not likely to drive to Petaluma to shop at Safeway. This example can generally be extended to



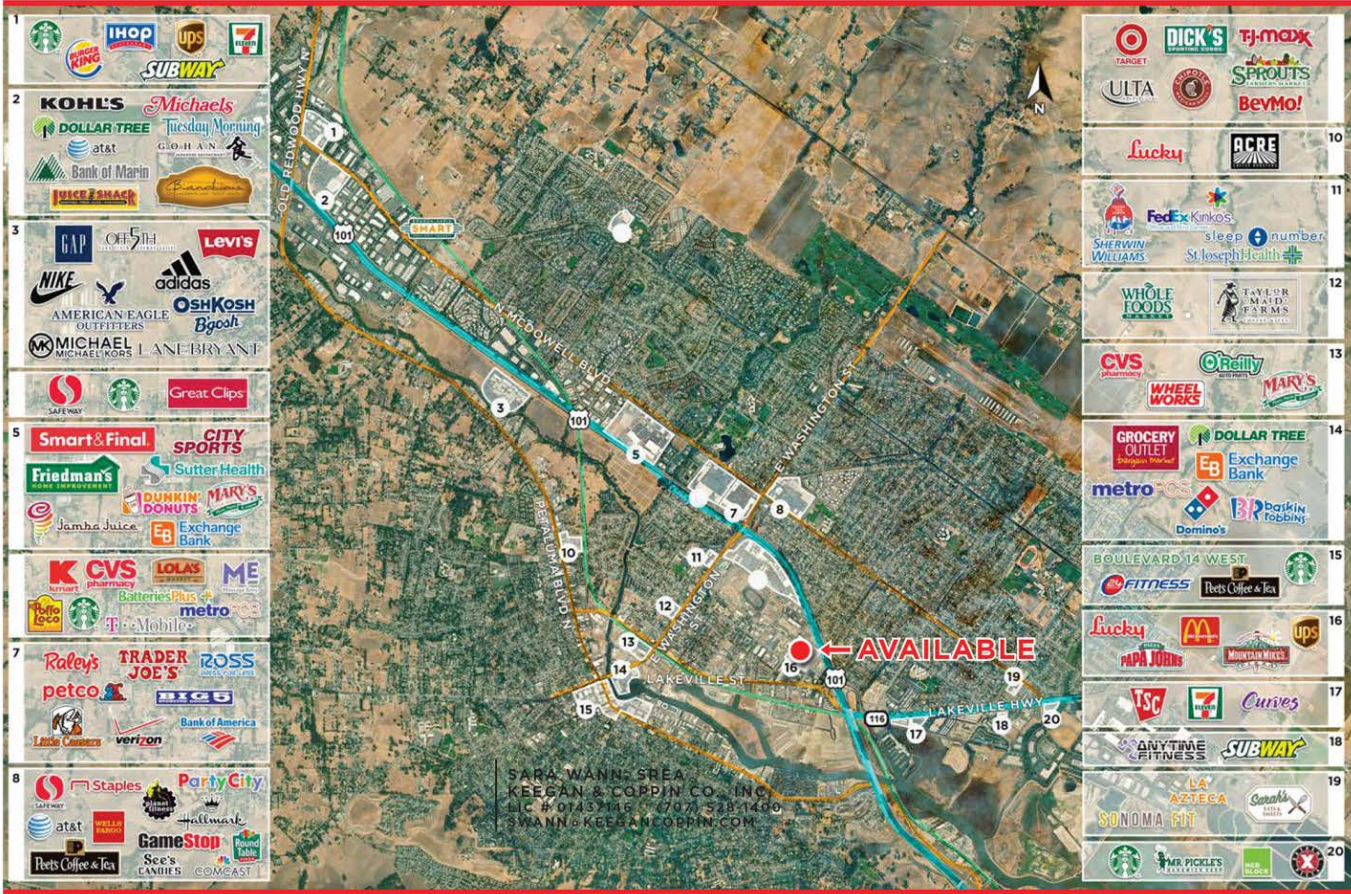
most commodities. By way of contrast, Petaluma can attract residents of these areas for specialty goods and services including food & beverage, gifts and novelties, and some apparel. In other words, Petaluma’s retail mix serves shoppers from these communities, but Petaluma’s retailers that serve a larger regional trade area are much different in character than those that serve the City’s residents and daytime population’s daily needs.

Like with most older downtowns, Downtown Petaluma represents a pre-automobile era in which pedestrian access was critical and “megastores” did



not exist. In contrast, Petaluma’s shopping centers and freestanding retail buildings constructed from the mid-20th century onward (especially east of Highway 101) are car-centric.

The map on the previous page prepared by Strategic Economics showing the distribution of retail throughout the City shows retail primarily concentrated on arterials and then in the Historic Downtown. IT is also clear that there are a greater quantity of small retail projects on the West Side, and fewer, larger projects (i.e. shopping centers) on the East Side. Most of these larger projects are occupied by commodity retailers while much of the smaller retail, particular in and around Downtown, are specialty in nature. The following aerial photograph shows the location of Petaluma’s major retail projects and each project’s major tenants:



Source: Keegan & Coppin, 2021

The overall retail health in both superdistricts appears to be quite healthy based on retail occupancy rates. The City’s retail space occupancy rate is above 95%, slightly better than Rohnert Park and Cotati, but not quite as good as Novato and Sonoma County as a whole.

## Stakeholder Feedback

A significant amount of input has been sought from the community, and also from real estate professionals. The feedback has been summarized here. Retail real estate professionals such as brokers and owners made the following comments:

- The City has changed for the better over the past 15 years, is perceived to be getting younger and more vibrant since the Great Recession, and is more desirable than any other city in Sonoma County.
- Petaluma is a nice market and good community, but a really small community that doesn't seem to draw from outside much for regional shopping.
- Some areas/stores thrive and others don't do well. The East Side and West Side are really different, almost like two separate cities. Some shopping center owners are marketing their properties for sale at this time.
- There is an opportunity to loosen use restrictions such as medical uses in retail setting (Note: While not strictly retail, non-retail uses in a retail setting drive traffic where cross-shopping then can occur, benefitting retailers and increasing taxable sales).
- Many centers are sleepy. For example, East Washington Place has Target, BevMo, and Sprouts among others, these are tenants that you can find anywhere. The Premium Outlets is not a high performing project by outlet mall standards.
- There is a need to focus on the area between East Washington Place and Downtown.
- Like San Rafael, Petaluma is not taking advantage of the River.
- It is difficult to build-out retail spaces economically because of construction costs.

Community members made the following important observations about the City's Downtown:

- Respondents identified Downtown as their #1 favorite place in Town.
- Good food and shopping, a lively atmosphere, open space, and historic character were listed as important characteristics of respondents' favorite places.
- Downtown Petaluma represents one of the City's greatest opportunities for retail-related improvements.
- There is a high level of interest in increasing retail and eateries, and in improving recreational open spaces (which could include smaller public spaces in commercial areas).
- 70% of respondents use a car to get to their favorite place, but 59% would like to bike, walk, or use transit.
- Respondents would like to see increased street life such as café's, engage service businesses, and increased housing concentrations in Downtown and around Corona Road/SMART station.

The heaviest concentration of resident-respondents live on the West Side while a much greater share of the City's population lives on the East Side. We were unable to test what the overconcentration of respondents living on the West Side might indicate, but this overconcentration raises questions including why residents from different areas of the City elected to participate or not, whether West Side residents responded in greater numbers because they feel they are more invested in Downtown's evolution due to their closer physical proximity, if East Side residents weighed in less because Downtown was less convenient to access, and if there is a different level of satisfaction with quality-of-life among East Side or West Side residents.

Focus groups were conducted by geographic area, one each for residents living in the northwest, northeast, southwest, and southeast quadrants of the City. The key take-aways from each group are summarized below:

#### 1. Northwest Area:

- The area is seen as walkable, but walkability could be improved, particularly the creation of a safe connection between the East and West Sides.
- The area's close proximity to Downtown is seen as a positive attribute, and improving the Washington Street gateway to Downtown was suggested.
- Some respondents desire further development of mixed-use projects and increased overall density.
- The conversion of some commercial back to mixed-use and residential, and rezoning the outlet mall to mixed-use were strategies cited by some respondents.

#### 2. Northeast Area:

- McDowell shopping centers are seen as convenient, but there is a desire for places that will attract and build community for everyone, and for better use of existing space such as the reuse of vacant space in the Plaza shopping center (we note that the City has a limited ability to dictate how existing buildings are backfilled provided new uses comply with local zoning ordinances).
- More local businesses and incubator/maker spaces are desired.
- The Corona Road/SMART station area is seen as an important crossroads (it reaches deep into the East Side neighborhoods but also across the freeway onto the West Side).
- The Corona Road/SMART station area is also seen as an opportunity for a mix of uses including housing and retail, and could be good location for a community gathering place.
- Youth places are needed, and the dog park that is heavily used should be protected.
- There is a desire for micro-breweries, destination retail, and artisan shops. The area around Lauganitas was suggested for new development that would compliment Lauganitas.

#### 3. Southwest Area:

- The historic Downtown, walkability, the River, and a limited number of box stores are all seen as the area's assets, however, there is a lack of multi-purpose community space.
- There is a desire for more shopping and food & beverage options, but at this time there is no clear definition of desirable commercial for Downtown.
- Downtown should have increased density including mixed-use projects, reduction or elimination of parking minimums, preservation of the area's historic character, more trees for shade, and strategies for activating McNear Park.
- Consider the Target center and the Fairgrounds as one site for planning purposes, and consider moving City Hall to this area.
- While there was a focus on Downtown, some respondents suggested developing pockets of commerce rather than centralizing retail in the Historic Downtown. (We note that retail does much better when there is a minimum critical mass of retail in one area, fostering customer draw and cross shopping; this is why we have focused on concentrating retail activity in certain nodes throughout the City.)

#### 4. Southeast Area:

- There is a lack of connection to the West Side that makes accessing West Side amenities more difficult.
- Washington Square is seen as underutilized. Suggestions include the addition of mixed-use, reduction of parking because of lack of use, addition of shade trees, and expanding the diversity of uses.
- The river is a unique/beneficial asset that could be leveraged with the addition of retail, food and beverage establishments, and housing.
- Creation of mixed-use (presumably residential and retail) at Casa Grande/McDowell, and small-scale retail to break up sub-divisions. (Again, retail performs better when it is concentrated in

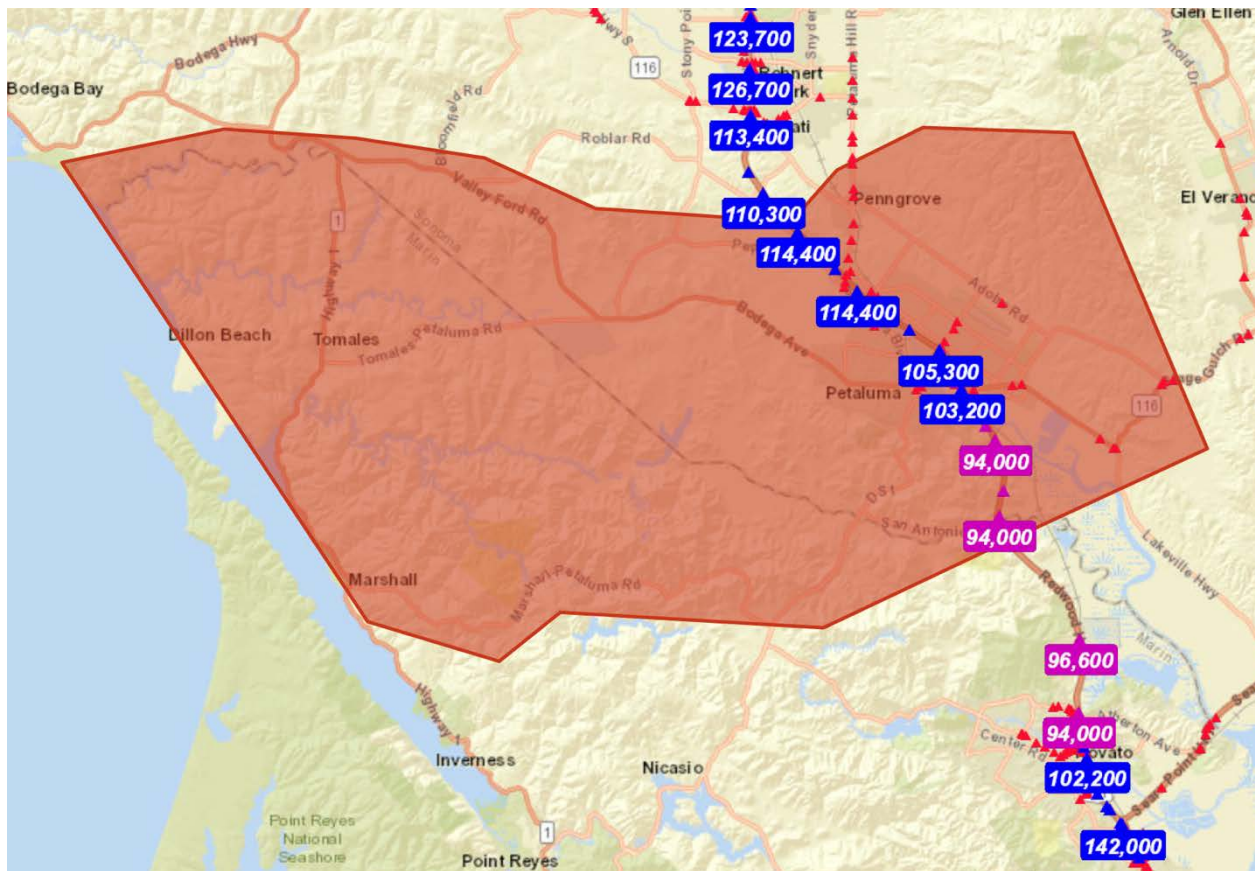


certain locations. While small convenience-oriented retail nodes can be successful, it is important to be realistic about the number that are supportable.)

- Add more gathering places and cafes, and pet friendly areas.
- Focus on the adaptive reuse of former big box retail stores.
- Roads are wide and can be dangerous to cross.
- Focus on 15-minute city principles (explained and addressed later).

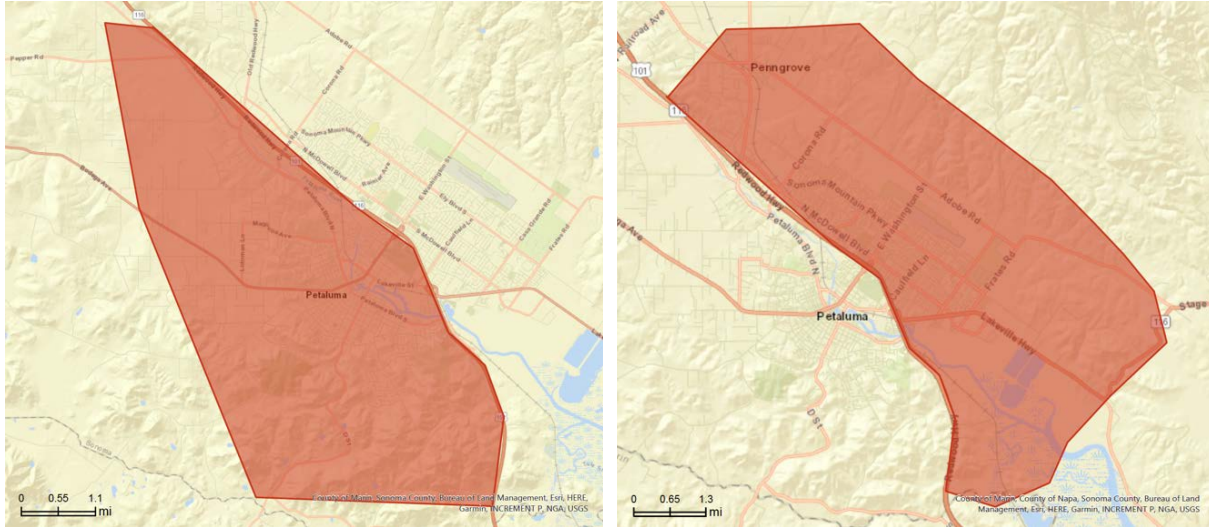
## Petaluma Trade Area Definition and Sources of Demand

Retail is always driven by demand, so the retail opportunity going forward for Petaluma depends on how the market and sources of demand are defined. For purposes of this white paper, we have defined Petaluma’s primary trade area, or catchment, as shown in the following map that also shows average daily traffic counts at various locations along the U.S. 101 freeway:



Source: Greensfelder Real Estate Strategy, ESRI

We have also looked separately at the East Side and the West Side of town so as to be able to identify any unique characteristics of one versus the other. The boundaries for these areas are shown in the following two maps:



Source: Greensfelder Real Estate Strategy, ESRI

There are a number of different sources of demand. From a retail perspective, the most important sources of demand are the residential population base and residential population growth.

The entire retail catchment area including the sub-areas shown in this chart have high incomes, a preponderance of white-collar jobs, and an older population than Sonoma County as a whole. The East Side has a significantly larger residential and daytime population than the West Side, however, the West Side is older, has higher education levels, and higher per-capita disposable incomes. Key demographic findings from the Strategic Economics study are:

- Educational attainment is higher in Petaluma (40% with at least a bachelors degree) than in Rohnert Park (29%), Cotati (31%), and Sonoma County (35%), but lower than in Novato (46%).
- Families with children declined in Petaluma, Rohnert Park, Novato, and Sonoma County from 2010 to 2019.
- In the last decade, the number of senior residents (over 65 years old) has increased significantly in Petaluma (to 18%), its neighboring cities, and Sonoma County.
- Median income in Petaluma is high (\$91,528) relative to Rohnert Park (\$71,585), Cotati (\$82,182), and Sonoma County (\$81,018), but lower than in Novato (\$101,342). Households earning “above moderate incomes” (i.e. those earning at or above area AMI and best able to afford relatively higher housing costs) account for 61% of households in Petaluma compared with 54% of households in Sonoma County.

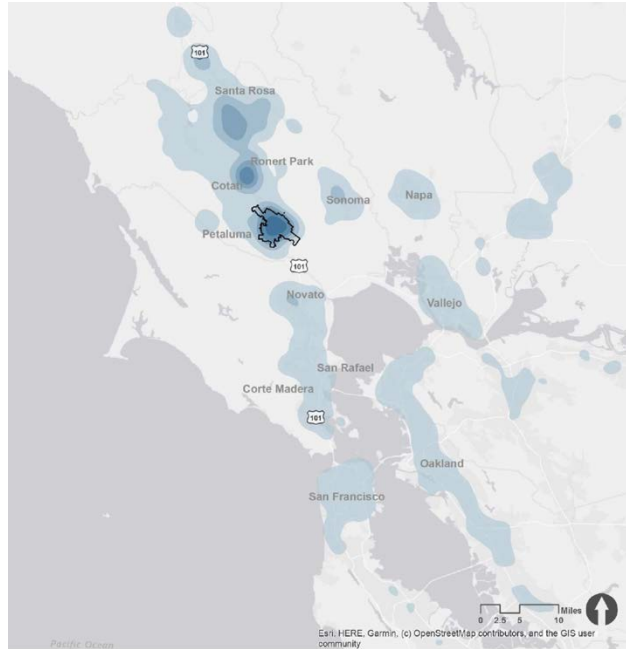
Following are key demographic characteristics for the retail catchment, the East Side, the West Side, and the City limits:

<b>DEMOGRAPHIC PROFILE</b> <i>June, 2021</i>	East Side	West Side	Petaluma City Limits	Retail Catchment
<u>Area (Square Miles)</u>	34.26	22.11	14.52	243.36
<u>Population</u>				
2010	38,964	26,562	57,958	72,434
2020	40,722	27,413	60,396	75,123
Pop per Sq Mi (2020)	1,189	1,240	4,160	309
Daytime Pop (2020)	39,365	30,168	62,728	76,941
Daytime Per Sq Mi (2020)	1,149	1,364	4,320	316
<u>Households</u>				
2010	13,944	10,846	21,743	27,427
2020	14,331	11,087	22,318	28,066
<u>Average HH Size (2020)</u>	2.84	2.47	2.71	2.68
<u>Median Age (2020)</u>				
Under 18	21.8%	19.2%	21.3%	20.4%
25-54	39.3%	37.7%	39.0%	38.4%
Over 65	17.3%	19.7%	17.6%	18.6%
<u>BA/BS or Above (25+ yrs)(2020)</u>	37.5%	45.3%	31.2%	40.6%
<u>Income (2020)</u>				
Median HH	\$103,015	\$97,589	\$101,740	\$101,394
Per-capita	\$43,961	\$51,004	\$46,385	\$47,390
Households Over \$50,000	77.6%	76.1%	77.2%	77.0%
Households Over \$100,000	52.3%	49.0%	51.3%	51.0%
Aggregate Income (MM) (2020)	\$1,790,180	\$1,398,173	\$2,801,468	\$3,560,079
<u>Ethnic (2020)</u>				
White	78.4%	83.0%	77.4%	79.0%
Black	1.5%	1.1%	1.6%	1.5%
Asian (alone)	5.5%	2.8%	5.3%	4.7%
Other (inc 2 or more races)	14.6%	13.1%	15.7%	14.8%
Hispanic Origin (SEP CAT)	23.2%	19.1%	24.7%	23.0%
<u>Occupational (2020)</u>				
White Collar	63.5%	69.8%	66.0%	66.4%
Blue Collar	17.9%	16.5%	17.4%	17.5%
Services	18.6%	13.7%	16.6%	16.1%

Source: Greensfelder Real Estate Strategy, ESRI



- As shown in this heat map prepared by Strategic Economics, nearly 80% of workers employed in Petaluma live outside the City limits, mostly somewhere else in Sonoma County (24% from Rohnert Park, Cotati, and Santa Rosa). Because of the size of the in-commuting worker base, Petaluma’s offerings are likely already communicated around Sonoma County by word-of-mouth. The following map shows the areas from which workers originate their commutes to Petaluma:
- The East Side has both more dwelling units and a higher home ownership rate, yet property values are higher on the West Side. Spending is similar in all listed categories.



In addition to demographic data, we have looked at psychographic data called Tapestry Segments. Tapestry Segmentation provides a detailed description of America's neighborhoods. It divides U.S. residential areas into 67 distinct segments based on their socioeconomic and demographic composition. This segmentation allows generalizations to be drawn about the type of people living in certain areas and also about consumption patterns. This information is sometimes useful, but is not a substitute for understanding the actual census data describing different areas.

The most frequently-occurring population segments in Petaluma are shown in the following chart with selected key characteristics for each segment:

Category	% Catchment		Typical Household Type	Median Age	Median Income
	Pop	% US Pop			
2B: Pleasantville	22.1%	2.2%	Married Couples	43.0	\$93,000
8A: City Lights	11.6%	1.5%	Married Couples	39.6	\$69,000
1D: Savvy Suburbanites	7.6%	3.0%	Married Couples	45.6	\$109,000
	41.3%	6.7%			

Source: Greensfelder Real Estate Strategy, ESRI

Following are more detailed descriptions from ESRI of these most frequently occurring Tapestry Segments:

**Pleasantville:** Prosperous domesticity best describes the settled denizens of Pleasantville. Situated principally in older housing in suburban areas in the Northeast (especially in New York and New Jersey) and secondarily in the West (especially in California), these slightly older couples move less than any other market. Many couples have already transitioned to empty nesters; many are still home to adult children. Families own older, single-family homes and maintain their standard of living with dual incomes. These consumers have higher incomes and home values and much higher net worth (Index 364). Older homes require upkeep; home improvement and remodeling projects are a priority—preferably done by contractors. Residents spend their spare time participating in a variety of sports or watching movies. They shop online and in a variety of stores, from upscale to discount, and use the Internet largely for financial purposes.

**City Lights:** City Lights is a densely populated urban market. The wide-ranging demographic characteristics of residents mirror their passion for social welfare and equal opportunity. Household types range from single person to married-couple families, with and without children. A blend of owners and renters, single-family homes and town homes, midrise and high-rise apartments, these neighborhoods are racially and ethnically diverse. Many residents have completed some college or have a degree, and they earn a good income in professional and service occupations. Willing to commute to their jobs, they work hard and budget well to support their urban lifestyles, laying the foundation for stable financial futures.

**Savvy Suburbanites:** Savvy Suburbanites residents are well educated, well read, and well capitalized. Families include empty nesters and empty nester wannabes, who still have adult children at home. Located in older neighborhoods outside the urban core, their suburban lifestyle includes home remodeling and gardening plus the active pursuit of sports and exercise. They enjoy good food and wine, plus the amenities of the city's cultural events.

The key take away is that population groups that make up 6.7% of the total US population make up 41.3% of the population in the Petaluma retail catchment. It is important to remember that these segment descriptions are generalities, and while some descriptions may or may not ring true, there are a significant number of residents who fit the socioeconomic description of each of these categories, but 58.7% of residents do not fit in one of the top 3 most frequently occurring segments.

The relative affluence of Petaluma's population lays bare an equity issue. Petaluma gained a small percent of very low-income households (3%) but lost 23% of its low-income households and 3% of its moderate-income households. Access to affordable goods and services for these groups is likely more difficult given that retail offerings tend to reflect the overall population profile which generally skews to higher incomes in Petaluma.

Key primary sources of demand other than residential population and population growth include daytime population, visitors and tourists, and people passing-through Petaluma. A few key indicators of demand are:

- Aggregate income of \$3.56 billion of aggregate income in the retail catchment.
- According to the Sonoma County Annual Tourism Report, before the pandemic, Sonoma County hosted 10.8 million overnight and day visitors, and approximately 20% of their expenditures were spent on retail and 27% on food & beverage.
- Significant pass-through traffic as evidenced by average traffic counts on US 101 in excess of 100,000 vehicles daily.

## Supportable Retail

Strategic Economics predicts that by 2050 Petaluma could command demand for between 84,500 and 108,500 square feet of new retail space, but only if the City successfully attracts the numbers of residents and workers that would be associated with new demand for housing, office, and industrial space noted in their report. Rather than looking at retail just for the City, we have looked at retail across the entire retail catchment.

We have a more conservative prediction for the City of Petaluma over the coming 10 years of between 37,000-62,000 net new square feet of retail space (after accounting for the replacement of obsolete space with new space).



Petaluma City	Conservative		Attainable	
New demand SF		37,000		62,000
Existing SF (calc/est)		3,331,570		3,331,570
Total existing and new SF		3,368,570		3,393,570
Net new acres required (0.25 FAR)		3.40		5.69
Percent Change in Total SF		1.11%		1.86%

Source: Greensfelder Real Estate Strategy

This calculation is consistent with our assumption that approximately 50,000 SF of net new retail space is attributable to housing growth that, as noted earlier, is expected to be modest. This result is consistent with retail trends that were outlined earlier: commodities are increasingly being purchased through alternative retail channels meaning that there is less demand for commodity retail space. This space is then being repurposed for other uses, sometimes retail and sometimes not. Also specialty goods are increasingly either being purchased through alternative retail channels or are being purchased from retailers with omnichannel strategies. Regardless, the overall demand for specialty retail space is not growing as rapidly as it once was, particularly in categories such as apparel.

It can be difficult to accept that there may be limited demand for additional retail space. The public is always interested in something new, and the City is always looking for additional sources of new sales tax revenues. These forces can create a bias in favor of creating new retail space, however, it's important to remember that "new" is not the same as "additional," and increasing the City's retail footprint doesn't necessarily result in improved retail performance.

Redesigning, repurposing, rebuilding, and replacing existing space can still create the same hype as a new project. Turning functionally obsolete space into modern, functional space designed for today's retail environment can lead to increased sales per square foot, and by extension incremental sales tax revenues. Furthermore, while actual remodel costs can be high, reuse can be less expensive overall because land acquisition, entitlement, and site work can take less time and cost less than for a new project.

Retail projects, even "dead" ones, are usually very well located and convenient to access. In other cases, all or part of a retail project should just be repurposed for another use, and the excellent location attributes these projects have only make that redevelopment more practical. Sometimes this redevelopment might include a retail component while at other times it might not.

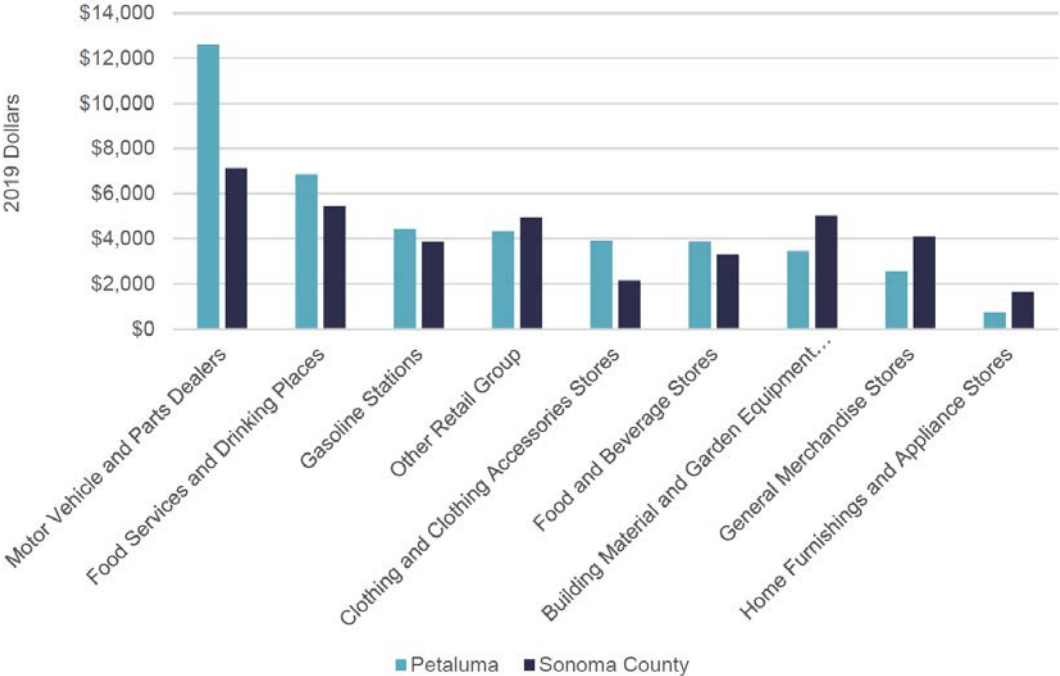
One might ask, "What happens if we let our retail space go, what will happen down the road?" We again reiterate that retail has significantly changed as commodities in particular are frequently acquired through non-bricks-and-mortar channels. Also, Petaluma is expected to have a relatively modest rate of residential growth over the coming 30 years. Repurposing of functionally obsolete space into space that is designed for today's retail needs is the more likely scenario going forward. Capacity constraint, or there not being enough space to accommodate demand, is a problem of abundance. It's probably best for new retail to "follow demand" rather than to hold onto obsolete or moribund space in the hopes that it might someday again be needed. Furthermore, as space is converted to other uses, people working and living in those converted spaces represent new, incremental demand for the retail that remains, and in time for new retail, creating a more sustainable and resilient retail ecosystem in Petaluma.

In another twist, in today’s environment, we often see retail space being used more and more frequently for non-sales tax generating uses such as medical services or tutoring centers. There is often a desire to “protect retail” by not allowing these uses, sometimes with the misguided assumption that “real retail” will fill these spaces if non-traditional retail uses are prohibited. Highest and best uses evolve over time, and that’s not necessarily a bad thing.

Trusting the market is key. Consider, for example, a grocery-drug shopping center in which an orthodontist, urgent care, tutoring center, and law or accounting office have set up shop. While it’s true that none of these uses create sales tax revenue, their customers still represent economic activity. Moreover, video stores, stationary stores, 5-and-10-cent stores, Radio Shack, and the like no longer exist to fill the space that in many cases was built in a different era. The parent who brings a child to an orthodontist appointment or tutoring session at a traditional shopping center in turn will shop at the other businesses in the center while that kid’s teeth and math skills get straightened out. In other words, it keeps the project “in the flow” and the sales per square foot of the remaining retail businesses will be higher than they would be absent the non-retail uses. The full storefronts also create vibrancy which otherwise would be lost, and this vibrancy is key to maintaining a healthy commercial environment.

## Business Attraction and Specialty Retail Districts

The following table shows taxable sales per household for Petaluma compared with Sonoma County.



Sources: California Department of Tax and Fee Administration 2021; Strategic Economics, 2021.

Petaluma does better than the County in the specialty categories of Food Services and Drinking Places, as well as Clothing and Clothing Accessories. This data correlates with the generally higher incomes found in Petaluma as compared with other nearby areas, and that Petaluma has potential as a destination draw for certain specialty retail uses.

While we do long-term projections for the amount of new retail space that might be expected to be built, that space generally does not get built in equal annual installments. Instead, retail is often built as a project such as a shopping center, or in other cases as free-standing stores such as big box or grocery stores. For this reason, the community can expect that there will be years with no new retail space being built and other years in which a large amount of space is built. Also, there may be steadier growth in some categories than in others. For example, it is reasonable to assume that smaller food service and drinking places will be built at a steadier annual rate than large grocery stores or home improvement stores which open new outlets infrequently.

It is important to be realistic about what retail can be attracted. Today, Petaluma has 2,853,425 SF of retail space on the West Side and 1,471,721 SF of retail on the East Side. Petaluma has ample

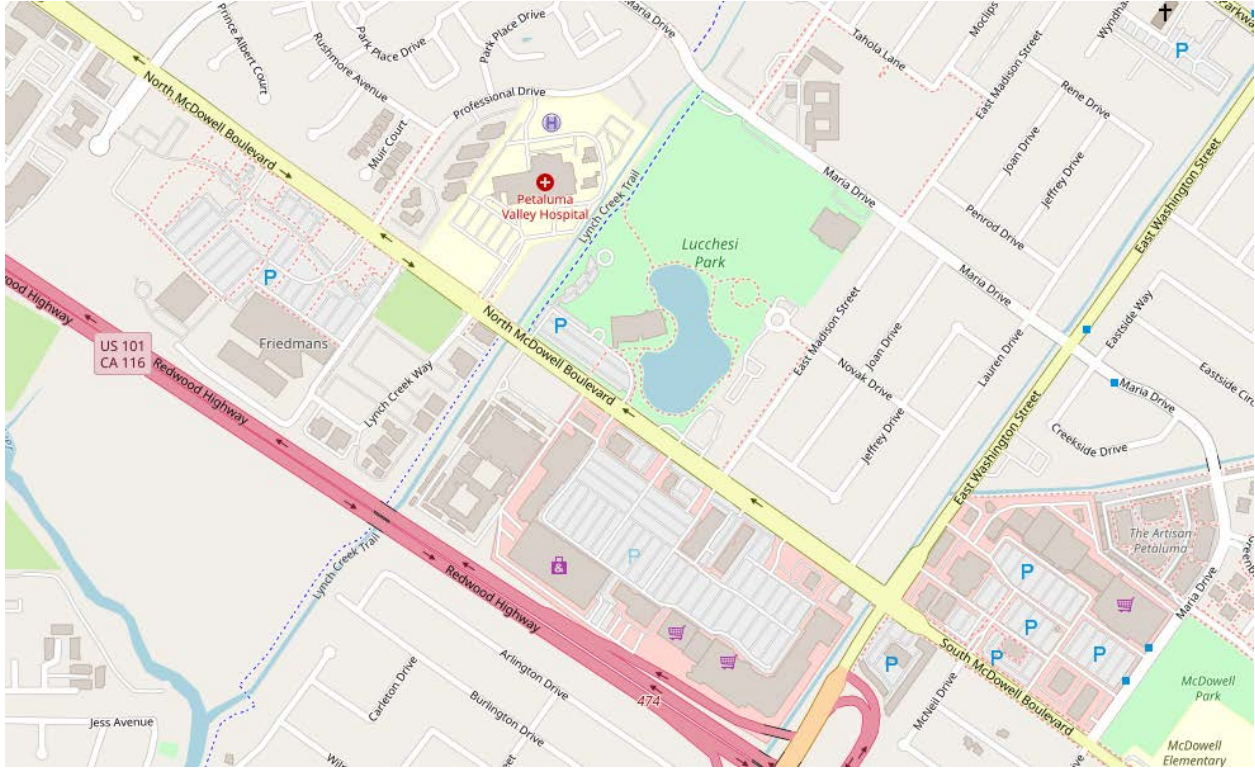


commodity retail to meet its residents' daily needs, and yet more in close-by Rohnert Park, Novato, and Santa Rosa.

The opportunity Petaluma has today is to create yet more robust specialty retail districts. A specialty retail strategy could include a district on the West Side geared for residents and tourists alike through economic development programs aimed at expanding the City's specialty retail catchment. On the East Side, which is generally more suburban and auto oriented in form, a specialty retail district could be aimed principally at residents with the goals of addressing the more

urban sensibility expressed in community outreach meetings, creating community, and overcoming a lack of a place.

On the East Side, the highest profile retail intersection is the corner of East Washington and McDowell. Washington Square and the Plaza shopping centers are located on the southeast and northwest corners respectively. Not far to the north, Deer Creek Village is located across McDowell from Petaluma Valley Hospital, and Lucchesi Park and the Petaluma Community Center.



Source: Greensfelder Real Estate Strategy, Open Street Maps

Generally, gathering spaces are walkable districts with pedestrian friendly attributes such as wide sidewalks, good storefront transparency, outdoor merchandising and seating areas, and amenities such as shade trees, benches, bike parking, etc. There are several options for carving out a town-square area on the East Side:

1. **Create Gathering Space from Excess Parking:** All of these shopping centers are parked to traditional suburban standards of 4-5 stalls per 1,000 SF of leasable space. Petaluma's code now calls for 3.33 stalls per 1,000 SF of leasable retail space, and one stall for each 2.5 seats of restaurant space. Required parking could be recalculated and excess parking could be repurposed to create community gathering space. It would also be likely that a landlord would want to reconfigure some shop and food & beverage space along with the creation of this community gathering space. Nothing is perfect, however, and restrictions against changes to common areas (where multiple approvals from tenants and property owners are required) will complicate the sort of shopping center reconfiguration contemplated here.
  
2. **Designate Undeveloped Space as Community Gathering Space:** Deer Creek Village had a significant undeveloped parcel that was recently approved for multi-family housing. This parcel could have been designed as a community gathering space. While not at the corner of McDowell and East Washington, this parcel had easy proximity to another Petaluma community gathering space: the Community Center. It's also worth noting that there are use restrictions on some of Deer Creek Village's pads facing McDowell. These restrictions have only exacerbated a somewhat challenging leasing market, and the empty space consistently communicates to potential shoppers that Deer Creek Village is not the sort of vibrant environment they might want to visit. A rethinking of these street-facing pads in conjunction with improving some site attributes



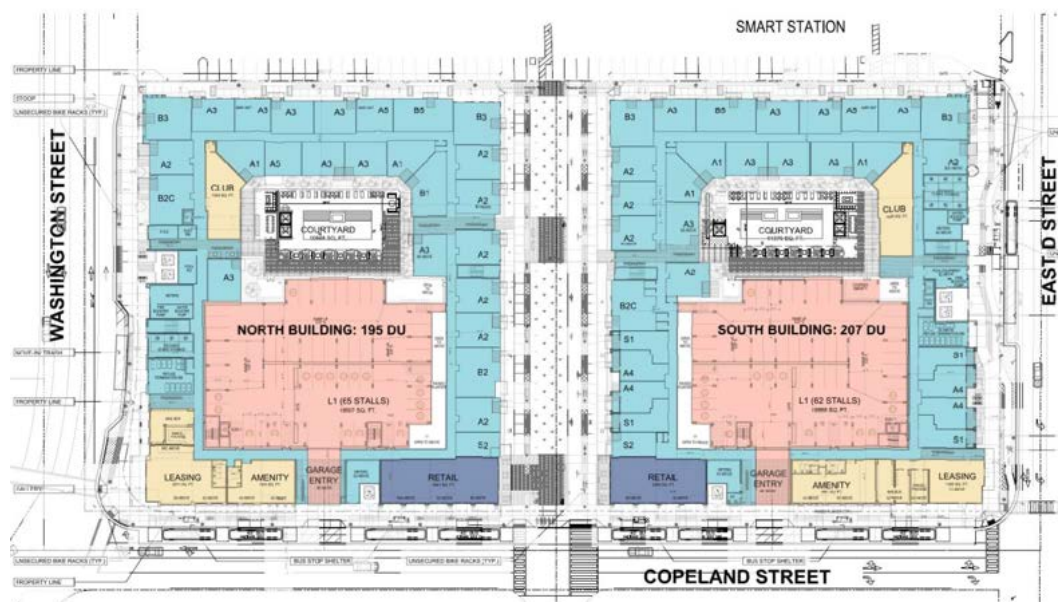
like sidewalk widths may provide another opportunity to create some more compelling community gathering space as compared with what presently exists.

- 3. Repurpose Vacant Big Box Space as Community Gathering Space:** The former K-Mart has been empty for some time, but is now rumored to be in discussions for a new user. With good proximity to East Washington and McDowell and at over 80,000 SF of building space plus appurtenances, this space offered plenty of land could have been repurposed as a gathering space with shops and restaurants. This space would not be ideal given that it is set back from McDowell and the larger tenant co-tenancy (e.g. CVS, etc.) does not compliment a specialty retail environment. There are also some of the same restrictions as noted above for Washington Square.

The purpose of these illustrations was not to advocate for a specific solution, but rather to show that there are opportunities near or at a central location on the East Side to create some critical mass of gathering space that would include some of the key attributes needed to combine a sense of place with retail. These opportunities need to be identified and planned for well in advance of changes actually being made. The first steps in identifying future opportunities will be discussing potential opportunities with property owners, and evaluating restrictions that run with the land.

The key attributes that must be included in a new town square district on the East Side are pedestrian friendly, wide sidewalks (i.e. complete sidewalk amenities), retail that encourages strolling and lingering (i.e. outdoor displays and seating areas), and a comfortable separation from traffic that promotes a feeling of safety. There are certainly other sites on which this could be accomplished such as at the somewhat controversial Corona Station area or at Petaluma Station.

Petaluma has two opportunities to create retail nodes in SMART station areas, at the existing Petaluma Station on the West Side, and at the planned Corona Station on the East Side. Preliminary site plans for each project are shown below.



The historic Petaluma Station on the West Side is located three blocks on the east side of the D Street bridge and the Historic Downtown, Theater and Warehouse Districts. While we have cautioned

against small, free-standing retail around Petaluma, we think that there is an argument for a small amount of retail in this location. This project represents an opportunity to create a bridge between commercial



districts on the other side of the River and existing retail in the neighborhoods between the Petaluma Station and the Fairground. The project as proposed has a central axis to capture foot and bike traffic coming from the west, so the design has been sensitive to the site's relationship to the area in which it is located. Between 5,000-10,000 SF of specialty retail in this location, playing off of the historic nature of the station immediately to the north of the site, could compliment these retail bases.

As noted in the stakeholder feedback, quite a few residents identified Corona Station as an opportunity for mixed-use development comprised of commercial uses (most likely retail and some small office spaces), multi-family housing, and a community gathering space. This site has been controversial, and previous development proposals have not been approved. The site is already at a natural crossroads (Corona and North McDowell)

that pulls from both the East and West Sides of town, and the potential for a SMART station at this site only underscores its natural evolution as an important central destination



intersection. Given the need we have noted, as seconded by residents in stakeholder feedback, for a specialty retail area and community gathering space, we would encourage this area be considered along with the others noted above for the creation of a community gathering space that includes commercial uses and gathering places.



The main take away is that there are opportunities to create a central place on the East Side, not for a downtown to compete with Petaluma's Downtown, but for a gathering place with an appropriately sized specialty retail component that can foster a greater sense of community closer to where a majority of the City's population lives. Strategically located and appropriately sized specialty retail on the West Side can serve to expand the boundaries of the Historic Downtown, and Theater and Warehouse Districts, and draw nearby neighborhoods into their ecosystem.

The Petaluma River represents an underutilized opportunity to compliment and amplify the unique environment found in the Historic Downtown, and the Theater and Warehouse Districts. The River has the potential to unify development along its east and west banks, for recreation, and to compliment an increasingly robust inside-outside environment as evidenced by an increasing number of restaurants with outdoor seating, and stores with outside displays. As the River is leveraged as an amenity, the potential for increased sales potential for businesses and sales tax potential for the City has the potential to pay off handsomely.



Cities from San Antonio to Des Moines to Denver (shown, left) to San Luis Obispo have each seen a significant payoff as they have incorporated their rivers as a focal area and as a point of differentiation for their downtown districts.

Finally, there is a nexus between retail and manufacturing the City could target. Covid-19 has given a giant boost to ghost kitchens and ghost food halls. A ghost kitchen gathers several (or more) chefs cooking in different styles to offer meals for takeout and delivery. A ghost food hall would add limited seating to that model, but fall short of being a true food hall. The area around Lauganitas was already cited by one community outreach group respondent for this sort of facility, and other facilities could be encouraged elsewhere. Not only do ghost kitchens and ghost food halls foster entrepreneurship, but they have the ability to become beacons, further differentiate Petaluma as an interesting food destination, and offer some resiliency as Covid-19 adaptation strategies continue to evolve.

## Retail and Mixed-use, Connections, and Redevelopment

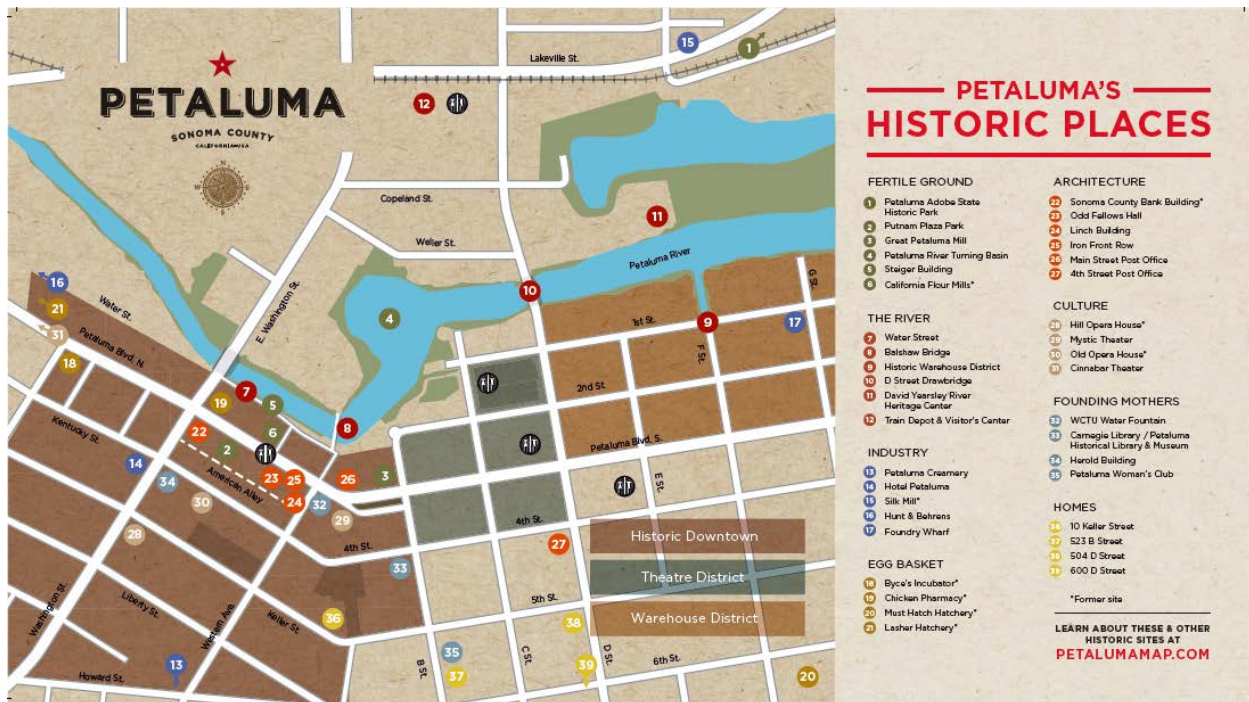
Incorporating retail into mixed-use projects can be quite complicated, especially when there is retail on the ground floor and other uses above the retail, the configuration that many people think of when mixed-use is discussed. Having uses side-by-side (i.e. horizontally integrated mixed-use) is much easier to design and execute. Both approaches have the potential to create the sense of place and vibrancy that is often the goal of such projects.





Mixed-use can also be more organic. For example, Downtown Petaluma, and Warehouse District (1st Street south of D Street) are both examples of mixed-use districts. Both are organic and varied, and for that reason both are interesting. The Theater District redevelopment built by Basin Street Properties is an example of mixed-use further activating Petaluma’s Historic Downtown. Mixed-use projects and districts are not ends in and of themselves; they are better looked at as projects or areas that compliment and perhaps activate denser commercial and residential areas.

Strategically located projects can also serve other important functions. The Theater District is the bridge between the Historic Downtown and the Warehouse District. The Warehouse District is one of Petaluma’s most interesting neighborhoods with a dynamic mix of uses including residential, retail, warehousing, and food & beverage. The area has evolved in an organic way, and is interesting for its authenticity as well as for its mix of uses. The Theater District provides physical connectivity, but visitors appear less likely to patronize the Warehouse District than the Historic Downtown. As observed earlier, there is also an opportunity for these areas to connect with the depot site on the other side of the Petaluma River, and with some neighborhoods with interesting character extending east along D Street.



These areas have retail that tend to be more specialty than commodity in character, so adding wayfinding and introducing an awareness campaign about the Warehouse District could create an experience whose sum is greater than its parts, particularly for visitors, and promote greater cross-shopping between districts, and entice residents and visitors alike to stay longer and spend more.



There are certainly some tired retail centers in Petaluma that could stand to have new life breathed into them. The key when thinking about this sort of repurposing is to understand how a project fits into the overall retail eco-system. River Plaza (formerly known as Golden Eagle Shopping Center) is a key property for connecting the Downtown with the other side of the Petaluma River. If it were to be redeveloped, extending Downtown’s sense of place to River Plaza would be a key consideration, even if other uses such as residential were to be introduced. By way of contrast, Town and Country Shopping Center could have non-retail uses added to the vacant land immediately north of the project, and potentially could be the subject of a large-scale redevelopment without significantly upsetting the overall retail eco-system in the City. We also recommend a specific focus on integrating areas near the Historic Downtown and the Warehouse District into the overall Downtown ecosystem.

## Maintaining a Small-town Feel

Petaluma has a balancing act that it needs to consider: maintaining its small town feel while at the same time expanding its economy. From a retail perspective, the opportunity to expand is directly related to expanding specialty retail offerings. In order to support this expansion, a focused campaign to attract tourists, Wine Country visitors in particular, will likely be required.

Following are some of the key elements to expanding retail while maintaining a small-town feel:

1. **A Champion for the District Is Key:** Retail evolution does not happen overnight, so having a champion that can keep a consistent vision alive over the long-term. While political support is key, champions are generally not politicians as [re]development of these districts takes longer than a 4-year political cycle.





2. **Think Residential:** Retail is demand driven, and as discussed the most important source of demand is the resident population. Even in a situation where increasing specialty retail by attracting visitors is a goal, the focus on increasing the residential population will further support demand for retail and also create a more authentic environment by virtue of being patronized by both visitors and local residents.
3. **Honor the Pedestrian:** Honoring the pedestrian is not just a safety imperative, it is also key to vitality on the street level.
4. **Extend Day into Night:** It's important to have a variety of uses that are open for extended hours beyond typical retail closing times presently observed in Petaluma. Consumers are easily trained, so locals and visitors alike will quickly learn that an area closes at a certain time, or, alternatively, that an area is the place to go after hours.
5. **Manage for Change:** This point is particularly key, especially for retail. We are in an era in which the built environment needs to adapt both in aggregate size and also type of facility to accommodate how retail has evolved. The one constant is that retail will continue to change, so building space that will be resilient as space requirements evolve will be key.

Many projects emphasize place-making and creating the new 'living room' for the community with gathering areas, open spaces, wide sidewalks, and landscaping and shade trees. The goal is to allow shoppers to do what they want on their own terms. Moreover, a senior retail leasing executive notes, "It's critical that we are providing something in retail that the consumer can't get by clicking a mouse from his couch." It is also just as important to reduce friction from the shopping experience. Consumers have choices, so difficult to find retail areas will be at a disadvantage as compared with those with clear awareness campaigns and wayfinding.



We feel that it is important to circle back to one key Retail Resilience concept as it relates to maintaining a small-town feel: factoring in the price of inaction. Petaluma exists in a competitive ecosystem. Retailers are always looking at where they can generate the highest return on the investment required to open a store, and they

always have more than one option. Other nearby cities are developing and implementing economic development and place-making strategies of their own, essentially competing for attention from retailers looking to open new stores. Finally, a deliberate balance needs to be made between maintaining a small town feel and growing so much that that feel erodes or so little that the retail ecosystem erodes in favor of other nearby options. Nostalgia for "how things used to be" before the resident population or the number of out-of-area visitors grew can also color attitudes about if and where to grow. There are a few things we know for certain: population will continue to increase, and demand for goods and services will be met somewhere. We tend to focus on the cost of making changes, whether they are redevelopment costs or increased government operating budgets. We also need to make sure that we factor in the cost of inaction, or taking into account the opportunity cost and externality cost to the community of choosing not



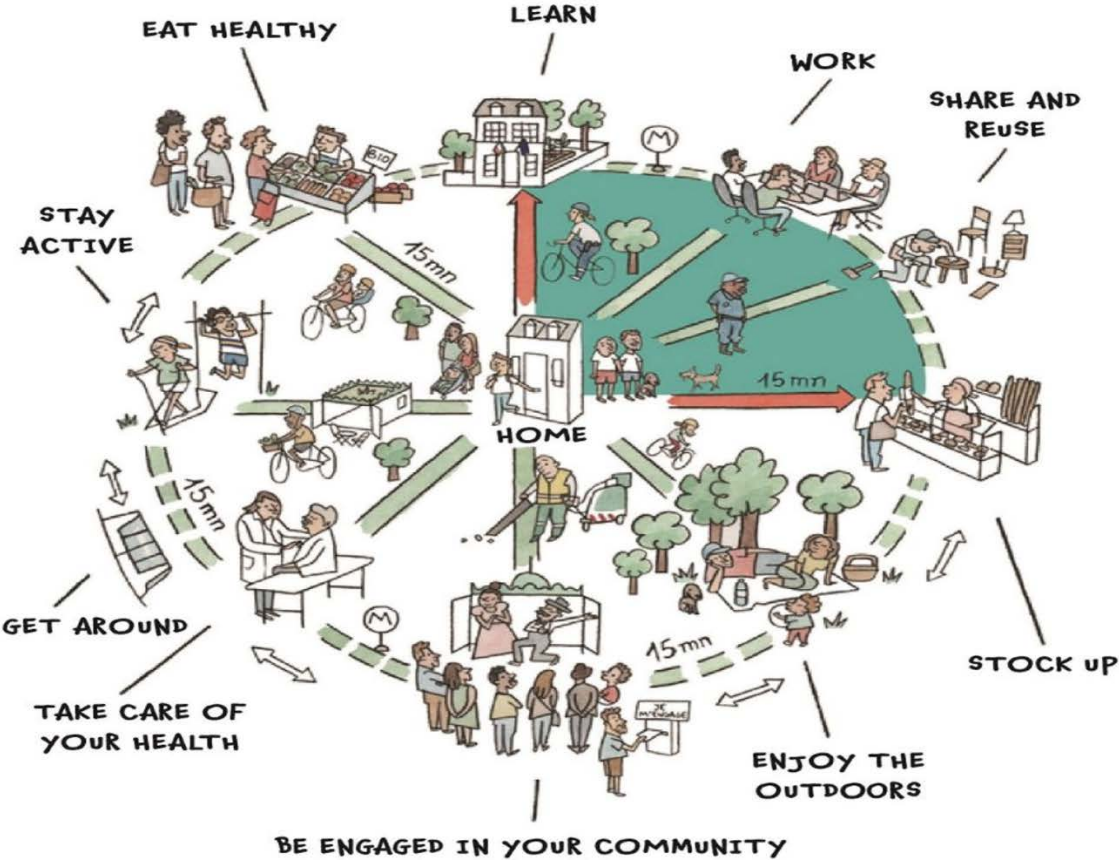
to act. For example, the cost to the community of not integrating the resource represented by the Petaluma River into the Downtown ecosystem, or not creating a community gathering place on the East Side should be weighted against the cost of pursuing these initiatives.

## Fifteen Minute Cities, Project Evolution, and Retail Pruning

A “15-minute neighborhood” has an approximately ¼-mile radius, or the distance someone can walk in approximately 15-minutes. Université Paris Pantheon Sorbonne and ETI Chair Professor Carlos Moreno describes a 15-minute City as a world in which residents could meet all of their daily needs on foot within a 15-minute walk from their homes. Rather than Euclidean zoning in which there are distinct shopping, working, and residential districts, a 15-minute city would have networks of neighborhoods each featuring these elements.

“It is time to move from city planning to urban life planning. This means transforming the urban space...in order to offer this quality of life within short distances, across the six essential urban social functions: living, working, supplying, caring, learning and enjoying.”

The following graphic illustrates the idea of a 15-minute city:



Petaluma in general, but in particular those areas built during and after the 1950's, has been planned as an auto-dependent suburb, however, there are still some important take-aways from the larger idea of a 15-minute city, and also some areas in town that come closer than others to resembling a 15-minute city. For example, the areas in and around the Historic Downtown, and Theater and Warehouse Districts are areas in which one can live, work, shop, and play. There are opportunities to extend this sort of walkable environment such as horizontally-integrated mixed-use projects, and complete sidewalk and traffic calming strategies to the north in the direction of Town & County Shopping Center.

Thinking strategically about retail as it relates to the concept of 15-minute cities presents an opportunity to contribute to the goal of reducing greenhouse gas emissions. In Petaluma, even though there is an express desire to access retail by alternative means of transportation, retail trips are generally made by car. As noted earlier, retailers tend to congregate in the same projects and districts so the catchment created by their assembled critical mass is larger. For this reason, these areas tend to be centrally located, in the gravity direction, and not on the edges of the trade area. As Petaluma continues to grow, the aggregate vehicle miles traveled from the edges of the City to these retail projects increases. Concentrating commodity, daily-needs retailers in nodes means that multiple shopping needs can be accomplished in one vehicle trip thereby reducing the number of trips and VMT from the edges of the growing community.

Petaluma's auto-oriented shopping centers are typically located along major thoroughfares, with a design emphasis on vehicle access and visibility. Most are comprised of single-story multi-tenant buildings surrounded by large parking lots. Shopping centers have the potential to provide focal points for the City and its neighborhoods, but in Petaluma this is rarely the case. As applications are made for new approvals at these projects, there is potential to look at what sorts of improvements will help each project become a more memorable place such as imparting a positive impression shaped by high-quality architecture, dynamic and thoughtfully designed public spaces, or the creation of a street environment that is comfortable and welcoming to pedestrians. The key here is to think about the longer term and what conditions are "within reason;" this sort of evolution will take time because of tenant approval rights and economic factors.

As Petaluma continues to mature, some of its neighborhood centers may transition to new uses. Others may retain their retail function but have the potential to become more pedestrian-oriented places, with better linkages to the residential areas around them. High-quality urban and architectural design will be required, with an emphasis on making centers more compact and walkable. City streetscape improvements will help reinforce and facilitate this transformation.

It is possible to incorporate this sort of evolution into planning guidelines. For example, the City of Fremont has a retail pruning policy incorporated into its General Plan:

“Support the adaptive reuse, renovation, or redevelopment of older shopping centers or commercial uses that are no longer viable due to changing

market conditions, demographics, or retail trends. Such reuse or redevelopment should be planned to help sustain other retail centers in the City, provide opportunities for more intense



housing and civic or group assembly uses while ensuring that residents continue to have convenient access to goods and services...recognize that some 'pruning back' of existing retail space may be needed in Fremont."

With 15-minute Cities, VMT reduction, and retail pruning in mind, the City (with the consultation of retail professionals) could identify where micro-town centers should be encouraged. Adopting a retail pruning strategy over time will encourage the redevelopment of weaker retail projects. Some retailers may not relocate and reopen, but more viable retailers will find homes in what will be fewer but more robust projects. By allowing this sort of redevelopment, not only could the City activate previously underutilized land for housing, office, or other needs, but these "micro-town centers" would be more interesting and resilient over the long term for residents' shopping needs.



Such a strategy could help strike a balance between serving residents where they live, reducing vehicle miles traveled, not diluting project size back to the point that they do not have the mass needed to draw customers, and

promoting an environment in which cross shopping creates sales lift that is beneficial to retailers' sales and to the City's sales tax receipts.

## Retail Objective Design Standards

The purpose of these objective design standards for ground floor retail in mixed-use buildings is to ensure maximum opportunity and flexibility for retail uses as part of a mixed-use development. A number of real estate and facility criteria should be outlined for architects and developers to consider so that new (or remodeled) ground floor retail space can accommodate active uses both in the near term and/or in the future. Actual specifications will vary from project to project.

Early attention to these elements will add value for all stakeholders: retailers, owners/developers, municipalities, consumers, and residents. It is recommended that a retail development expert peer-review early design development drawings with the following factors in mind so that changes that will positively impact the leaseability, usability, and the retail space's economic value can be incorporated. Project-specific specifications should be incorporated into a tenant work-letter and cross-referenced with the A&E team and the project pro-forma prior to project marketing.

The areas for which objective minimum standards should be developed include façade and corners design, building to street design, clear height, floor loads, wall placement for permanent walls, appropriate bay depth, customer and back-of-house access, minimum utility requirements based upon anticipated uses, exhaust venting, grease traps, remote equipment placement, life safety requirements, loading and trash facilities and truck path-of-travel, exterior lighting, signage program, and parking (shared if appropriate) program.

# C19 Impacts and Implications, and Retail Planning Going Forward

Property and sales tax revenue bases have been affected as retailer operations were abruptly interrupted by Covid-19. Some cities are contemplating significant service cutbacks and layoffs as a result. Decisions that have never been contemplated before need to be made and policies need to be set, often with little guidance. In today's Covid-19 world, what makes consumers feel safe, acknowledging inequities for residents and business operators of varying economic/financial capabilities, and business operators being aware of and having the ability to adapt new procedures in rapidly changing circumstances are key. As we have already experienced and are like to experience again, reopening will be "more like a dimmer than a light switch," and the dimmer will go back and forth as we adjust to changing circumstances.

While most business operations began returning to normal as this White Paper was being finalized in October, 2021, there will be lasting implications for all land uses from the impacts of COVID-19.

As we have reiterated frequently, retail is demand driven. A new normal is going to reflect in what public environments consumers are comfortable. Open-air retail districts and projects will be favored over enclosed malls, and many will avoid crowds. There are categories like movie theaters where it's unclear if there will be a return to our former patterns or if this crisis is the inflection point for how we will operate. Chains that are not financially robust will have issues and we expect some even financially sound companies never to reopen shuttered stores. In fact, strong retailers have used the pandemic as an opportunity to reposition or close weaker stores, lock in desired locations as they become available, and extract concessions from owners.

Brick-and-mortar retail has been significantly impacted by online penetration, primarily in commodity but also in specialty categories. During 2020, online went from 18% to 26% penetration with E-commerce sales in 2020 approximately +40% over 2019 (which was +14% over 2018). That rise equates to 6 years of growth at pre-Covid-19 rates in 6 months. Specialty retail, especially food and beverage, made strong headway during Covid-19. The 2021 forecast is for 6.2% growth in core retail sales.

Contactless pickup and on-demand contactless delivery are a new normal that are here to stay.

Customers are not abandoning physical stores, but increasingly using them as a convenience fulfillment



mechanism, particularly for commodity goods. The result has been retailers increasing operational integration across channels.

Our current predicament, with much of our normal retail ecosystem recently shut down and additional waves of the pandemic possible, has highlighted vulnerabilities for cities, stakeholders, retailers, and property owners alike. For

example, when retailers were unable operate, many (particularly financially unstable chains, and independent operators) went out of business. Consumers had difficulty sourcing goods and services, and



this phenomenon continues today in the form of price and wage inflation and supply chain disruptions. Finally, communities saw significant fluctuations (some up, others down) in the sales tax revenue on which they depend to provide city services.

Retail Resilience™ (described earlier) addresses just these sorts of issues. The model facilitates the creation of sustainable planning, economic development, project, and place-making strategies and recommendations for communities and stakeholders where integrating a successful commercial component (office, retail, etc.) is a desired outcome. Applying these principles results in more dynamic, flexible, and adaptable retail strategies and projects, and economic development and place-making successes, providing long-term benefits while meeting diverse stakeholder needs. A Retail Resilience™ approach to Covid-19's suggests the following strategies:

- Articulating best practices for restarting businesses taking into account expected future waves.
- Providing resources to navigate disorganized labor markets and supply chains.
- Identifying in-store practices to address (testing, cleaning, handling of merchandise, F&B practices).
- Physical distancing strategies and practices.
- Attracting new businesses to open where others may have failed.
- Rethinking failed, obsolete, or dark retail properties that are unlikely to reopen.
- Identifying community assets that can be harnessed and co-benefits that can be leveraged.
- Developing policies to support retailers that are experiencing supply chain shocks.
- Acknowledging inequities for residents and business operators of varying economic/financial capabilities.
- Planning strategies today for when quarantines are lifted, and for the longer term. These strategies would look for co-benefits such as resources for retailers, more equitable access to goods, and increased tax revenues.

Immediate strategies should focus on community needs such as equity/access issues for residents needing goods and services, and providing tools to retailers to help them withstand business closures. We recommend that the City's Economic Development staff create resources to help retailers understand how to market when restrictions and closures are in place, create protocol for messaging consistently between agencies, retailers, and property owners, reassuring consumers about the attention being paid to public health and safety, and how business owners can best navigate disorganized labor markets and supply chains.

Which retailers, projects, and districts will be resilient and even flourish, and which will fall by the wayside? Retail districts that are differentiated from the all-too-common homogenous projects with similar chain tenants and that are more appealing to explore and linger in are more likely to prosper. Longer-term strategies include promoting Petaluma's points of differentiation to potential new businesses who might open where others have failed, creating an ombudsman who can help new businesses navigate the approval and permitting process as well as understand how and where to access needed resources such as local job posting boards or contacting utilities. Finally, being realistic about the inevitable retail footprint contraction that has been sped up by Covid-19 will allow Petaluma to be ahead of some of its neighbors who might continue to believe that trends will reverse or who try to expand their overall retail footprint.

Finally, with some help realizing their competitive advantage, local retailers may be better positioned to withstand future shocks than their chain competitors. Local operators know their customers. They are in



a unique position not only to capitalize on having their ear to the ground in a way that chains do not, and they are in a position to lead our shopping districts' recovery. Fostering the community of local retail operators is an important Economic Development function. Consider the following:

- Cities, owners, and retailers have a near term opportunity to focus on housekeeping, thinking about customer flow, and evaluating whether current strategies are aligned with expectations.
- We will return to longer-term trends (we drove after the 1973 oil embargo, and flew after 9/11).
- We will need to evaluate how different consumer group's behaviors have changed and adopted new technologies, and which of our newly adopted shopping habits will prove to be temporary or permanent.