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Memorandum

Draft

To: Downtown Long Beach Alliance (DLBA)

From: Michael J. Berne
President, MJB Consulting

Re: Executive Summary Memorandum – Draft #1
Downtown Long Beach Retail Strategy

Date: August 24, 2021

In the summer of 2020, the Downtown Long Beach Alliance (DLBA) hired Progressive Urban Management Associates (P.U.M.A.) to spearhead a strategic planning exercise and a P.B.I.D. renewal effort. As a sub-consultant to P.U.M.A., MJB Consulting (MJB) was tasked with devising a retail[1] market strategy for Downtown Long Beach (hereafter referred to as the "study area").

In order to arrive at its findings and recommendations, MJB undertook the following scope-of-work:

[1] For the purposes of this analysis and memorandum, "retail" is to be understood as any business that accepts customers on a walk-in or subscription / membership basis, as opposed to appointment-only. It includes, then, traditional shops that sell goods as well as providers of personal (and some professional) services, food and beverage establishments as well as entertainment venues. A bank branch would be considered a retailer, as would a tattoo parlor or a coffeehouse.

- Virtual and in-person tours of the study area (including guided tours by DLBA staff)
- Assessment of competing business districts and shopping centers
- Conversations with landlords, developers, brokers, merchants as well as other key stakeholders
- Extensive research of secondary-source material, including past and present media coverage
- Profile of customer base in terms of demographics, psychographics and spending habits
- Understanding of DLBA's current role and capacity as it relates to retail

The following summarizes MJB's findings and recommendations.

Findings

* Downtown Long Beach should have struggled mightily amidst COVID-19, given how much its retail relies on submarkets – like office workers, conventioneers and cruise-ship passengers, for example – that effectively disappeared for months on end. It also sits adjacent to Orange County, where pandemic-related restrictions have been comparatively looser.

Yet while merchants had to contend with drastically reduced foot traffic and landlords were often forced to defer rent without immediate recourse, Downtown appears to have avoided the "extinction-level event" that some had feared in spring 2020.

According to CoStar data, retail vacancy in the Downtown was just 5.4% in the first quarter of 2021, compared to the historic level of 5.1% and the suburban rate of 5.5%. Generally speaking, business districts with less than 10% vacancy are considered healthy.

There were permanent closures that probably would not have happened otherwise, but at the same time, certain businesses (e.g. Michael's, Pie Bar, Recircle Homes, etc.) did exceptionally well, and the number of empty storefronts remain limited at Shoreline Village, Pike Outlets and the East Village.

This level of **retail resiliency** can be attributed to a number of factors, including (but not limited to):

- The residential density both in and surrounding Downtown Long Beach, at a time when most people were staying close to home and spending in their own neighborhoods;

- The expanded capacity of outdoor dining that was possible due to already-pedestrianized corridors (e.g. The Promenade) as well as street closures (e.g. along Pine St);

- Payback Protection Program loans and other government relief;

- Technical assistance from the DLBA and other business-support nonprofits;

- The willingness and ability of many landlords to abate or defer rents as well as restructure leases.

* Of course, the pandemic is not over and signs emerged in late July that the Delta variant has slowed the return to indoor dining. Even when fears start to recede again, there is the **danger of “new normal” thinking**, that is, the assumption that the consumer behaviors brought on by the extraordinary circumstances of the last eighteen months will endure.

Some degree of uncertainty on this score is unavoidable. The future of traditional office space is especially murky, and even if the “hybrid” workweek does become more common, the impact on Downtown retail might not ultimately turn out to be exactly as expected. For example, working (eating and caffeinating) at home twice per week might free employees to buy lunch and coffee on the days in the office. If the desks and cubicles themselves are full throughout, overall spend might actually increase.

On the other hand, leisure travel will almost certainly revive – the only question is at what rate. But when it does, the sub-districts that historically relied on such traffic will do so again. For instance, Shoreline Village might have enjoyed renewed popularity among Long Beach residents during the pandemic, but as visitors grow in number and locals are able to roam more widely, it will likely revert to the tourist-heavy attraction that it has always been.

In terms of specific retail categories, demand in some was clearly “pulled forward” by the pandemic and will probably decline in the coming years. After all, how many times can one refurnish a living room or outfit a home office? Other lockdown-era acquisitions, however, will become the proverbial gift(s) that keep on giving. Pet-oriented retailers, for instance, will be enjoying an extended stretch of buoyant sales as a result of all of those adoptions in 2020.

Food and beverage is the category that has been the most radically transformed. The pandemic only exacerbated the challenges that have been facing full-service, sit-down restaurants in recent years, and has reinforced the trend towards quick service (or “fast-casual”) formats, even among acclaimed chefs and restaurateurs – the “Shack Shack-ification” of dining, as it were.

The industry is in danger of overcorrecting, however. One sees this, for instance, in the rush among many larger chains and franchises to pivot to more suburban models emphasizing “off-premise” dining. While delivery and pickup is no doubt here to stay, providing a useful source of incremental revenue, dine-in (including outdoors) will always be the primary driver, particularly in more experiential urban settings.

* That said, other impacts of the last eighteen months are considerably more complex and far-reaching. Obviously, there are the concerns about rising crime and vagrancy, but also, on a deeper level, the pandemic has likely accelerated the **pace of change** in ways that feel ever more discomforting to certain consumer submarkets.

Downtown Long Beach has never felt particularly cohesive. Its streets and sub-districts vary widely in function and atmospherics, with transitions that are often quite abrupt and not easily navigated. From Pike Outlets to the heart of Pine Ave. From Pine Ave to City Place. From City Place to the East Village. But with the pandemic, the experience has become even less intuitive and more disorienting.

Consider that in addition to the 1st Street Transit Mall and the pedestrianized Promenade, visitors now confront additional street closures (i.e. Pine St between 4th and 5th and the Promenade between 3rd and 4th); an ongoing patchwork of construction zones; new forms of "micro-mobility" (with users who do not always respect the laws of the road); renamed subdistricts; confused delivery drivers; and so on.

For tried-and-true urbanites, much of this is probably quite exciting, and for younger generations, it is not necessarily experienced as chaotic – or, such chaos might even be understood as a good thing. But for older folks, for motorists, for out-of-town tourists (once they return) and for many others, it can all serve to reinforce a sense of disorder that is off-putting if not downright scary – and that contrasts sharply with suburban alternatives like 2nd & PCH.

This has worrisome ramifications for retail mix and potential. Irrespective of one's personal values and sensibilities, dismissive attitudes towards drivers and snarky reactions along the lines of "O.K., Boomer" ignore the critical importance of those sub-markets to certain businesses and the wisdom of market diversification in a Downtown of this scale, not to mention the dissonance with calls for inclusiveness in other realms.

* That said, COVID-19 was / is not the only threat facing retail in Downtown Long Beach. The surfeit of development projects in the last decade or so, combined with the requirements of the 2012 Downtown Plan that they include street-level storefronts, delivered **new inventory** on the district's periphery.

On the surface, this is not necessarily a problem. Growing Downtowns, especially ones with healthy rates of storefront vacancy, *need* new inventory. Challenges emerge, however, when retail space is added to streets where there was little to no precedent for it, and at prices which could only be sustained by a narrow range of tenants.

This was and is most notable in the relatively new "West Gateway" sub-district, where the 20,000 sq ft in the IMT Gallery 421 project took years to (mostly) fill and where the 6,000 sq ft in the AMLI Park Broadway remains empty at street level, but also on the edge of the East Village, with the 2,600 sq ft in The Alamitos.

At the same time as this new square footage was materializing, the zone of retail vitality in the heart of Downtown was noticeably shrinking, both along Pine Ave moving north from Broadway and the Promenade (within City Place) heading north from the Ross Dress For Less.

Furthermore, the inventory will continue to expand in the years ahead, with at least 50,000 sq ft of additional retail space currently under construction, in projects like the Broadway Block (16,000 sq ft), Shoreline Gateway (7,500 sq ft), Aster (7,200 sq ft) and Ocean Center (7,000 sq ft), among others.

Generally speaking, storefronts in new projects today are priced higher than second-generation bays in existing buildings, topping out at $3.00 per sq ft NNN (or $36.00 per sq ft NNN on an annual basis) – nearly 15% more than the $2.62 / $31.44 average for Downtown Long Beach in 1Q '21.

An added complication is that, with food and beverage comprising the lion's share of tenant demand, many of these new spaces will require scratch-built kitchens, including costly hoods and grease traps, which developers might be neither willing nor able to help fund.

Leasing professionals active in Downtown Long Beach point to overly ambitious pricing as the main reason for storefront vacancies that persist. In other words, there is a disconnect between what landlords with available spaces are demanding and what tenants interested in the opportunity can or will pay.

This theoretically limits the ability of Downtown to fully leverage the entrepreneurial energy that has spiked during the pandemic. New business applications in the retail sector rose 54% in 2020, according to data from the Economic Innovation Group, but start-ups need a relatively affordable platform from which to launch.

* So how will all of the existing and future availability be absorbed? Even before the pandemic, the range of tenants interested in resurgent Downtown and Main Street settings had narrowed – reflecting broader trends in the retail industry – with an overreliance on food and beverage, fitness studios and other kinds of personal services.

It has become now received wisdom in real estate circles that these are the only kinds of businesses capable of surviving the threat posed by e-commerce. "Why," it is often asked rhetorically, "would anyone head to a store for something they could buy with a click of the mouse from the comfort of her couch?"

At best, this is a lazy oversimplification, and at worst, just plain wrong (see inset box below). Just because we as consumers *can* do something does not necessarily mean that we *will,* or that businesses will blindly follow our whims. Indeed, examples abound of Downtown and Main Street districts with still-diversified **retail mixes** that include presumed lost causes like apparel and footwear.

E-COMMERCE: THE ELEPHANT IN THE ROOM

E-commerce is often cited as the main reason why so many iconic retailers have disappeared or disappeared in recent years. Yet while undoubtedly a factor, there was nothing stopping these so-called "legacy" brands from creating robust online channels of their own.

More commonly, the fault lies in leveraged buyouts from private-equity firms, which saddled such companies with heavy debt, precluding them from making the sorts of digital and brick-and-mortar investments needed to keep pace in an omnichannel world.

COVID-19 provided another such excuse, though for those chains that have entered bankruptcy or liquidated entirely since March 2020, pandemic-related shutdowns were just the final nail in the proverbial coffin, an event that forced the issue but did not cause it. Indeed, according to Coresight Research, their roughly 8,800 store closures nationwide in 2020 trailed the 9,900 that shut their doors *in 2019*.

As for e-commerce, its long-term impact is probably overstated. Even amidst COVID-19, when there was supposedly going to be "ten years of online growth compressed into six months", the channel's market share (including curbside and in-store pickup) rose by just 2.2% percentage points, from 11.8% in the first quarter of 2020 to 14.0% in the fourth – compared to the 1-2% average of previous years. In other words, after nine months of shutdowns, capacity restrictions and public-health fears, brick-and-mortar still accounted for 86% of retail sales.

Table 1. Estimated Quarterly U.S. Retail Sales: Total and E-commerce[1]
(Estimates are based on data from the Monthly Retail Trade Survey and administrative records.)

Quarter	Retail Sales (millions of dollars)		E-commerce as a Percent of	Percent Change From Prior Quarter		Percent Change From Same Quarter A Year Ago	
	Total	E-commerce	Total	Total	E-commerce	Total	E-commerce
Adjusted[2]							
4th quarter 2020(p)	1,476,952	206,666	14.0	0.5	-1.2	6.9	32.1
3rd quarter 2020(r)	1,469,769	209,251	14.2	12.1	-1.1	7.0	36.6
2nd quarter 2020	1,311,345	211,595	16.1	-3.8	31.9	-3.5	44.5
1st quarter 2020	1,363,543	160,414	11.8	-1.3	2.6	2.1	14.8
4th quarter 2019(r)	1,381,381	156,391	11.3	0.6	2.1	3.9	16.5

Estimated Quarterly U.S. Retail Sales, Total and E-Commerce, 2020
Source: U.S. Department of Commerce
Note: Does *not* include expenditures on food service.

While the conventional wisdom holds that consumers stopped buying clothes and shoes during COVID-19 because they were no longer working or socializing in public, the other conclusion to be drawn from such behavior is that these are categories in which we prefer to shop in-store, for a variety of reasons, and that without that option, we cut back severely on such purchases. Indeed, with true fashion (as opposed to basics[2]), there would seem to be a natural ceiling to online market share.

Even, however, if one were to concede that online market share will continue to rise, the reality is that an online-only business model is simply unsustainable. Due to the exorbitant costs associated with last-mile shipping, customer acquisition and returns, retailers consistently *lose* money on the channel[3] – even Amazon, which, despite its economies-of-scale, has long struggled to turn a profit on e-commerce, with cloud computing ("Amazon Web Services") the division that truly drives its bottom line.

It is largely for this reason that many "digitally-native" retailers – Warby Parker, Indochino, Casper, UNTUCKit, even Amazon itself -- have started in recent years to build robust networks of physical locations, as a clicks-*and*-bricks strategy is increasingly viewed in the industry as the only way to rationalize the aforementioned costs and make the overall numbers pencil.

The "clicks-and-bricks" trend is part of a larger phenomenon known as "direct-to-consumer" (DTC), whereby more retailers, partly in response to the decline and disappearance of traditional department stores, are forgoing the wholesale channel and choosing instead to distribute their product through a combination of branded stores and digital portals.

A number of established brands – like Levi's, Nike and Coach – have been shifting in this direction in recent years, joined by other emerging and/or niche labels with enough capital to open their own flagships. And for ones without such deep pockets, the public and/or non-profit sector can seed and nurture other entrepreneurial "platforms".

What's striking about Downtown Long Beach is that, even as stakeholders evince skepticism if not outright dismissiveness about the future of brick-and-mortar in these categories, there are not one but two separate sub-districts with stable if not thriving collections of soft goods retailers.

Independently-operated boutiques catering to proto- and neo-hipsters have clustered for years along 1st Street in the East Village Arts District, generating reasonably healthy sales levels that are estimated here (on the basis of current occupancy costs) in the range of $250 to $300 per sq ft.

They have managed to co-exist during this time with a similar concentration just five or so minutes away, along 4th Street in Retro Row, with local brokers confident that there is enough tenant demand to sustain both. If anything, there is reason to wonder whether still more inventory will be needed to preempt rent inflation and relocation.

Meanwhile, Pike Outlets has been effectively repositioned by SITE Centers (fka DDR) as an outlet mall. Starting with the arrival of a 48,000 sq ft RH Outlet in 2013, it has become a leading example of this particular shopping center format's move into the

[2] Interchangeable commodities like tube socks, white tee-shirts, underwear briefs, etc.

[3] Some high-profile ones such as Wayfair did finally manage to turn a profit in 2020 due to the extraordinary circumstances, though the underlying cost structure has not changed, nor the longer-term forecast for profitability.

dense urban core following decades of favoring remote locations outside metropolitan areas.

Anchor stores at the 393,000 sq ft property had reportedly been generating sales well in excess of projections prior to the pandemic, in 2019, and while a few larger vacancies remain, all of the most visible spaces are still filled with well-known brands, including a 25,000 sq ft H&M, a 20,000 sq ft Nike Factory Store and a 13,000 sq ft Forever 21 Red.

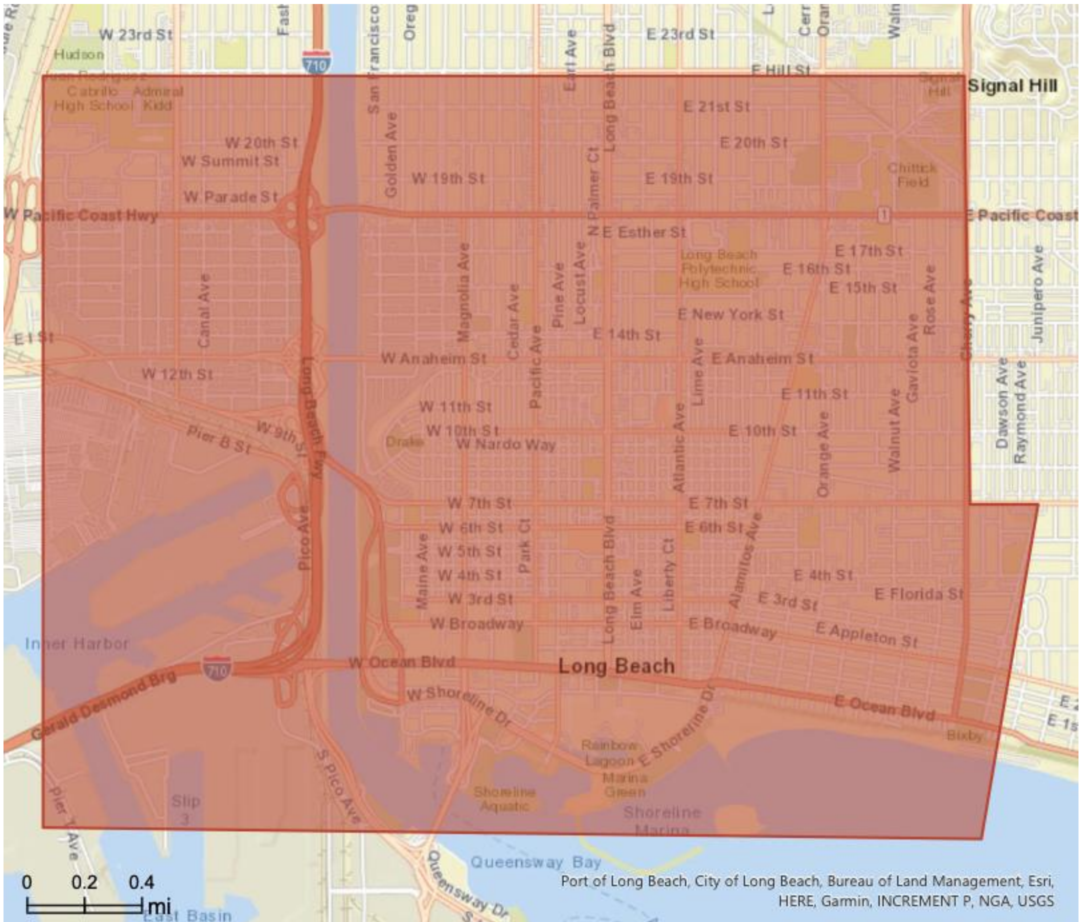
Somehow, many stakeholders seem to forget about these two sub-districts when bemoaning the lack of and poor prospects for traditional shopping in Downtown Long Beach, often fixating instead on the long-ago closures of a handful of mall staples along Pine Ave in the 2000's. Most Downtowns, though, are desperate for even a fraction of what this one appears to take for granted.

- The blind spot with regard to Pike Outlets is especially puzzling, and more than a little discomforting, for it appears to stem from a thinly-veiled dismissiveness towards kinds of retail that attract those with more modest incomes and/or less cosmopolitan tastes, seeming to run counter to the otherwise well-intentioned push for **inclusivity**.

This is not only apparent with regard to Pike Outlets. Stakeholders seem to have nothing positive to say either about the recently-renovated VONS in the East Village or, for that matter, the various conveniences along Long Beach Boulevard, including no fewer than four drug stores, two of them large-format.

The reality is that even with all of the market-rate residential growth in the urban core this past decade, it is the discount-oriented retailers, the ethnic supermarkets and the restaurant franchises that cater most directly to the overwhelming majority of Downtown Long Beach's trade area and customer base.

The following offers an approximation of this trade area's geographic boundaries, for the purposes not so much of absolute precision but rather, order-of-magnitude analysis.



Downtown Long Beach trade area
Source: ESRI, MJB Consulting

The presence of a sizeable and growing cohort of well-educated, well-off consumers is clear: 1,650 owners of housing units valued at $750,000 or greater, 9,000 households with annual incomes of $100,000 or higher and 21,500 residents with at least a B.A. degree or more.

That said, the trade area consists of 132,000 people. Just 16% own their residences, 16,500 households earn *less* than $35,000 per year, and 24,000 residents did not finish high school. The median household income of $51,000 falls far below the $75,000 for Los Angeles County as a whole.

Latinos, the overwhelming majority of them of Mexican descent, comprise 55% of the trade area's population, followed by Blacks at 15% and Asians at 14% (with a sizable portion of Cambodia Town falling within its boundaries). Non-Hispanic whites account for just 18%.

In psychographic terms, the trade area is dominated by young, hard-working immigrant families with multiple kids, sometimes headed by single parents and/or living with grandparents. These households spend heavily on baby and children's products. When dining out, they tend to favor traditional fast food as well as family and pizza restaurants. Style-conscious, many of them enjoy shopping for trendy fashions.

There is nothing inherently wrong with this customer profile. In terms of spending power, catchments filled with high densities of lower-income households typically far exceed ones characterized by low-density affluence. And Downtown Long Beach's trade area boasts 15,300 persons per square mile -- higher than Boston, Chicago, Philadelphia or Miami.

However, opportunities are missed – and celebrations of diversity can be plausibly criticized as insecure -- if the mix of retail, that most outwardly visible of land uses, is not properly aligned with such consumer demand. Ultimately, inclusivity is about more than just who *owns* the businesses.

- Drilling down, what sorts of tenants does this imply? Received wisdom states that physical stores today must offer something more than just price, convenience and/or selection – the raison d'etre for so-called "big box" retail -- because they are easily outflanked in each of these respects by e-commerce. Again, however, this is grossly oversimplified.

It is especially odd to hear stakeholders sound so convinced that there is no future for this sort of brick-and-mortar shopping when Downtown Long Beach offers several examples of **larger-format, value-oriented retailers** -- Ross Dress For Less, H&M and Nike Factory Store, among others -- which have reportedly enjoyed healthy sales levels.

Moreover, some $66 million in consumer spending on "other general merchandise" (i.e. discount-oriented concepts like supercenters, warehouse clubs, dollar stores, etc.) – translating to roughly 220,000 sq ft of retail space – is currently leaking to rivals outside the trade area.

It is also worth noting that online penetration declines by income, a function of several factors including the cost of delivery (or fee for Prime membership), payment by credit or debit cards (which the un-banked do not have), concerns about "porch pirates" (more prevalent in higher-crime neighborhoods), etc.

On the tenant side, many larger-format, value-oriented chains have continued to open new locations amidst the pandemic, if not accelerated such expansion, in an effort to take advantage of discounted pricing (and eager landlords) – channeling Warren Buffet's famous instruction to be "greedy while others are fearful."

Indeed, value-driven retailing is expected to remain a bright spot in the years ahead, especially those concepts that offer a "treasure hunt" experience, which consumers, from very poor to extremely affluent, have always been drawn to – and most importantly, prefer to enjoy in person. This includes, most notably, the outlet / off-price space.

Consider that the three biggest names in off-price fashion have been aggressively expanding their physical footprints for the better part of a decade, amidst the rise of e-commerce. Two of them, Ross and Burlington, do not even sell online – the latter stopped doing so during the pandemic -- while T.J. Maxx / Marshalls generates just 1-2% of its revenue there.

The treasure-hunt model[4] will also likely continue to move beyond traditional fashion. DICK's Sporting Goods, for instance, unveiled no less than three new off-price banners during the pandemic, including one, called "Going, Going, Gone!", which offers "surprising deals on unique finds in footwear and apparel from the brands customers have enjoyed shopping at DICK's Sporting Goods for years."

Of course, leveraging such potential will require progress on other fronts. Reportedly the breaking point for Walmart and likely also for Big 5 was not sales levels but "shrink" (i.e. shoplifting by customers and employees), which has been enough to drive retailers from Downtowns much higher-grossing than Long Beach's. San Francisco's Union Square, for instance, recently lost Uniqlo, H&M and Marshalls for precisely this reason.

There is also the matter of accommodating the larger floor-plates. Rising land values in Downtown Long Beach complicate the financial feasibility of developing single-story, big-box retail. Vertical mixed-use is also still resisted by a shrinking yet still significant subset of chains, while the reputations of some brands can conflict with the sensibilities or aspirations of the would-be users upstairs.

That said, certain value-oriented brands, by dint of savvy marketing, have been able to achieve the sort of "crossover" draw and appeal that bridges much of this gap. For example, Target, or "*Tar-zhay*", is perceived very differently among well-educated urbanites than Walmart even though its model and merchandising, as a discount department store, is largely the same.

Given its residential growth of the last decade, Downtown Long Beach is actually starting to approach the threshold level of density and profile needed to land one of Target's smaller, more customized "flexible-format" stores that it has been opening in dense urban submarkets like Hollywood (40,000 sq ft), Santa Monica (24,000 sq ft), Koreatown (22,000 sq ft) and, just announced, Downtown San Diego (36,000 sq ft).

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[4] Of course, another of the major players in this space, Nordstrom Rack, closed its City Place store in 2013. Not only, however, has Downtown Long Beach evolved quite a bit in the last eight years but also, the location – in a diverse Downtown -- was always an outlier in Rack's fleet, whereas T.J. Maxx, Marshalls, Ross and Burlington have historically not shied away from such settings.

A smaller urban Target, it should be noted, would almost certainly take sales from some of Downtown's existing retailers. Typically incorporating a CVS-operated pharmacy and offering a similar assortment of everyday essentials, it would compete most directly with large-format drug stores, though given its cachet as a brand, such a tradeoff might amount to a net gain.

* Residents have long hoped for a **higher-caliber specialty grocer**, and Downtown Long Beach might finally be starting to at least approach the moment in its evolution – in terms of new market-rate housing and development momentum – where it could conceivably attract one.

The true importance of the Downtown supermarket tends to be overstated. One's actual role as a causative agent in attracting more residents, catalyzing new projects and/or driving pricing premiums is rarely if ever quantified. More than anything, its import seems to be symbolic – even more so in the presence of a recently-modernized VONS (which rose to the occasion in the early months of the pandemic).

A select few operators, however, can have a sort of "halo effect", turning heads among real estate professionals and catalyzing an entirely new leasing dynamic. To understand why, it is necessary to trace the path that grocery, and retail more generally, has taken in recent decades.

The supermarket category used to be dominated by conventional, mid-market offerings which were largely interchangeable and thus, drew primarily on the basis of convenience. After all, why drive to the Albertsons across town when there was a Ralph's just around the corner, offering similar products at similar prices?

This convenience-driven anchor implied a trade area relatively limited in geography and population, attracting in its shadow a humdrum, rather predictable collection of smaller in-line businesses including, say, a barber shop, a nail salon, a dry cleaner, a Chinese takeout, etc.

With, however, the emergence of *The Food Network*, the rise of "foodie" culture and the vision of John Mackey (founder of Whole Foods Market), the selling of groceries was transformed into a kind of theater, and the "specialty" grocer, a destination capable of luring customers from a significant distance, past the legacy operators, trading convenience for sizzle.

At roughly the same time, full-service department stores like Buffum's, Bullock's, The Broadway and Robinson's-May, which had once anchored destinations for so-called "soft goods" (e.g. apparel, footwear, jewelry, home décor), had started on the road towards inexorable decline, leaving the smaller retailers in their shadow without reliable traffic generators.

Historically, these two types of shopping – for essentials and for fashion – were rigidly segmented. Malls did not have supermarkets, and grocery-anchored centers did not offer apparel. But with its wider draw and the sex appeal, Whole Foods Market and other concepts like it could bring them together, attracting brands like Anthropologie, Free People, Lululemon, Madewell, Warby Parker and Sephora.

One need look no further than CenterCal Properties' 2nd & PCH development, where all of them have clustered in the shadow of a 45,000 sq ft Whole Foods Market. As a sign of the times, the shopping centers at that powerhouse intersection, the strongest for retail in all of Long Beach, do not contain *any* traditional full-price soft goods anchors, just specialty grocers.

A couple of qualifications are in order, however. One, the traffic-driving capacities of supermarkets might be somewhat attenuated if the pandemic-era preference for fewer (larger-basket) trips per week endures. And two, Downtown locations in particular could be impacted by the rise of remote work and falloff in commuters, who normally provide an important source of additional demand for ready-to-eat and prepared foods.

Even in regular times, not every specialty grocer is capable of elevating the retail mix in this way. The highly-coveted Trader Joe's does not have such an effect. Nor, it seems, do standalone locations of other upscale Southern California banners such as Pavilions, Bristol Farms or Gelson's. Perhaps the only other one on the same level is the much-hyped Erewhon Market, though it would probably not be realistic in the near term.

* What makes the potential for **soft goods** so intriguing in Downtown Long Beach is that, for the first time in years, its chief rival, Belmont Shore's 2nd Street, seems vulnerable. The corridor is currently pockmarked with vacancies, having lost a slew of retailers in these categories – a trend that predates the arrival of COVID-19 as well as the opening of 2nd & PCH.

The trigger is more likely to have been a run-up in property values during the mid 2010's and consequent rise in expectations for rent as well as creditworthiness. In recent years, property owners have been demanding as much as $4 to $5 per sq ft NNN, which requires shop tenants to generate at least an estimated $550 to $650 in sales per sq ft, equivalent to a Class A mall.

Yet while the timing suggests that it was not the initial catalyst, 2nd & PCH might have undermined 2nd Street's positioning in another way: by elevating the aesthetic standards of the submarket, it underscored the extent to which the latter's look and feel had become increasingly dated, an association that today's more current, aspirational brands might want to avoid.

Does this present an opportunity for Downtown Long Beach, with its comparatively lower occupancy costs and younger, more contemporary vibe? Well, maybe not with the ones that have settled instead at 2nd & PCH, but perhaps other smaller and/or lower-profile concepts that might not necessarily be as welcome at such centers as the publicly-traded retailers that typically fill them.

Indeed, "neo-hipsters" – well-educated, upwardly-mobile young professionals with creative and progressive sensibilities – comprise one of the largest psychographic segments in Downtown Long Beach's trade area, and both they and the "proto-hipsters" – underground (starving) artists, musicians and other cultural producers – sustain the aforementioned boutique cluster along 1st Street in the East Village.

In addition to this co-tenancy, the sub-district's soft goods prospects could be boosted still further by the 10,000 sq ft food hall planned as part of the Broadway Block development. Like specialty grocers, buzzworthy dining destinations can help to expand the draw for and drive foot traffic to nearby shops, assuming, of course, the former's peak periods are aligned with the latter's opening hours.

With soft goods, however, the lure of co-tenancy weakens disproportionately with distance. That is, additional boutiques will either insist on and/or only survive in locations that are immediately adjacent to the existing cluster. There's a reason why they have yet to materialize, say, on the emerging 4th Street corridor in the East Village or along Broadway in the West Gateway.

Furthermore, the pricing of space must be aligned with what such tenants were willing and/or able to pay. Before the pandemic, there were some indications of an emerging gap in the East Village, and while affordable rents can still be found there, ultimately this could depend on the extent to which future landlords are willing to leave money (if not profitability) on the table in order to preserve the mix and identity.

Finally, it is worth keeping in mind that while these kinds of businesses might be initially deterred by Belmont Shore's higher rents and overall brand, they could start to be more aggressively pursued by landlords there, in light of the rising vacancy levels along 2nd St. Indeed, the established foot traffic along 2nd St was part of the reason why Proper LBC, the sneaker and streetwear purveyor, relocated there from the East Village in 2018.

* In the absence of a new specialty grocer, Downtown Long Beach might focus its attention on the emerging crop of upmarket convenience stores. Very different in merchandising and aesthetic from a 7-Eleven, these 2,500 to 5,000 sq ft spaces offer grocery essentials from major brands, artisanal products from local vendors as well as on-site food service (e.g. made-to-order, coffee, alcohol), while also providing fast delivery.

The greatest need appears to be in the traditional core, where Kress Market, on North Pine, recently closed – for personal reasons. The East Village already has such a model, Wabi Sabi Village Market, which might be approached about a second location. Alternately, two other expansion-minded operators in the space are Chicago, IL-based Foxtrot Market and Denver, CO-based Choice Market.

Other **convenience-oriented businesses** that are almost certain to resume growth in the months ahead (if they have not already) include the following: 1) pet retail, especially natural foods and supplies, veterinary clinics and grooming services; 2) medical retail, including urgent care centers, community health centers and dental practices; and 3) boutique fitness studios.

While most of these uses would not be defined as traditional "retail" and would represent an underutilization of space if placed in Downtown's highest-visibility storefronts, they can help to fill or backfill available street-level bays on Downtown's periphery, and with some tweaking of the existing design guidelines, could present a more engaging face to passing pedestrians.

Indeed, medical uses have been materializing in storefront locations (versus office buildings) precisely because they have been striving to present and position themselves more like retailers. Meanwhile, certain pet businesses can, if properly designed and configured, become true show-stoppers -- as anyone who has ever had to wade through the crowds peering through the window of a doggie-daycare facility can attest.

* While these other uses have important roles to play in diversifying Downtown Long Beach's retail mix and amenitizing its urban lifestyle, **food and beverage** will remain its primary driver, especially of destination traffic from beyond the trade area.

As noted earlier, the category's sources of consumer demand have been greatly impacted by COVID-19, and the future of Downtown's office sector is far from clear, as are the precise effects that remote / hybrid work would have on Downtown retail if it does endure beyond the pandemic.

Even so, it seems prudent to consider how such demand could be replaced – if not augmented. One approach is to capture additional market share from trade area *residents*. This implies an even wider array of concepts that can appeal to the full range of its cultural and socioeconomic diversity, in terms of cuisine, atmospherics and pricing. Again, inclusivity is not just about who owns the businesses, but also, who patronizes them.

As discussed in greater detail in "Recommendations" below, an ambitiously reimagined Pine Avenue, drawing on the momentum generated by Open Streets, would also help in this regard, differentiating the space – and the offerings along it – from more convenient and/or conventional alternatives in the neighborhoods.

A second angle of attack is to elevate the visibility and profile of Downtown Long Beach so as to draw the attention of established and iconic operators from across the region and state that have historically overlooked or dismissed it. The idea here, as distasteful as it may be to proto-hipsters, would be to put Downtown on the proverbial "map" of foodie Angelenos and other assorted tastemakers.

2nd & PCH, for example, was able to land the likes of Bungalow Kitchen, from celebrity restaurateur Michael Mina and nightlife impresario Brent Bolthouse, and The Italian Homemade Co., a wildly popular casual Italian concept from the Bay Area that was looking to open its first Southern Californian location. Downtown Long Beach is now starting to approach the point of its evolution where it could be in that conversation.

These two approaches, it is important to note, are *not* mutually exclusive. One could imagine a talented Cambodian chef, tapping available forms of assistance perhaps, opening a restaurant in Downtown that captures the imagination of a widely-respected food critic – today's version of Jonathan Gold – and lures adventurous diners from across the South Bay and Orange County while remaining true to his/her Long Beach roots.

In a sense, this sort of concept would be to food and beverage what Target is to traditional retail, a "crossover" hit that realizes the full potential (and sidesteps the unspoken messiness) of true diversity. And yet Downtowns, when they are at their best, reflect just this kind of coming together, functioning as a true crossroads for an entire community.

It is worth noting that restaurants today do not necessarily have to be full-service in order to be taken seriously. With their embrace of "fast casual" eateries and artisanal food halls, diners – led by the Millennial generation -- have effectively decoupled quality from formality, believing that gourmet food could also be found *in the absence of* fawning waiters, advance reservations or upscale décor.

Indeed, Downtown Long Beach should also look to target the subset of celebrity chefs and restaurateurs – including acclaimed local operators -- who, recognizing that contemporary fast casual can offer significantly higher profit margins than traditional fine dining, have decided in recent years to shift their attention and resources to the development and rollout of such concepts.

* On a related note, Downtown Long Beach can also expand its reach with an even more diversified array of **entertainment offerings**. This would track with broader trends at the national level, where there has been an explosion in new concepts for nightlife and recreation that offer different, less alcohol-centered experiences (even if they still serve alcoholic beverages as a way of paying the bills).

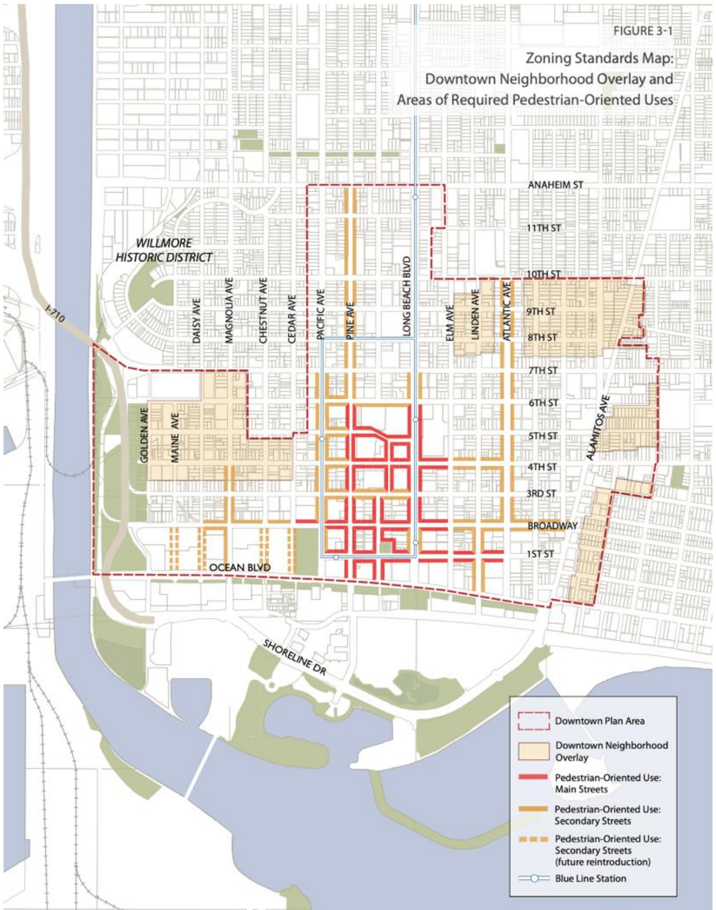
Of these, the most well-known are live-music venues (which should eventually recover from COVID-19) and bowling lounge-nightclubs, but newer ones revolve around adult indoor mini-golf (complete with elevated food and beverage); video game (or "esports") arenas, where Gen Z-heavy fan bases come to watch highly-paid stars compete in pro leagues; and pop-up or rotating immersive multimedia productions.

As evidenced by the ultimately futile effort to bring a concert venue to the former 350 Vault space, these uses tend to be capital-intensive and require larger floor-plates. Smaller-scale alternatives include a "barcade", which uses retro arcade games as the lure for what is effectively a gastropub; a gaming lounge that functions more as a third place; or even a "selfie station", modeled on the *purikura* studios long popular in Japan.

Recommendations

* As noted earlier, the 2012 Downtown Plan mandated that a significant portion of the PD-30 District's street frontage contain **ground-floor storefronts with active uses**, which, when combined with all of the new development since then, resulted in a good deal of new retail inventory (and new retail sub-districts), with more to come.

Wisely, the Plan segmented these streets into two different types – "main" and "secondary" (see map below) – while allowing considerably more flexibility in the latter, with permitted uses including bank branches, tax preparers, fitness studios and medical offices.



Nine years, however, is a lifetime in the retail industry as well as a Downtown's evolution. Some refinements are needed in order to update it to the present day:

- The list of permitted uses on the main streets includes several types of personal services that would seem to undermine the street-level energy and synergy envisioned for and possible in such primary locations. These include, for instance, beauty salons, dry cleaners, travel agencies, electronic repair as well as educational institutions.

- Given the tightness in its retail inventory and possibility of rent inflation as well as the importance of clustering among soft goods retailers, the East Village should upgrade the following stretches from secondary to main – Linden St, from Ocean Blvd to Broadway, and Broadway, from Elm St to Broadway Ct – and keep a close watch on the need for future tweaks along the 4th St corridor.

- The list of prohibited uses should be relaxed in such a way as to allow for the addition of new entertainment-oriented business models, including ones that have yet to materialize in what has become a rapidly-evolving space. At present, three of the concepts referenced earlier -- arcades, bowling alleys and mini-golf courses – are *not* permitted on either type of street.

- Other uses which should be removed from the list of prohibited uses include ones with the capacity to transform the in-store experience into something more compelling, like on-site production, or for which brick-and-mortar space could become increasingly valued in an omnichannel world, such as wholesale storage and online fulfillment – assuming, at least with the latter, that the street frontage still presents as consumer-facing retail.

- Thrift stores and flea markets should be moved to the list of permitted uses. Not only has second-hand merchandise long been popular among proto-hipsters, but also, it is enjoying broader acceptance as part of the "circular economy" that reduces waste and benefits the environment. In addition, such "treasure hunt" experiences represent a competitive advantage for brick-and-mortar that should be leveraged where possible.

- Finally, given the evolution of 3rd Street between Pine Ave and Long Beach Blvd over the last half-decade, that stretch should be designated as a main rather than a secondary street.

On a related note, developers should be prohibited from incorporating certain kinds of internalized amenities for their tenants that absorb consumer demand which would otherwise feed businesses occupying or potentially occupying public-facing retail space, like, for instance, cafeterias in office buildings, fitness rooms and dog-grooming stations in residential complexes, etc.

* The DLBA, with a mandate to advocate on behalf of a specific district (Downtown) and set of stakeholders (property and business owners), is the organization best positioned to play a larger role in **elevating Downtown Long Beach's visibility** within the broader retail leasing and tenant community.

Many expansion-minded chain-lets and their tenant-rep brokers across Southern California and beyond either do not think of Long Beach or if they do, their knowledge is limited to Belmont Shore and maybe now, 2nd & PCH. Meanwhile, leasing professionals active in Downtown Long Beach are understandably focused on filling individual spaces, not selling the district as a whole.

To its credit, the DLBA has established itself as a useful source for data through its quarterly reports. Now, it can and should take the next step, synthesizing all of that information and more into visually-compelling print and digital collateral that tells the story of, frames the opportunity in and makes the case for Downtown Long Beach as a retail location.

This should also include a color-coded heat map that helps prospective tenants to better understand, on a block-by-block basis, not just the overall pedestrian counts but also, where *different kinds* of foot traffic would be heaviest, as based on the locations and walk-sheds of major demand generators (e.g. visitor attractions, office buildings, residential complexes, parking garages, etc.).

To be clear, this collateral would *not* be a marketing piece for driving visitor and consumer traffic, but rather, a tool specifically designed to pitch and land prospective tenants. As such, it would need to be written in the language of retailers and brokers, *not* municipal and non-profit stakeholders. And while it would obviously put a best foot forward, it should also (obliquely) address the former's likely concerns and hesitations.

Perhaps most importantly, it would have to be *taken directly to* the intended targets, rather than waiting for them to take notice. The onus is on Downtown Long Beach to get itself on the radar screen, which will require a roadshow of sorts, including sit-down's with regional brokerages, earned media in business publications, presentations at industry events (across California and adjoining states, though not national ones), etc.

DLBA might also resume a role in tenant recruitment that it has played in the past, helping to source and vet new leads from other markets that it then relays to property owners and leasing professionals. Before doing so, however, it would need to add more capacity and undergo training, it as well as engage in outreach to and secure buy-in from those same landlords and brokers.

* At the same time as it plays a role in targeting operators from across the region and beyond, the DLBA should consider further expansion of its already noteworthy efforts to **seed and nurture new small businesses**, offering an even broader array of options on the real estate end.

Not only has the pandemic unleashed a flurry of entrepreneurial activity across the country but also, the novelty and discovery which it can help to provide has never been more critical, for all sorts of districts and centers, in gaining and holding the attention of consumers.

These start-ups and other early-stage retailers would benefit from an iteration of the aforementioned heat map that marries patterns of foot traffic (or lack thereof) with the prospects for different business types, so that the locations which they ultimately choose are ones where they have a realistic potential of succeeding.

In many cases, however, they might struggle to find available spaces at all. Most of them are unlikely to be able to afford the rents demanded by, or to pass muster with the developers of, new projects in Downtown Long Beach. They might also prefer a lower-risk alternative to a long-term lease with a landlord.

In addition to its Retail Pop-Up Grant, the DLBA -- assuming additional capacity -- can help to fill this void by creating and operating new brick-and-mortar "platforms", like, for instance, fashion-truck pods or shipping-container villages in public spaces, or a co-locating arrangement or public market in a storefront (say, on a master lease with a landlord).

Ideally these would occupy a central location(s), so as to ensure awareness and foot traffic, and would be anchored by a more established demand-generating use(s), -- like, say, a popular café or roaster -- which, like the milk in the supermarket, should be sited furthest from the primary entrance.

* Build-out costs can present an obstacle to the filling of available storefronts in Downtown Long Beach, especially with first-generation spaces. Leasing professionals worry that developers will fail to provide sufficient T.I. allowances, resulting in prolonged vacancies as well as a lack of inventory for new restaurants once existing kitchens are taken.

This challenge is further compounded by the kind of tenants – early-stage, often undercapitalized entrepreneurs -- that show the most interest in Downtown and that are generally preferred by community stakeholders. Indeed, even restaurateurs that *have* been successful with a first venture do not necessarily have access to the level of funding needed for scratch-built infrastructure.

Of course, at least some of the responsibility for such costs should fall on the property owner. The reality, however, is that in a mid to high-rise development, the returns at street level are considered negligible at best, negative at worst. A few developers take a more expansive view, understanding retail's role in branding projects and driving premiums, but most will claim that they have little motivation to invest in it.

The DLBA, in partnership with the City, should explore this further. Some sort of **incentive program** could be put in place to encourage more of a focus on the ground floor, but at the same time, it would need to avoid the risk of moral hazard, whereby developers rely on the public purse to fund improvements that they should be making – and their pro-formas could be absorbing -- on their own.

* The **"Open Streets" initiative**, currently extended until at least September 2021, can provide a model for more effectively differentiating the Pine Ave core in the longer term as a special *place* and gravitational center, thereby establishing a clearer and more distinctive identity for Downtown Long Beach as a whole.

In addition to luring visitors north from the waterfront, this could help to provide Pine Ave with the kind of mass-market destination appeal among citywide residents that the historic shopping street, like so many others across the country, has lacked since the heyday of the Downtown department store – and will be even more challenged to recreate amidst current perceptions about homelessness, crime and disorder.

It would also preserve the outdoor patios that restaurateurs and patrons have long treasured (never more so than amidst COVID-19), as well as help to get and keep Downtown on the radar screen of the broader leasing and tenant community, as a legitimate alternative to 2^{nd} & PCH (which, incidentally, chose to extend its "Open Streets" concept with a "promenade experience" along its central spine).

At the very least, this would involve the continuation of parklets as well as a more uniform approach to their aesthetics. Among other upgrades, more attention will need to be given to the visibility of business signage, as the storefronts themselves are often obscured from passing motorists and pedestrians on the other side of the street by the height and design of the existing dining sheds.

In order, however, to truly elevate Pine Ave, Downtown Long Beach will need to think even more boldly. Shutting the street entirely would be controversial -- according to DLBA surveying, residents and landlords are overwhelmingly in favor, merchants mostly opposed – as well as labor-intensive from a programming standpoint, but the technology now exists for more flexible arrangements that could be tested.

For instance, closures could be planned for a specific period of time each week – on the same evening or weekend afternoon – for a relatively compact stretch -- two or three blocks at most -- within which the space could contain platforms for entrepreneurial activity (e.g. fashion trucks, night markets, etc.) as well as stage various kinds of interactive events that would drive foot traffic to existing businesses.

Such a space would no doubt reinforce a sense of community among Downtown's current residents and users, but its role in attracting and holding attention from beyond will be equally critical. Indeed, the boldness should extend to truly inventive space utilizations, design treatments and/or public-art installations that would be capable of generating earned media and the attendant buzz.

Obviously, this will present inconveniences for some businesses, their patrons and delivery drivers. But also, those already familiar with and used to the necessary workarounds – Downtown's current residents and users, for instance – might not be aware of (or empathic about) the added layer of disorientation and frustration that citywide residents, out-of-town visitors and motorists more generally are likely to experience.

For all of these reasons, street closures and alternative routing – to major destinations and off-street parking facilities -- should be more clearly signposted at Downtown gateways and on approach routes. East-west streets should be kept open and pick-up zones designated near their intersections with Pine Ave. Customized mitigation strategies should be devised in collaboration with individual merchants.

Such efforts should only go so far, however. Expectations can become unreasonable – merchants asserting an inalienable right to, or claiming severe hardship in the absence of, in-front parking along the most walkable blocks of a Downtown's prime commercial corridor, for instance – and beg the question of whether such businesses, or business owners, are truly appropriate for such a location.