

---

# What is it?

---

Commercial Stabilization tools help communities build the economic strength of their neighborhood commercial district so that it is better equipped to both serve neighborhood residents' needs and withstand gentrification pressures. With these tools, community organizations can play an ongoing role in the management of a commercial district to ensure it serves as a community asset.

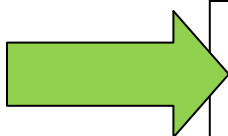
## Common Commercial Stabilization Elements

- Targeted business assistance
- Capital investment (streets and sidewalks)
- Design guidelines
- Business attraction
- Facade improvement
- Community controlled commercial development

These tools can be used together or independently.

Commercial stabilization:

- Supports the growth of privately owned neighborhood businesses that benefit community residents and contribute to a positive cultural identity for the neighborhood;
- Values growth of the business district as a means to support a stronger community rather than as an end in itself;
- Builds upon the existing assets of the district by supporting the growth of existing businesses and cultural institutions; and
- Recognizes that, while many businesses help the community, others hurt it either by contributing to social problems or contributing to gentrification.



*This tool was developed in partnership with Rick Jacobus. Local Support Initiative Corporation (LISC). For more information on their services visit <http://www.liscnet.org>*

All commercial stabilization requires communities to clearly identify what kind of business growth is desirable. Effective initiatives are managed by strong organizations that coordinate a wide range of stakeholders. They begin with inclusive neighborhood planning to create a shared vision of the commercial district and spell out what kinds of businesses residents want to see. They then blend public and private resources to realize this community vision, which usually involves making dramatic physical and social improvements in the district while guarding against displacement of residents or small businesses. Long-term success requires a mechanism for community stakeholders to play an ongoing role in decisions that affect the quality and identity of the district.

---

# Why Use is?

---

Is it possible to improve a neighborhood commercial district without contributing to gentrification? Conventional wisdom says no. We are accustomed to neighborhoods of extremes—concentrated poverty or high-income enclaves.

So when private investment at last returns to areas redlined for decades, there is often surprising opposition. Many see the improvements coming at the price of rising housing costs and displacement of working families.

Functioning commercial districts are not a luxury, however. Just as healthy cities need teachers and firefighters, they need places for their families to live and shop. Low-income and working-class families collectively spend a lot of money and, like everyone else, they need places to spend it.

After a generation of pleading for cleaner streets and decent places to shop and eat, at the end of the '90s many community leaders began to see blight as one of the few things holding back the flood of gentrification.

### **Balance is Possible**

Though their numbers are greatly diminished, there are still thousands of well-used, non-gentrified commercial districts in urban neighborhoods all over America. In Oakland's Fruitvale district, for example, the streets are crowded Saturday afternoons with Latino parents taking their children shopping for clothing, cowboy boots, electronics, and jewelry.

Only six years ago Fruitvale looked very different. Storefront vacancy was nearly 20 percent, sidewalks were littered with broken bottles, and neighborhood residents frequently reported being afraid to shop there. But since then, the Fruitvale commercial district has been the focus of a concerted improvement effort—the Fruitvale Main Street Program, led by the Spanish Speaking Unity Council. Sidewalks have been repaired, trash cans and banners installed, and more than one hundred businesses have fixed up their storefronts with paint, awnings, or new signs. More than 5 million dollars in public and private money has been invested in the past five years in physical improvements. Business is up, crime is down, new businesses open regularly, and there are practically no vacant stores in the district. Although it is not clear how much of this change is the direct result of the Main Street program, the important point is that dramatic improvement happened here without fueling gentrification. Housing has remained affordable relative to the rest of the region, and the area has seen no significant influx of new wealthier residents.

### **Helping Neighborhoods Hold Their Own**

Real improvement through large-scale reinvestment is not only possible without gentrification, it may be one of the best ways to prevent gentrification. It is the abandoned neighborhoods with no viable economic niche that are most in danger of being "discovered" and dramatically gentrified. Commercial districts that successfully attract working families, are clean and safe, and have stores selling quality goods at reasonable prices, may have the economic base to hold their own against gentrification.

### **Community-Oriented Asset Management**

The difference between a gentrifying community and a stabilizing one is subtle, especially at first, and depends, more than anything else, on the specific commercial tenants that move in to fill vacant storefronts. Shopping centers, through centralized asset management, are able to carefully select tenants that complement one another and reinforce a specific identity or economic niche for the specific center. But there is generally not a similar process at work in neighborhood commercial districts. One property owner may be recruiting upscale businesses while another is leasing to discount stores. Whoever controls this process controls the future of not only the commercial district but, perhaps, the surrounding residential property as well.

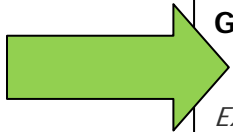
Commercial stabilization efforts provide a way for active community-oriented management to intervene in these private transactions to ensure new investment benefits the current community.

# Why Use is?

## Planning Process

Any equitable commercial stabilization effort should begin with a planning process that involves a broad range of community stakeholders. This process should allow community members to identify the strengths and weaknesses of their district and create a shared vision for commercial district growth. It might be as simple as a handful of community meetings or it might be complex and longer-term, involving a year of meetings, customer surveys, and market analyses.

San Francisco's Mission District went for the long-term approach. Its commercial stabilization planning process was initiated by Mission Economic Development Association (MEDA), which supports local small businesses and has been one of several community organizations leading a struggle against gentrification in the neighborhood since the mid '90s. In the late '90s, MEDA began to notice that along with causing the eviction of hundreds of working families, gentrification was also displacing neighborhood businesses. So the group organized a community planning process to develop a comprehensive community-based plan for Mission Street.



### GOALS OF THE MISSION CORRIDOR PROJECT

*Excerpt from executive summary by MEDA The Mission is...in many ways a vibrant place, blessed with a rich diversity of cultures, income levels, and age groups, a fairly healthy economy, and well-established network of nonprofit and artist organizations. It also suffers from two seemingly contradictory problems: a perception of high crime and poor maintenance, and rising gentrification, which through increasing rents is displacing the Mission's traditional base of working class families and local businesses...*

*In finding ways to improve the social, physical, and economic conditions along Mission Street while simultaneously accommodating the needs of current residents and businesses, seven goals were synthesized from community input:*

***Business Stability:*** *preserve and expand the existing business base with an emphasis on local ownership of businesses and/or the buildings they operate in.*

***Resident Needs:*** *ensure that new development serves the retail, service and employment needs of local residents.*

***Mission Street Identity:*** *preserve and promote the identity, local cultural production, and significant architectural and mixed use character of Mission Street.*

***Local Jobs:*** *ensure local employment and provide entrepreneurship opportunities for local residents.*

***Affordable Housing:*** *expand the housing stock along Mission Street, especially affordable rental and homeownership for low to moderate-income families.*

***Safe Activities:*** *improve safety by increasing positive activities, particularly youth activities and nighttime family entertainment.*

***Walking Environment:*** *promote sidewalk maintenance and improvements and nighttime safety, as well as development linked to the BART transit nodes.*

The process took a year to complete and involved staff from MEDA and from Oakland's Urban Ecology, consultants from Bay Area Economics, and numerous community volunteers. Surveys were collected from more than 500 residents and 50 businesses. Input from two large community meetings and a series of small focus groups supplemented the survey material. The final 50-page plan, published in November 1999, outlined community goals for the physical, social, and economic development of the Mission corridor that would benefit the neighborhood's residents.

At the other end of the spectrum are brief community input processes like the one conducted by Mercy Housing for the Rose Hotel. In 1997, Mercy Housing opened the newly renovated Rose Hotel, a single-room-occupancy building with 76 rooms for very low-income individuals in the South of Market neighborhood in San Francisco. The ground floor of the hotel included about 1000 square feet of commercial space facing onto 6th street, one of the city's most troubled commercial districts. Many of the retail spaces on 6th street were abandoned and drug dealing and other criminal activity on the street were affecting the neighborhood's quality of life. How the retail space in the Rose was leased was important not only to Mercy and the new residents of the hotel, but to the entire community. Mercy worked with a local business support organization, the South of Market Foundation, which:

- interviewed neighborhood residents and businesses and compiled a list of tenants that were generally desired (pharmacy, bike shop, pizza shop, deli) and others that people felt should be avoided (pawn shop, consignment stores, and grocery stores that sell liquor);
- determined that people felt there were too many social service programs occupying retail space on 6th street and decided not to lease the new space to a service agency, which Mercy might have otherwise considered; and
- developed a leasing policy that was adopted by an oversight committee of building tenants, local service agencies, and other neighborhood leaders.

The community input for the Rose Hotel took a matter of weeks and resulted in a two-page policy. Although a longer process is probably necessary to produce anything like consensus on an entire commercial district, not every community has the time and resources to undertake a year-long planning process. The process for the Rose shows that even a quick and inexpensive input process can engage residents and allow them to proactively identify the kind of community change they want.

## **Lead Organizations**

Sustained efforts to stabilize a commercial district require strong organizations to manage them.

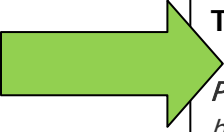
## **Merchant Associations**

Historically, efforts to improve commercial districts have been led by merchants associations or chambers of commerce, either on a volunteer basis or through a staffed business improvement district (BID). Unfortunately, the demands of running small businesses have often limited the impact of revitalization efforts that rely exclusively on merchants. In addition, merchants, even when genuinely concerned about improving the community, will often focus on one aspect of a district's health, like increasing parking, to the exclusion of all others. Any balanced revitalization process is likely to require tradeoffs such as limiting liquor sales or making room for human service providers, which it may be unrealistic to expect merchants to make on their own. Successful community stabilization efforts include merchants and property owners alongside many other community stakeholders in their organizational structure.

## **Neighborhood Main Street Programs**

Though the Main Street approach was created by the [National Trust for Historic Preservation](#) as a tool for preserving the historic buildings in small rural towns, community leaders in urban neighborhoods have increasingly been adapting it to the needs of their own communities. The Main Street strategy is structured around committees of

residents, merchants, property owners, community institutions, and other stakeholders. The committees plan and implement comprehensive, incremental improvements based on the model's 'four point' approach: *physical design* to improve the appearance of the area; *economic restructuring* to strengthen existing businesses and attract new ones; *promotion* of the neighborhood to bring in new customers; and *organization* to coordinate the input and efforts of the full range of neighborhood stakeholders.



### THE MAIN STREET 4-POINT APPROACH

***Physical Design:*** *Enhancing the physical appearance of the commercial district by rehabilitating historic buildings, encouraging supportive new construction, developing sensitive design management systems, and long-term planning.*

***Economic Restructuring:*** *Strengthening the district's existing economic base while finding ways to expand it to meet new opportunities and challenges from outlying development.*

***Promotion:*** *Marketing the traditional commercial district's assets to customers, potential investors, new businesses, local citizens and visitors.*

***Organization:*** *Building consensus and cooperation among the many groups and individuals who have a role in the revitalization process.*

***National Trust for Historic Preservation [National Main Street Center](#)***

## Community Development Corporations

In many long neglected urban neighborhoods stabilization will be very difficult without substantial new capital investment in restoring or rebuilding commercial buildings. Often this commercial space is owned by absentee landlords with little interest in maintaining their properties or actively managing their assets for community benefit. Ultimately, this limits revitalization programs like Main Street. The programs struggle to get owners to make even minimal investments only to watch these same owners displace community-serving businesses as soon as improvements create an opportunity for higher rents.

### Ownership Matters

Even a well-planned and supported commercial stabilization program can be stymied by a large percentage of absentee landlords who have no interest in the goals of the effort.

One response to absentee ownership is to form a community development corporation (CDC) to own and manage neighborhood real estate for the benefit of the community. CDCs are nonprofit organizations governed by a board that generally includes both low-income neighborhood residents and outside professionals with both real estate, finance, or legal expertise and a commitment to strengthening communities.

Existing CDCs, though many have been focused on building housing, often have the basic real estate development capacity and entrepreneurial spirit necessary to play a key role in the development side of commercial stabilization. A number of CDCs have been gradually building portfolios of neighborhood-serving retail space, often on the ground floors of their housing projects. Others have undertaken large-scale projects such as supermarket-anchored shopping centers or major mixed-use projects like the [Fruitvale Transit Village](#). A CDC with a clear development plan for a district can identify the types of complementary businesses that will serve the existing neighborhood residents and seek out commercial tenants that meet that need.

In Philadelphia, the community development corporation of Frankford Group Ministry has been managing an effort to strengthen the Frankford Avenue commercial corridor, which had been in decline for many years following the loss of many of the neighborhood's manufacturing jobs. The program grew out of the Frankford Plan, a comprehensive neighborhood plan developed by a coalition of community organizations. Over the past six years the effort has replaced sidewalks, installed new street furniture, organized cultural events, and succeeded in bringing

new retailers into the area. As part of the effort, the CDC has purchased and renovated seven key commercial buildings on Frankford Avenue. Once renovations were completed, the CDC was able to attract retail tenants that fit with its vision for the sustainable growth of the commercial district. By controlling the leasing of these seven properties, it is able to exert a more direct influence over the total character of the district.

## **Common Activities**

A few activities are common to most commercial stabilization efforts.

### **Business Assistance**

There is a whole industry of small business assistance organizations that provide training, counseling, and support, but their focus is usually different from the concerns of commercial stabilization. They generally work with start-up businesses or with those actively seeking financing, and are usually open to any business serving the neighborhood (or any minority- or woman-owned business) regardless of its location. Commercial stabilization programs, on the other hand, begin with a target commercial district and identify the local businesses that have the greatest potential to grow and contribute to the community. They then look for resources to support the specific needs of those businesses. This might involve matching the businesses with financing or counseling services offered by a business development center, or offering training on merchandising or window displays.

### **Storefront (Façade) Improvement**

Façade improvement programs offer an inexpensive way to make immediately noticeable changes in the appearance of a commercial district. Often these programs involve grants or low-interest loans to merchants or property owners who use them to improve the exterior of their storefronts. The best of these programs offer design assistance and educate merchants about effective design and signage. If the programs are implemented on a large enough scale, they can create a more consistent appearance in a district, which reinforces a strong cultural identity vision for the identity of the neighborhood.

### **Preservation of Cultural Facilities**

The identity of a neighborhood commercial district is often closely connected to the presence of important cultural facilities. Preserving or even enhancing these facilities can strengthen the neighborhood's existing cultural identity and provide an important centerpiece around which to plan other stabilization efforts. Plans for commercial stabilization of Third Street, in San Francisco's Bayview neighborhood, center around the historic BayView Opera House, the nation's first African-American opera house. Community residents envision an expanded opera house anchoring the commercial district, drawing residents into the area, and creating a central gathering place for the district. This kind of investment can serve a double purpose, strengthening the cultural life and identity of an area and bringing in additional customers for local businesses. [See [Elmwood Theater](#) case study for another example]

## Streetscape Improvements

When you visit a commercial district you are not just visiting stores, you are visiting the streets and sidewalks in between them. In fact, you may spend more time in that in-between space out on the street than you spend in any store. Well-run stores in well-maintained buildings will suffer if the surrounding streets and sidewalks are allowed to decay. While the condition of this space is key to the success of neighborhood businesses, it is almost always the property and responsibility of city government, which doesn't always manage it well. Sometimes cities underinvest in certain districts, or invest in things other than what matters most to the existing community. Cities, like everyone else, have to decide where to invest limited resources. Since cities like to target their investment to places where it will make a difference, organized community involvement in a commercial district can often result in dramatically increased public investment. A coordinated stabilization initiative that includes significant private investment will attract public dollars for things like sidewalk repair, new benches or trash cans, pocket parks, or improved parking. Over its first four years, the Fruitvale Main Street Program documented \$2 million in new private investment in the district (mostly building renovations) and a corresponding \$2 million increase in public investment in streets, sidewalks, and facades.

### Common Streetscape Improvement Projects

- Trash cans
- Banners
- Benches
- Trees
- Bus stops
- Signs
- New street lights
- Traffic calming
- Pocket parks
- Storm sewer upgrading
- Street repaving

As important as this public investment is, it is also important to ensure that the investment actually contributes to the strength of the community. It is not uncommon to see cities respond to years of disinvestment in basic infrastructure by purchasing artistic banners, designer street lamps, or flashy signs designed to catch the eye of potential customers. But while quick and flashy aesthetic investments can help improve an area's appearance, they are no substitute for quality basic infrastructure and can actually be harmful if they promote an identity that does not match the local reality. Stabilizing without gentrifying a commercial district generally means focusing investment on the basic infrastructure rather than upscale "identity" hardware. (See [Positioning the District](#) in the Keys to Success section)

## Commercial Development

Certain changes can only come about through larger scale physical development, such as new construction and renovation. Although large redevelopment real estate projects have been one of the most powerful tools of displacement and gentrification, in the context of a community based stabilization initiative, "community initiated" commercial development can actually help prevent displacement. Community initiated real estate projects can grow out of a community planning process that first identifies a community's needs and then targets specific sites for construction to meet those needs.

Don't underestimate the potential for rehab to serve community commercial development needs as well. Although a new building can create a new sense of opportunity, it is the hard work of finding and convincing retail tenants to take a chance on a neighborhood that makes the real difference. A CDC with a clear development strategy could have a large effect by buying existing buildings at key "catalyst" locations and leasing those spaces in a way that is sensitive to equitable development.

---

# Key Players

---

A commercial stabilization effort requires the input and collaboration of a range of players. Ideally one or two lead organizations will manage the process and coordinate the other players.

- *Residents.* Residents should be involved in planning and implementation. They are perhaps best situated to identify particular retail needs and other opportunities for improvement in their district.
- *Merchants.* Local merchants are key to the health of a neighborhood commercial district. They often have a strong stake in its improvement and some insight into the nature of the market in the area.
- *Local Government.* The responsibility for infrastructure and streetscape improvements lies with local government. It can also provide funding and other support.
- *Community Development Organizations.* These nonprofits often have the capacity to work on developing and managing new commercial space for community benefit.
- *Other neighborhood organizations.* Service and membership organizations may bring unique perspectives and resources to the table, especially during the planning process.

---

# Challenges

---

## Funding Organizing

Community organizing is one of the more difficult activities to get funding for, but it is necessary for successful commercial stabilization. Changing a district to make it more livable while maintaining the existing community's cultural identity is a delicate balance. Without the active involvement of a broad set of community members, hitting that balance is practically impossible.

## Involving Merchants

Facilitating merchant involvement is very time consuming, but can be very valuable. Merchants know what is happening on the street. The best merchants know a lot about their customers, why they shop there, and often about other needs in the community. Merchants often know before anyone else when a business is about to close or a landlord is planning renovations.

If organizing residents is challenging, however, organizing merchants is even harder. People who succeed at operating neighborhood businesses often do not like to spend time in community meetings. Even if there is some ongoing merchant participation in merchant associations or Main Street program meetings, involving merchants requires visiting them in their stores for one-on-one conversations.

## Working with Commercial Brokers

In many disinvested neighborhoods there are so few broker-assisted transactions that no one knows what the market rent is. A good commercial leasing agent can look at a vacant office or retail space in a familiar neighborhood and almost instantly make an educated guess about how much it will lease for and how quickly it is likely to lease. Commercial brokers, however, are frequently not willing to list space in tougher neighborhoods. This means CDCs are left to their own devices when it comes time to find tenants for commercial space in struggling neighborhoods. It also means they are forced to finance and build that space without the reassuring voice of an

experienced broker establishing the value.

In many disinvested neighborhoods there are so few broker-assisted transactions that no one knows what the market rent is. The process of rebuilding these commercial real estate markets requires a growing network of people with personal experience building and leasing these spaces.

### **Finding Appropriate Financing Tools**

The field of community development has grown to include a very wide range of financing sources—from tax credits to loan funds to community development financial institutions. Though many are useful in developing commercial or community facilities, most were developed primarily to finance affordable housing production.

Community-serving retail space, however, is much riskier than affordable housing, and many of the housing-specific financing tools do not adequately address that difference.

Community-serving retail space is much riskier than affordable housing. Many housing-specific financing tools do not adequately address that difference.

Housing lenders often see commercial development as an afterthought and attempt to limit the risks of retail development in mixed-use projects in ways that also limit the economic development potential of the project. Nonprofit developers will need new financing tools to realize their full potential as developers of neighborhood stabilizing retail space.

---

## **Success Factors**

### **Ingredients for Success**

#### **Positioning the District**

The physical condition of a district sends important and subtle signals to people about what "kind" of place it is. The very same physical infrastructure makes some people comfortable and others uncomfortable.

Paying attention to this can be a key to stabilization without gentrification. Broken sidewalks, streets that flood when it rains, dead street trees, and vandalized benches make most people feel bad about a neighborhood. But this kind of neglect seems to lead to even more vandalism, suggesting that there are some people who seek out physically neglected places. Improving this basic infrastructure will make families feel more comfortable and people who vandalize feel less comfortable. Designer cobblestone sidewalks and flashy street sculptures, in turn, make some working families uncomfortable, but may be just the thing to make upper-income shoppers feel at home.

There is no one physical space that works for everyone—every district has to choose who it wants to attract.

This difference of "who is comfortable" is not just about class or income. Differences in age, race, culture, or even "taste" can influence who is comfortable where. Seniors and youth may be looking for different things. There is no one physical space that works for everyone—every district has to choose who it wants to attract. Well-managed commercial districts "position" themselves in this sense and use their capital improvement projects to build the kind of space where their target customers will feel comfortable spending time.

#### **Meeting the Market in the Middle.**

Regardless of the level of financial and organizational support, no community can simply decide what kind of commercial district they want. In the best of circumstances, there is a give and take between the community's articulated vision for the commercial district and "the market." A community group can decide that the

The challenge for commercial stabilization is to find the middle ground between accepting disinvestment and holding out for alternatives that are unrealistic.

neighborhood would benefit from a Laundromat in a particular location. They can approach Laundromat operators and let them know that there is an opportunity for a Laundromat in their neighborhood. In an extreme circumstance they could even start their own Laundromat. But if not enough residents go there and do their wash, the space will be vacant again before long.

### **Finding Experienced Professionals**

Community organizations that are developing neighborhood retail projects and/or coordinating commercial district stabilization efforts need experienced staff who understand the economics of commercial real estate and the unique needs of these neighborhoods. Organizations with more experienced staff can take greater risks with their commercial space, count on more commercial income from their projects, and lease to tenants who are more likely to contribute to neighborhood economic development goals.

#### **It Takes Time**

The communities that have been doing this the longest, have found that the first successes don't often come very close to fulfilling the community's modest vision. Over time, however, successful businesses attract each other and eventually the community finds itself adjusting the vision to "raise the bar".

### **Finding Experienced Professionals**

Community organizations that are developing neighborhood retail projects and/or coordinating commercial district stabilization efforts need experienced staff who understand the economics of commercial real estate and the unique needs of these neighborhoods. Organizations with more experienced staff can take greater risks with their commercial space, count on more commercial income from their projects, and lease to tenants who are more likely to contribute to neighborhood economic development goals.

---

## **Financing**

---

Commercial Stabilization projects face two different but related financing challenges:

- 1 Financing the planning and community organizing process, and**
- 2 Financing bricks and mortar development and support of commercial properties.**

### **Funding Planning and Organizing**

Any inclusive community process requires some level of ongoing staffing to keep residents and merchants involved and informed. Even relatively inexpensive activities like organizing cultural events, planting new street trees, and designing street banners still cost money.

### **Public Sector Funding**

The most obvious source of funding for this kind of work is local governments. It's in their interest: they benefit from increased sales taxes when a neighborhood improves and bear the cost of increased maintenance and policing costs when a neighborhood declines. Cities can provide grants to community organizations to manage these initiatives through their general fund budgets or with federal Community Development Block Grant funds.

#### **Win-Win Funding**

It's in local governments' interest to fund commercial stabilization work: they reap the benefits of increased sales taxes, as well as reduced maintenance and policing costs.

One common challenge is identifying the appropriate place in the local government budget for this kind of grant. A broad stabilization initiative serves the interests of many city departments, including public works, economic development, community development, police, and perhaps even parks. The organization leading the initiative would ideally receive funding from at least one of these departments, and may have to mix and match.

Another potential source of local government funding is tax increment financing (TIF). TIF funds are generated when property tax revenues increase in a targeted redevelopment area. The increased income is set aside to finance further improvements. In the early years of a new TIF district, commercial stabilization initiatives offer an inexpensive way to generate noticeable improvement while also building the kind of community consensus that can guide larger scale investment toward more equitable projects. TIF funds have generally been used to finance large scale physical redevelopment projects, but increasingly, local governments recognize that these large projects are not generating sustainable change and often hurt low-income families more than they help, and so may be open to other options.

### **Business Improvement Districts (BID)**

A BID is a special tax district in which businesses or property owners in a specific area vote to add an additional fee to their tax bill to fund specific services over and above what's publicly available—from parking to street cleaning to safety patrols. A BID is simply a way of raising money. Whether that money is used to harm or help local residents comes down to who controls its expenditure.

In Oakland's Fruitvale District, the Unity Council led a campaign to enact a BID which is now providing \$250,000 per year. These funds all flow directly to the Unity Council, which uses them to hire a team of "Fruitvale Ambassadors" to clean and monitor the safety of the commercial district. Most of the ambassadors are participants in the Unity Council's welfare-to-work training program. In Berkeley's Elmwood district, BID funds are controlled by a nonprofit board that includes residents and are used exclusively to support the preservation of the neighborhood movie theater.



#### **BUSINESS IMPROVEMENT DISTRICTS AND THE HOMELESS**

*BIDs have a somewhat controversial history in urban neighborhoods. A number of BIDS have been accused of funding efforts to sweep homeless and poor people from commercial districts and many community advocates have come to equate BIDs in general with the worst practices of a few of them. Homeless advocates and the ACLU filed suit against several BIDs in Los Angeles charging that the private security firms that the BIDS have contracted with are regularly violating the civil rights of poor people through harassment and physical abuse. But the whole story on BIDs is more complex, as the Los Angeles Coalition to End Hunger and Homelessness found when they interviewed low-income residents in several of LA's BID districts. While they found many examples of security firms breaking the law and violatin ghte rights of area residents the Coalition also found, to its suprise, that the majority of low-income resdents were able to identify specific ways in which they benefited from the improved cleanliness and safety that the BIDs provided. More constructive BIDs have responded to the presence of the homeless in commercial districts by developing innovative partnerships to provide better and more coordinated homeless services. A report by the [International Downtown Association](#) documents some of the more successful partnerships.*

## Foundations

A growing number of private foundations are funding commercial stabilization work, often as part of a broader "comprehensive community initiative." They are more likely to be interested when the local government is actively partnering in the process and allowing the community to have a real say in how public funds are invested. This funding continues to be very difficult to come by, however, and few foundations have special funding dedicated to commercial stabilization. There is no comprehensive list of foundations interested in commercial districts but the [Neighborhood Funders Group](#) is a network of foundations that support comprehensive neighborhood improvement efforts. A list of its members can be found [here](#).

## Community Fundraising

Another common source of funds for commercial stabilization projects is community fundraising. Programs like Adopt-a-Block involve regular voluntary contributions from local businesses and residents who support neighborhood improvement. Well-managed special events and cultural festivals can also raise significant amounts of money. Generally, however, these community fundraising efforts are used to supplement rather than to substitute for government and foundation funding.

## Financing Commercial Development Projects

The growth of CDCs and other nonprofits as developers of affordable housing has led to the development of an entire industry of community development financial institutions and related public sector programs. The Bay Area office of the Local Initiatives Support Corporation publishes a *Directory of Financing Sources for Commercial and Mixed Use Projects*. Some of the sources listed are specific to California but many are national including:

- *Office of Community Services*. A program of the US Department of Health and Human Services, the OCS provides grants to support projects that provide employment opportunities in low-income communities, including commercial development. Grants tend to be about \$10,000 per job created.
- *Section 108 Loans*. Local governments can make loans which are guaranteed by the federal government by pledging the city's future CDBG grant funds as security.
- *Economic Development Initiative*. A program of the US Department of Housing and Urban Development (HUD), the EDI can provide grants of up to \$1 million to projects that are also receiving Section 108 loans and are likely to create a significant number of jobs for low-income people.
- *Tax Increment Financing*. TIF funds are generated when property tax revenues increase in a targeted redevelopment area. The increased income is set aside to finance further improvements. (See above.)
- *Community Development Financial Institutions*. CDFIs often provide below-market-rate loans for commercial projects. For example, the Local Initiatives Support Corporation manages a fund called the Retail Initiative which provides higher risk equity funding for nonprofit-sponsored supermarket developments in low-income communities.
- *Program Related Investments*. Larger foundations will sometimes make very-low-interest loans to community projects, especially in neighborhoods where they are actively making grants.

## The New Markets Tax Credit

Over the past two decades the federal government played a major role in encouraging private investment in lower-income communities through housing programs like the low-income housing tax credit, but this new capital has been limited almost exclusively to housing. A new program called the New Markets Tax Credit is intended to change this. The credit:

### A Mixed Blessing

The New Markets Tax Credit has the potential to bring much needed investment to low-income areas. However, it currently has no provisions for prioritizing community-serving businesses, weakening its stabilization potential.

- Was authorized in 2000 and will be awarded for the first time in 2002;
- Is intended to generate \$15 billion over the next seven years in private investment in small businesses or commercial facilities located in low-income neighborhoods;
- Will give private investors that make equity investments in qualified businesses an annual credit of 5-6 percent of the amount of their investment per year for a total of seven years; and
- Will also allow investments through funds set up for the purpose of qualifying for these credits.

The result should be that qualified businesses are able to access loans or equity investments at lower interest rates. Unlike the housing tax credit, which provides a much higher level of federal subsidy per dollar invested, the businesses that receive New Markets funds will have to prove that they can repay the capital. The New Markets credits will probably not make whole new types of businesses feasible but they should help struggling businesses to thrive. They may even help to convince private investors that these neighborhoods can be profitable places to invest without tax credits.

There are many ways, however, in which the New Markets Tax Credit is not ideal for commercial stabilization. The rules for the new tax credit do not adequately distinguish between investments that serve low-income families and those that are located in the target neighborhoods but have no benefit or, like check cashing outlets, have a negative impact on the lives of local residents. The administrators of the program at the [Department of the Treasury](#) say that they will address this concern in the way that they score applications for award of the credits, but the success of the program as a tool for equitable development will likely depend entirely on the specific details of how they implement this scoring process.

## Ensure Local Government Considers Full Costs of Gentrification

When local government invests in "commercial revitalization" there is a danger that they will focus too tightly on the tax benefits. Certainly stronger businesses should expect to pay more taxes but equitable development of a commercial district may not result in the level of short-term sales and property tax revenue that that gentrification of the same district could generate. However, the full economic cost of gentrification has to be considered. Large-scale displacement of low-income and working families leads to higher demand for subsidized housing and social services and can make it difficult for local businesses to retain a stable workforce. In addition, gentrification is part of a cycle of investment and abandonment that is probably more expensive in the long run than sustained investment in incremental change. Cities should make conscious decisions to invest in stabilization with an understanding that increased tax revenue will be only one of several benefits.

Some things don't happen on their own. People have to get together to make them happen. Stabilizing a neighborhood is one of those things: it takes coordinated effort on the part of many neighbors, businesses, government, and local institutions. And this kind of coordination requires a strong organization. The Fruitvale Main Street Program in Oakland provides an example of the kind of change that is possible when there is a strong organization ready to lead.

## **Fruitvale Neighborhood, Oakland California**

The Fruitvale district is a low-income, multi-ethnic, predominantly Latino neighborhood in Oakland, California. Fruitvale was once a thriving urban neighborhood-the kind of place people came to from all over the Bay Area to shop. But then came the freeways and the malls and gradually businesses left the neighborhood. Over time, Fruitvale's business district became the kind of place where people were afraid to walk around at night. The stores that remained struggled to survive; it's hard to run a successful business surrounded by boarded up or dilapidated storefronts. The neglected buildings discouraged investment in occupied buildings, and this lack of investment led to more deterioration. It was a vicious, though familiar, cycle. But all of that is changing. People are coming back to Fruitvale.

### **Fruitvale Main Street – Results of four year pilot**

140+ participants on Main Street committees  
133 net new jobs  
51 new business start-ups, 8 expansions  
110 storefronts renovated  
\$2.7 million private sector investment  
\$2.1 million public sector investment

**Source: Marketek, 2000 Fruitvale Economic Impact Report**

## **The Unity Council**

The Spanish Speaking Unity Council was formed in 1964 and over time has become the lead organization in the revitalization of the Fruitvale neighborhood. The organization has built housing for families and senior citizens in the neighborhood, and it operates child care centers for hundreds of neighborhood children. Over the years the Unity Council has grown from being a service provider, responding to the immediate needs of the community, to a new role leading the physical transformation of the neighborhood.

In 1999, the Unity Council broke ground on a dramatic investment that will serve as a centerpiece of the community. It is building a new housing, service, and retail development at the neighborhood BART transit station. The "Fruitvale Transit Village" will provide housing, a senior multi-service center, a library, a new home for the neighborhood's community health clinic, and new community-serving retail space.

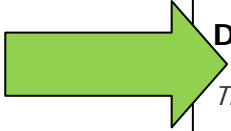
## **Fruitvale Main Street**

In 1997, the Unity Council was selected as one of five groups across the country to pilot a new approach to community economic development as part of the Local Initiatives Support Corporation's Neighborhood Main Street Initiative. The Initiative is a partnership between LISC and the National Trust for Historic Preservation, which created the Main Street model as a tool to preserve the historic downtowns of small cities. The Main Street approach represents a new way of working for urban community based organizations. Rather than being providers of direct services to the community, the Main Street host organization becomes a conduit of information and a facilitator for the development of a shared strategy. The Fruitvale Main Street Program is a broad collaboration between the Unity Council and a number of public and private institutions with a stake in the success of the neighborhood, including the local businesses, banks, the city, the police and parks districts, and, of course, concerned neighborhood residents.

The results of the program (see sidebar above) have been very impressive; over a hundred new jobs have been created and millions of public and private dollars have been invested in the community. But these large scale results

are achieved through the coordination of hundreds of very small actions. The Main Street approach emphasizes the long-term impact of small things. For example, the Fruitvale Main Street program coordinates a matching grant program for storefront improvements. The program staff identify merchants and property owners in need of assistance and help them find architects and contractors. With funds provided by the city, the program is able to provide very small grants to match the building owner's investment. Some of these façade projects are entirely new storefronts but others are as simple as new signs or awnings. Already the program has touched most of the buildings in the commercial district and the net result of all these small investments is immediately noticeable.

At the same time that they are improving the appearance of the district, the program is drawing new customers into the area. Every year over a hundred volunteers come together to organize the Fruitvale Main Street's Dia De Los Muertos festival. Merchants report that this is their busiest day of the year.



### **DIA DE LOS MUERTOS**

*The Fruitvale Main Street Dia De Los Muertos festival marks the Mexican holiday Day of the Dead and features altars created by local artists and performances by local musicians among many other activities. The festival began four years ago attracting a crowd of several hundred. In 2001, over 75,000 people attended! In a short time, the event has become one of the main ways that people outside the Fruitvale district learn about the area. It is widely covered in local TV and newspapers and reinforces an identity for the neighborhood which is specifically Latino, while at the same time offering food, music, and culture to the entire population of Oakland. Many local restaurants have booths that introduce visitors to the food available in the neighborhood.*

While some results from improved physical appearance and promotion of the district have been immediately visible, strengthening the economic base of the district is a much longer term effort. While the Fruitvale Main Street Program may eventually undertake a coordinated effort to attract new business, the initial focus of staff and volunteer efforts has been on strengthening the locally owned businesses that are already there. The program offers several formal opportunities for assistance, including an annual conference attended by nearly 200 businesses, but the greatest impact seems to come from informal assistance.

Such informal assistance made the crucial difference for one Fruitvale restaurant, for example. Like other businesses in the district, most Fruitvale restaurants are leasing their space on a month-to-month basis. One of the more successful, newer restaurants recently decided to purchase its building. Owning the building would give the restaurant owners the stability they need to invest in growing the business. Unfortunately, the property owner set an unreasonably high price for the building-50 percent above the appraised value. Of course, the restaurant owner could not obtain financing for that price. Rather than lower his price, the building owner raised the rent on the restaurant space in hopes of forcing the restaurant to buy it at the inflated price.

This kind of thing happens all the time, holding back the development of successful businesses and, by extension, successful neighborhoods. Fortunately, in this case, the Main Street Economic Restructuring Committee provided a way out. The Main Street Manager in Fruitvale was able to bring in a committee volunteer who is also a commercial broker to help the restaurant owner negotiate a fair price. Without a Main Street Manager on the street getting to know the merchants, this kind of problem would never have been identified and this business would have simply disappeared.

## **Elmwood Theater, Berkeley California**

**Written by Amy Cohen, LISC**

In many struggling commercial districts, old, abandoned theaters remain as monuments to a thriving past. The loss of a theater can mean the end of foot traffic and, subsequently, the failure of restaurants, cafés, bars, and surrounding retail establishments-not to mention the loss of neighborhood character altogether. When Berkeley's Elmwood Theater closed due to fire damage in 1988, neighbors and merchants feared the lasting impact that tragedy would have on the two-and-a-half-block commercial strip of College Avenue between Stuart and Webster. When United Artists, the owner of the theater, put the Elmwood up for sale, the neighborhood was faced with both a unique opportunity and a difficult challenge.

A special committee of the Elmwood Merchants Association came together and decided to buy the theater. The task was daunting, however, as not only would the merchants need to come up with the purchase price but also the funds to repair and seismically upgrade the theater, as well as convert it to multiple screens. They decided to approach the City of Berkeley for the purchase amount. Though they presented a compelling argument for why the Elmwood was critical to the neighborhood's vitality, the city was only willing to make a loan if the merchants could guarantee it would be repaid. Out of this dilemma, an idea for the Elmwood Theater Business Improvement Area was born.

### **Elmwood's BID**

In exchange for a \$215,000 loan for purchase of the theater, the merchants agreed to tax themselves, through a business improvement district (BID) model (see financing section), in order to repay the entire loan to the city at 6 percent interest over 20 years. They needed to raise approximately \$20,000 per year. So the Berkeley City Council established an advisory board composed of merchants and property owners to figure out the most equitable way to levy an assessment, taking into account the varying levels of benefit different types of property would be likely to receive from the theater's restoration.

The advisory board assigned area businesses to either a Core Benefit Zone or a Broad Benefit Zone. The boundary of the Broad Benefit Zone was drawn to include the Alta Bates Medical Center and nearby medical offices. In the first year, 1993-94, the additional property tax rate was \$.05 per square foot in the Core Zone and \$.01 in the Broad Zone. This amount would total about \$15,000 annually. For the additional \$5,000, a surcharge was added to the business license tax on businesses in the neighborhood that derived particular benefit from the theater restoration because they were open at night at least five nights a week. These included restaurants and bars, other late-night stores, and financial institutions with automatic teller machines open 24 hours.

The Culture of Value Economic Theaters-especially those of historical significance-play a unique role in commercial districts, and their multiplier benefits are widely recognized. The National Association of Theater Operators had shown that about half of evening moviegoers can be expected to have dinner at a restaurant located within blocks of the theater. Studies also showed that a high proportion of patrons also visit coffee houses and dessert establishments.

### **The Value of Theaters**

Theaters-especially those of historical significance (Elmwood is a landmark)-play a unique role in commercial districts, and their multiplier benefits are widely recognized. It was not surprising that merchants were willing to finance the purchase of the theater, given the research that has been done on the importance of theaters in commercial districts, plus their own experiences. The National Association of Theater Operators had shown that about half of evening moviegoers can be expected to have dinner at a restaurant located within blocks of the theater. Studies also showed that a high proportion of patrons also visit coffee houses and dessert establishments. Further, the volume of ATM transactions at a bank in the neighborhood surrounding the Elmwood declined by more

than 1000 per month after the closing of the theater. It was evident to area businesses that it was in their self-interest to revive the theater as a main attraction in the neighborhood. Their investment is paying off.

While the Elmwood Business Improvement Area's story is inspiring, it begs the question: Can this be replicated? It is not so likely. According to state law, BIDs must support public improvements in commercial districts. These improvements can include parks, sidewalks, or street maintenance but they are not intended to support a particular private business.



### **A SPECIAL CASE**

*In order to use the BID structure to finance the purchase of the theater, the City of Berkeley had to broaden the BID's intended use for public improvements to a more private-though, they argued, publicly beneficial-purpose. The city passed special legislation enabling this type of use of BID funds. It is not likely that other cities would be able to do the same, nor is it certain that such legislation would be able to withstand serious opposition.*

### **Lessons from Elmwood**

However, the story of the Elmwood is worth telling for the following reasons: First, BIDs should be considered a potential resource for some kinds of commercial revitalization work. Although using BID revenues to finance a particular business may not be a replicable strategy, BID revenues could be used for marketing or improvements that aid a district and, possibly, for financing some kinds of community facilities.

Second, the BID strategy illustrates the power of local merchants to bring about neighborhood change and stabilize their own commercial district. Even without the framework of a BID, merchants in a struggling commercial district should be viewed as potential resources for revitalization efforts. While they may be more willing to dream up creative financing solutions and invest their own money for theaters than for commercial properties with less obvious impact on their own businesses, they are stakeholders with political and financial power not to be overlooked.

Finally, the Elmwood Theater Business Improvement Area is a testament to the benefits of "thinking outside the box" when considering, and in this case creating, financing options for commercial development. The spirit behind the Elmwood Theater Business Improvement Area, if not the model itself, provides an important example of how creative problem-solving can lead to more vital neighborhood commercial districts.

---

## **Resources**

### **Community Organizations**

#### **The Unity Council**

[www.unitycouncil.org](http://www.unitycouncil.org)

#### **East Bay Asian Local Development Corp.**

[www.ebaldc.org](http://www.ebaldc.org)

#### **Mission Economic Development Association**

[www.medasf.org](http://www.medasf.org)

**Mercy Housing**

[www.mercyhousing.org](http://www.mercyhousing.org)

**Los Angeles Coalition to End Hunger and Homelessness**

[www.lacehh.org](http://www.lacehh.org)

**Tenderloin Neighborhood Development Corporation**

[www.tndc.org/](http://www.tndc.org/)

**Commercial Development Support**

**Bay Area LISC:** Commercial and mixed-use development training resources

[www.bayarealisc.org](http://www.bayarealisc.org)

**National Development Council**

[www.ndc-online.org](http://www.ndc-online.org)

Neighborhood Main Street Programs

**Local Initiatives Support Corporation**

[www.liscnet.org/whatwedo/programs/mainstreet/](http://www.liscnet.org/whatwedo/programs/mainstreet/)

**National Main Street Center**

[www.mainst.org](http://www.mainst.org)

**Fruitvale Main Street**

[www.unitycouncil.org](http://www.unitycouncil.org)

**EastLake Main Street**

[www.ebaldc.com](http://www.ebaldc.com)

**Ordinances/Legislation****New Markets Tax Credit**

[www.cdfifund.gov/programs/nmtc/](http://www.cdfifund.gov/programs/nmtc/)

**Readings**

*LISC Online Resource Library*

[www.liscnet.org/resources/new\\_markets/](http://www.liscnet.org/resources/new_markets/)

*Addressing Homelessness: Successful Downtown Partnerships, International Downtown Association, 2000*

[www.ida-downtown.org](http://www.ida-downtown.org)







