

Online Chapter

Commercial District Gentrification

By Joshua Bloom

Gentrification, a word used pejoratively by some, and to describe the apotheosis of revitalization by others, has typically denoted the upscale evolution of a commercial or residential area.

After years of slow, incremental economic improvement – often accompanied by the influx of a few trend-setting businesses and residents – some commercial districts suddenly find themselves to be red-hot markets for new development. As real estate prices begin to increase more rapidly than in the past, speculators begin flipping properties to make a quick profit, and this is accompanied by accelerated turnover of retail tenants. Gentrification is directly associated with the increased value of real estate in a given area.

In theory, we should want real estate values to increase: rising property values indicate the rising economic outlook for a commercial district and its desirability as a place to invest. James Kunstler in *The City in Mind* (1993) argued that cities need gentrification – otherwise, they would increasingly become host to ever higher concentrations of poverty. Without affluent people living, working and shopping in the centers of American towns and cities, they could not ultimately revitalize.

Two byproducts of increased values frequently include the upscale evolution of commercial tenants and of housing (whether newly built or rehabilitated). As some existing businesses and residents find themselves unable to afford the increased values, they are displaced by new arrivals. It is frequently this phenomenon that sparks economically complicated and emotionally charged differences of opinion.

Cities change constantly: Boston's North End, once the subject of Jane Jacobs's keen ob-

This online chapter is intended to be read in conjunction with Chapter 9: Improving Commercial Dynamics from Revitalizing Main Street: A practitioner's guide to comprehensive commercial district revitalization.

© Joshua Bloom



servation in her pivotal *The Death and Life of Great American Cities* (1961), holds tenuously to its Italian-American heritage. But its fame as Boston's Italian neighborhood is just the latest of a long line of new arrivals that began with the neighborhood's settlement in the 1600s. For most of the 19th century, the North End was a neighborhood of Irish immigrants. Later, Jewish immigrants settled there. Many people see the North End as historically Italian, but Italian immigrants began arriving only in the early 20th century. Today, the neighborhood has become famous – especially among tourists – for its Italian restaurants and it is experiencing stresses of its own success, which some would describe as gentrification: as Italian eateries have multiplied, the number of neighborhood-serving retail businesses has decreased.

Gentrification in commercial districts is often associated with the arrival of national chains. Chains are usually interested in commercial districts at the mature end of any revitalization timeline: places with high foot traffic and strong demographics. Chains bring with them two characteristics that can change the local landscape:

- Homogenization. When gentrification is marked by national chains, the commercial district's sense of place may start to erode. As national chains become more prevalent, the district may gradually lose its local character and become a victim of its own success.
- Rising rents. National chains usually can accommodate significantly higher rents than local independent businesses – and they often require long-term leases. The arrival of one national retailer can quickly shift the rent structure for other nearby properties, as neighboring landlords assume they can command the same rents. This shift first pushes out local businesses that are not drawing the same traffic as the chain and not generating the same sales volume. In the short term, this can result in higher vacancy rates throughout the district.

When “gentrification” means “national chains,” the best path can be different for different places. In commercial districts that serve a local market, chains may be desired by some residents for their convenience or because chains represent known quantities. In some retail categories (e.g., pharmacies), a chain may be the only option for filling a necessary retail need.

Chains can also create their own customer traffic, by virtue of their recognized brands – and that additional traffic can have positive effects on nearby businesses: as more customers come into the commercial district, they encounter other businesses along the way. For many communities, this cross-pollination has led to a mutually supportive economic system where chains generate additional traffic for the independents – and the independents' sales increase sufficiently so the businesses can afford the increased cost of space. [See Westfield sidebar.]

For commercial districts where tourism is an important factor, gentrification by national retailers may have an adverse effect on the local economy. Visitors may not find the place as appealing if it contains all the same stores and restaurants that they can find at home.

A number of communities have turned to innovative regulations to control chain growth in their commercial districts, typically by restricting the number of “formula businesses” permitted in a designated area. (Formula businesses are defined differently by each community that has adopted such an ordinance.) Towns as diverse as Port Townsend, Washington; Ogunquit, Maine; Coronado, California; Port Jefferson, New York; and San Francisco, California, have each used local regulation to limit chain development. (Sample ordinances can be found at www.newrules.org.)

Separate from the chains issue, commercial districts evolve: new businesses open and existing businesses close. Sometimes, when business that has become a local institution closes, it sets off the gentrification alarms. The closing might be related to rising property values, but it could equally be a function of a retiring owner. If it's the former, Main Street's role is to help the

Local Flavor, Local Identity

Ventura, California. Downtown Ventura, California, used to be a paradise for people who love to collect old stuff, with a cluster of more than two-dozen antiques, vintage goods, and thrift shops. In 2006, fewer than a handful remained. The stores closed as speculative property owners anticipated the potential arrival of higher-paying national-brand tenants. The short-term result was a spike in downtown vacancies.

Faneuil Hall Marketplace. Boston's Faneuil Hall Marketplace, the first “festival marketplace” when it opened in 1976 in a formerly abandoned public market, once hosted 172 businesses, most of which were local. In 2006, the Marketplace counted 84 businesses, the majority of which were national chains (which usually occupy a larger footprint than independent businesses). Faneuil Hall Marketplace has ranked as Boston's most popular visitor

destination for decades. But in recent years, gross sales have declined. Some attribute the decline in sales to the surfeit of national chains and Faneuil Hall's loss of local identity.



© Wallyl Gobetz

existing business adapt to a changing marketplace so it can remain profitable. If it's the latter (retirement or another life or relationship-based change), Main Street can work to save such institutions, much as it would work to save a historic building. It can do this by assisting the current owner through a business transition.

If increasing a commercial district's value is the goal, and gentrification is the tipping point, there are various tools and incentives the Main Street program should offer or support:

- Promote local ownership. Ownership is the single best defense against gentrification. The Main Street program, acting as a nonprofit developer, may be able to acquire a commercial building – or it may be able to assist a business owner in financing a real estate transaction.
- Business assistance programs. Helping your business owners improve their skills so they can run their operations better, improve marketing efforts, or even add e-commerce to their business model, will strengthen their competitiveness and, ideally, their bottom lines. Consider adding succession planning to your menu of trainings – so business owners who want to retire or change careers can explore available options as they regard to disposing of the business.
- Provide market information. By providing information about a changing market to local businesses, you can help them adapt their business practices and product mix to meet new customers' preferences.

For example, a liquor store in a gentrifying neighborhood of Washington, D.C., found that by expanding its products to include more expensive and a wider variety of wines it was able to reach more affluent customers and meet a local demand. In a few years the owners found wine started to outsell spirit sales.

- Reduce costs for businesses. Where possible, create tax abatement programs or subsidized rent structures for Mom & Pop businesses. Shopping malls frequently rent space to independents on much more favorable terms than their credit tenants – when the mall manager deems it important to retain such businesses. Another incentive could include offering percentage leases. The landlord would ask for a base rent plus a percentage of the volume over a given amount. And don't overlook the fact that a space may be too large for a business. Helping your business owners find a space that better meets their needs could help them rent a smaller space for less money.

Should your commercial district become the next hot spot, you don't have to abandon your Main Street program's development goals. While "historic preservation" works to manage change in the built environment, Main Street (particularly in the area of economic restructuring) can work to manage change in the local economy so the progress is locally driven and sustainable.

CASE STUDY

Westfield, New Jersey: Balancing Chains with Independents



Westfield, New Jersey (pop. 29,000), has effectively sewn a quilt of national chains and local businesses. The community had ideal downtown spaces, a nearby affluent population, and a location far enough away from the nearest shopping mall. In the last 10 years, it has successfully recruited The Gap, Gap Kids, Banana Republic, Bombay Company, Williams Sonoma, Limited, Starbucks, Jos. A. Bank Clothiers, Victoria's Secret, Ann Taylor, Talbots, Nine West, and Panera Bread Company.

The additions have not come without controversy, but their commercial success is indisputable. According to Downtown Westfield Corporation's Executive Director Sherry Cronin, the chains have brought customers who have benefited all downtown businesses, especially the independents. Of Westfield's downtown retail (i.e. non-office) space, national or regional chains make up 41 percent of retail tenants, by occupied square feet; the remaining 59 percent houses independents. The organization believes it has achieved a mix that works for Westfield and is working to maintain the blend. With a very low vacancy rate, Main Street can focus on helping independent businesses plan for succession and think about ways to further refine its clusters.

Photo Credit: Bill McLeod