Back in Business

ALTERNATIVE STRATEGIES FOR ACTIVATING COMMERCIAL SPACE IN DETROIT

EXECUTIVE SUMMARY

Back in Business: Alternative Strategies for Activating Commercial Space is a document primarily intended to aid neighborhood stewardship organizations in their efforts to work with small business owners and local property owners to fill vacant commercial spaces in their neighborhoods. This guide explains common causes and affects of commercial vacancy, then explores solutions. In addition to neighborhood stewardship organizations, this document can be used by small businesses, property owners, funders, and local government agencies as a resource for contextualizing specific vacancies and developing strategies to fill them.

Examples of three strategies - arts and culture activations, food halls or food business incubators, and co-locating multiple retailers in a marketplace - are explored in this guide. Strengths and weaknesses of each strategy are highlighted and models for leasing and funding are explored. This analysis is intended to outline implementation recommendations for property owners seeking to fill vacant spaces or business owners seeking to maximize space they are currently leasing and to serve as a framework for program design and administration by neighborhood groups, philanthropy, and the public sector.

As a tool for reducing commercial vacancy, this guide will summarize and explore non-traditional or alternative strategies to activate vacant spaces on Detroit commercial corridors. This project considers single tenant, term leases of commercial spaces to be the traditional strategy. It refers to a wide range of activation strategies to be non-traditional or alternative strategies. This includes short-term leases (less than 1-year), co-location, or other arrangements of commercial space shared by multiple tenants, non-retail activations of typically retail spaces, events-centered programming, and various master lease and sublease arrangements to be non-traditional strategies.

Users of this guide should first seek to understand the circumstances of specific commercial vacancies in their neighborhood. Information presented will allow the user to view the vacancy through characteristics of property ownership and classify the vacancy type. Then a description of desirabilty and affordability factors will allow the user to understand market factors that affect the spaces prospects for leasing. Clicking on the title of each section in the table of contents will take the user directly to the specified content.

Next, users can explore alternative tenanting strategies that have proven effective by reading through three case studies. The case studies offer examples and explanation along with challenges associated with each strategy. Additionally, hypothetical programming is laid out in the tools section - a description of a space along with a strategy for activating it are detailed. Each strategy includes the broad framework of the activation strategy along with the specifics of a potential lease.

Combining a better understanding of the circumstances that have led to vacancy along with details of potential alternative tenanting strategies, users of this document can then apply those lessons to specific buildings and recruit specific businesses to fill vacancies in their neighborhood. Our hope is that the information and approaches described with this guide can be applied to awide range of contexts and circumstances throughout Detroit.

PREFACE

The work of this guide was undertaken as a part of the Economic Partnership Alliance, a cross-sectoral partnership initiative led by New Growth Innovation Network (NGIN) in collaboration with HBCU Community Development Action Coalition (CDAC), International Economic Development Council (IEDC) and Local Initiatives Support Corporation (LISC). Through the Economic Partnership Alliance, the Live6 Alliance (Live 6), the Downtown Detroit Partnership (DDP), and the Detroit Economic Growth Corporation (DEGC) created this *Back in Business: Alternative Strategies for Activating Commercial Space* guide based on each organization's unique experience and expertise in commercial district stewardship. This project will build on insights that grew out of the yearlong collaboration between Live 6, DDP, and DEGC and inform their work going forward.

Since the pandemic, the dynamics of neighborhood retail have changed in ways that make finding and retaining local small business tenants more challenging. In some places, the combination of increased online shopping and decreased foot traffic have resulted in a rising number of vacancies on commercial corridors. As the market has become increasingly difficult for both local small businesses and property owners to navigate, some local governments and neighborhood organizations have begun to explore non-traditional tenanting strategies as a method for filling vacant spaces. These strategies often aim to recontextualize commercial space to counteract the negative economic impacts of the pandemic.

Some of these strategies have a proven track record of success. The DEGC's Revolve program serves as an example of how non-traditional strategies - specifically events, arts activations, and short term retail pop-ups - can lead to long-term success. In 2013 the program selected more than 20 artists and 12 local businesses to create pop-up shops on Livernois Avenue. Some of those businesses remain on the avenue, others have gone on to open in other parts of the city and open additional locations outside of the city.

Today, the Livernois corridor is thriving. Revolve was only the first step in a long-term collaborative effort between the city, the DEGC, neighborhood stewardship organizations and a range of funders to stabilize the corridor and ignite growth and investment. Investment by the city in the physical infrastructure of the corridor (widened sidewalks, benches, trees and landscaping) along with investments in individual businesses (the DEGC's Motor City Match program has awarded more than a dozen grants and a loan program was created to support businesses during streetscape construction), and has spurred new development and restored the corridor to its historic and cultural status as Detroit's premier retail district.

The lessons of programs like Revolve along with examples from other cities around the country like Seattle Restored, Mother Road Market inTulsa, Oklahoma, and Andersonville Galleria in Chicago, offer a framework to build new strategies driven by the specific contexts of unique Detroit neighborhoods. Neighborhood stewarship organizations are uniquely positioned to lead and manage alternative strategies for filling commercial vacancies. This project intends to aid these local champions in their efforts to create stable, thriving commercial corridors in their neighborhoods.

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Introduction

Vibrant commercial corridors are at the heart of thriving neighborhoods - they offer places for gathering and shopping, and spaces of opportunity for residents and entrepreneurs. Their businesses and plazas allow communities a way to create a sense of identity and belonging. These thriving spaces become so intertwined with the daily lives of residents that they often seem to occur naturally - the plaza names and storefront signs are highlights of long local histories. But as cities and neighborhoods change, maintaining vibrant commercial corridors requires intentional, collaborative stewardship. In Detroit, this collaborative approach to corridor stewardship involves organizations that serve specific geographies like the Live 6 Alliance and DDP, city partners like the DEGC, philanthropic efforts like the New Economy Initiative, national funders like LISC and local CDFIs like Invest Detroit and LISC Detroit. Efforts like the city's Strategic Neighborhood Fund formalized this collaboration - public investment in infrastructure paired with access to grants and loans, supported by technical assistance and neighborhood stewards. The success of this approach is evident on corridors like the Livernois Avenue of Fashion and is bearing fruit with new investment shepherded by Live 6 Alliance at Livernois and 6 Mile. Intentionally layered cross-sector investment helped these historic corridors reclaim their vitality.

Yet even on these corridors, some persistent commercial vacancies remain. And in neighborhoods with a less targeted and cohesive approach to investment or stewardship, empty storefronts are even harder to fill. So when commercial vacancies take root, they become problems not just for landlords, but for the whole community. Because these spaces are supposed to be places of opportunity and utility for every-

'The Spirit', Waleed Johnson, Detroit

one, their decline represents a collective and public problem. They become symbols for a place that isn't working right. They tell entrepreneurs and developers that they may be better off looking elsewhere, and they tell residents to shop elsewhere.

For many neighborhoods that have experienced persistent commercial vacancy, a coalition of residents, community groups, and city agencies are all working together to create healthy corridors where existing businesses can thrive and new businesses can grow. But in spite of the concerted efforts of these coalitions of support groups, commercial properties on key corridors often stay vacant for long periods, or fail to sustain long-term tenants. Frustratingly these vacancies don't just occur in blighted or undesirable buildings, they can also be found in new spaces that seem primed for success. Similarly, as a result of changing shopping patterns and remote work, some established brick and mortar businesses may need less space than they are currently leasing. This document is an attempt to better understand the overlapping factors that can lead to commercial vacancy, and a guide to several non-traditional tenanting strategies that can be used as tools to solve persistent commercial vacancy problems and aid existing businesses in maximizing the utility of their spaces.

Collaborative Commercial District Stewardship

In Detroit, effective stewardship of commercial corridors requires collaboration from agencies and individuals at many levels. City, county, and state agencies work with neighborhood groups, developers, business owners, and residents to drive growth and change on Detroit's commercial corridors. Healthy corridors, and in turn healthy neighborhoods´, require all of these groups to work in partnership. In the Economic Partnership Alliance , three organizations, the **Detroit Economic Growth Corporation (DEGC), the Live6 Alliance, and the Downtown Detroit Partnership (DDP)**, formed a learning cohort to analyze and improve the way they work together and to chart a course for more effective collaboration with other neighborhood organizations.

The DEGC focuses on citywide economic development, while DDP manages grants and infrastructure improvements within a specific downtown geography. The Live 6 Alliance strengthens the Livernois and McNichols corridors through business support and community engagement. All three organizations leverage their on-the-ground expertise to work in coordination with the City of Detroit to identify opportunities for investment, guide community engagement, and supports small businesses. Each group plays a unique and pivotal role in Detroit's entrepreneurship ecosystem - Live 6 as the driver of investment and development on one of the city's historically important commercial corridors, DDP as the key access point for local entrepreneurs in Detroit's central business district and as a leader in district stewardship best practices, and DEGC as the city-wide convener of business service organizations and primary administrator of public programs and funding. Through the Economic Partnership Alliance, the three organizations met monthly to share best practices and collaboratively design a project for comprehensive economic growth, grounded in the strengths of their unique partnership. These discussions led to a desire for a practical tool to help each organization implement alternative tenanting strategies in commercial spaces in their districts and citywide. Both to eliminate vacancy and to offer new approaches for active businesses, this guide offers examples and best practices for three alternative tenanting frameworks. Our hope is that this project will draw from the collective experience of Live 6 Alliance, DDP, and DEGC to help other neighborhood stewardship organizations, local government, and community funders better work with business and building owners to find new solutions to persistent challenges related to tenanting and vacancy.

Digital Information Kiosk Ribbon Cutting, Midtown Detroit

Neighborhood stewardship organizations in Detroit, like Live6 Alliance and DDP, regularly work with one another and with citywide groups like the DEGC in both formal and informal ways. Their participation in the program is an effort to build on an existing foundation of collaboration. Currently, Live6 Alliance, DDP,and DEGC, are all members of the Detroit Business Association Consortium (BAC). The BAC is convened by DEGC and is a platform for neighborhood and corridor stewardship organizations to share ideas, align services, and formalize best practices. The group is a conduit to larger organizations and resource networks like the National Main Street Center and serves as a pipeline to the application process for designation as a Michigan Business Improvement District (BID), Principal Shopping District (PSD), or Business Improvement Zone.

DDP manages the Downtown Detroit BIZ, one of the city's two BIZs, and offers formal consulting services to other neighborhood organizations to help them navigate the state application process to become a BIZ, BID or PSD. Additionally, DDP contracts with other neighborhood organizations to manage clean and safe ambassador services on their corridors. This includes garbage clean up, pedestrian assistance, and general maintenance. DDP also led the way in partnering with the city to install Digital Information Kiosks. The Detroit Digital Information Kiosks are now located in all seven city districts to help pedestrian wayfinding and encourage 'park-once' trips.

SECTION 1

Understanding Commercial Vacancies

In Detroit, issues around vacancy have long dominated residents' concerns and often shaped outsiders' perceptions of the city's fortunes. Eliminating vacant structures has been a core tenet of the city's strategy for neighborhood improvement. In neighborhoods and on commercial corridors, demolition of blighted and unsafe structures has been paired with redevelopment of viable properties as twin tenets of the approach to eliminating vacancy. The reopening of iconic buildings like Michigan Central Station and the Book Tower are, to many, the new emblems of Detroit's changing fortunes. They are the most visible symbols of the long-term efforts of so many dedicated neighborhood stewards and public servants working on smaller scales to change the city block by block and building by building. But problems related to vacancy - both residential and commercial - remain. While foreclosures, over-assessments, and neglected houses are often a more proximate, personal issue in many Detroit neighborhoods, commercial vacancy is an equally vexing challenge to the city's long-term prosperity. And while vacancy has typically been associated with issues related to disinvestment, persistent commercial vacancies are occurring on some of the city's most in-demand commercial corridors and in new developments in growing neighborhoods.

IMPACTS OF COMMERCIAL VACANCY

Wherever you live, the path of your daily travels likely passes by a commercial space that never seems to have a business in it. You likely also pass by a storefront that goes from occupied to vacant every few months and seems to never be able to keep a tenant. You might even pass by spaces in apparently thriving business clusters but have been sitting vacant for years, or businesses that have something going on inside, but you can't tell what because the windows and doors are obscured. Sometimes these spaces represent long-term vacancies. Sometimes they are just waiting for a new tenant to prepare the space, or sometimes they are being used for an undetermined purpose. Regardless of their circumstances, all of these properties negatively affect the health of the commercial corridors they sit on.

Vacant buildings shape our perceptions of a place. They can serve as shorthand for a story of neighborhood decline, and that story, even when not entirely true, shapes our behavior and choices. But problems related to vacancy are not just symbolic and they affect more than just perceptions. They make residents and visitors feel less safe, and in turn make it less likely that businesses and developers will invest. Commercial vacancies can negatively affect commercial corridors in ways that are difficult to reverse.

Disinvestment

- The withdrawal or reduction of investment in a concentrated location is referred to as disinvestment.
- Often includes reduced public funding that results in the closure of amenities like schools and libraries and a lack of maintenance of parks and public spaces.
- Often occurs simultaneously with or results in a lack of investment in private buildings and businesses.

Commercial Blight

- Refers to the deterioration and decline of a com-

Abandoned Mammoth Building, Detroit

mercial area or property, often characterized by abandoned buildings, disrepair, and a negative impact on the surrounding community's economy and quality of life.

- Additionally, vacant buildings can have long-term consequences for the health of the surrounding population.
- Declining commercial corridors are often contributors to and indicators of wider challenges.

Health and Safety:

- Residents of neighborhoods with high residential and commercial vacancy report higher incidences of mental health challenges and even higher heart rates when passing vacant properties.
- Residents in neighborhoods with high concentrations of vacant properties report feeling less safe and more fearful.

Residential Wealth Generation

- Vacant and deteriorated properties can damage the wealth of surrounding residents by reducing the value of nearby residential properties
- Increases in insurance premiums or even policy cancellations can result from close proximity to nearby vacant or abandon properties.

Public Finances

- By decreasing the taxable value of surrounding properties, vacancies can lead to a reduction in property taxes and municipal revenue
- Monitoring vacant properties for nuisance violations, enforcement of punitive action as a result of violations, and maintaining or demolishing problem properties drain public resources and finances.

Cycles of Vacancy

Vacancy often creates more vacancy. Taken together, individual choices of business owners, customers, and residents often combine with market shifts and institutional disinvestment to create a cycle of vacancy. More commercial vacancies generate fewer shoppers, which in turn makes existing businesses less likely to renew their leases and new businesses less likely to open. Fewer tenants lead to reduced investment by property owners, which makes properties more likely to be the site of vandalism or fire, and eventually results in structural decay and commercial blight. This makes the corridor less attractive to investment, both public and private, and results in fewer jobs, less tax revenue, and eventual population decline.

Generally, neighborhoods with a higher percentage of low-income residents that have less access to capital are more likely to experience this cycle. And the cycle is usually preceded by a context of a long-term lack of public investment and/or a catalytic event - highway construction, natural disasters, closure of a major employment center, etc. So while these neighborhoods may have experienced a stable commercial core prior to the catalytic event, the combination of low-incomes, lack of institutional support, and less access to capital makes long-term commercial and residential vacancy more likely. If left unchecked, this confluence of factors can create long term harm to a neighborhood.

A cycle of vacancy manifests itself differently in different places - sometimes it affects a few buildings, sometimes a few blocks, other times an entire neighborhood or district. The breadth and intensity of the problem varies based on a combination of factors including type/quality of building stock, residential population density, land-use policy, walkability, and transportation access.

DEFINING TERMINOLOGY RELATED TO VACANCY

Problems of commercial vacancy always involve at least three parties - a property owner, a tenant, and the local government that enforces land use and taxation of a property. Each of these parties has their own interests and stakeholders. Property owners likely have a lender that financed their acquisition of the property, a contractor who works on the property, a commercial broker, and other investors or development partners. Likewise tenants may also be working with a broker and have investors or business partners. In addition to the tax authority, a whole network of government agencies likely have interest in the status of commercial properties, from planning and economic development departments to permitting and licensing offices and workforce development programs. And because commercial properties are privately owned sites of public interaction and interest, they usually have the attention of community groups, local council members or representatives, and local institutional actors like universities and churches. All of these groups have their own perspectives and frame the challenges of commercial vacancy within their own lens and language. To ground the strategies of this project in a common understanding, we have defined key terminology related to commercial vacancy and the way it will be used in this guide.

Commercial real estate refers to properties used as sites for business or generating income. Generally, analysis of this section of the real estate market includes multifamily residential buildings, however this project will not include strategies for mitigating residential vacancy. The solutions proposed in this guide are intended to help property owners, neighborhood groups, and business owners activate vacant commercial spaces.

Commercial Real Estate

Property used specifically for business or income-generating purposes. When people refer to ‘commercial real estate’ they may be referring to properties in a number of different sectors - office, retail, hotel, industrial, special purpose (amusement parks, churches, etc.), mixed-use and multifamily residential.

Commercial Property or Commercial Space

Typically a property used for business or income generating purposes - does not include multifamily or single family residential rental properties in this discussion.

Commercial Vacancy

Commercial spaces that do not have a regular use and are not occupied with any working equipment or furniture, and do not have a tenant.

Commercial Vacancy Rate

The commercial vacancy rate is calculated by dividing the square footage of vacant commercial space by the total number square footage of available commercial, and then multiplying by 100 to express it as a percentage. The commercial vacancy rate typically includes office. For a more accurate understanding of the rate of vacancy related to the spaces this project discusses, check the Retail Vacancy Rate, calculated in the same manner.

Capitol Park, Griswold Street, Detroit

More specifically, this project focuses on commercial spaces and storefronts appropriate for small businesses - typically customer-serving businesses with 50 or fewer employees. On neighborhood commercial corridors, these spaces are important locations for building neighborhood identity, for providing residents the goods and services they need, and for attracting visitors. These spaces are visible and accessible from the street, making them an important part of both the perception of a neighborhood and its economic viability. Pairing local small businesses with these vacant commercial spaces is a key part of the City of Detroit's strategy for improving commercial corridors and cultivating opportunities for local entrepreneurs. Those opportunities typically come in the form of retail businesses - this includes restaurants and food businesses, apparel, and services like barbershops and nail salons. These businesses serve local residents and both benefit from foot traffic and act as attractions for visitors. Their presence can transform dormant stretches of corridors into thriving neighborhood hubs. In addition to retail businesses, attracting non-retail activities like childcare, gyms, medical services, and other appointment-based or membership services can provide additional foot traffic and fill spaces that have reduced access or orientation to the street.

Commercial Corridor

A main thoroughfare or street characterized by a high density of retail and service businesses, including shops, restaurants, and neighborhood amenities. They serve a wide variety of functions and are places for socializing and community gatherings as well as primary corridors for public transportation.

Small Business

Technically, the US Small Business Administration considers a small business to be an independently owned and operated company, not dominant in its field, that has fewer than 500 employees. This project focuses on creating the conditions for businesses with fewer than 50 employees to occupy and reactivate vacant commercial spaces. This distinction is important because many resources, particularly loans, directed to small businesses are suited for companies that are much larger than the local businesses seeking space on Detroit's commercial corridors. This can make accessing the necessary capital to invest in a vacant space difficult for local entrepreneurs and makes tenanting persistent vacancies even harder.

Storefront

The pedestrian-accessible facade of a commercial space. This usually refers to a space appropriate for retail businesses that generate significant revenue from walk-in customers and do not have memberships or appointments.

Woodward Avenue, Downtown Detroit

Retail Appropriate Space

Commercial spaces that are suitable for a retail use - these are typically ground floor spaces with street-level entry access that are open and visible to the public.

Retail

Businesses that sell products or services to individual consumers for personal use. Generally, retail includes businesses that derive their revenue from unscheduled customer visits. While many people think of retail only as businesses that sell consumer goods like clothes and shoes or durable goods like furniture and appliances, it also includes carry-out and sit-down restaurants, and neighborhood services like pharmacies and drycleaners.

Retail Categories

Based on Bureau of Labor Statistics methodology, retail is discussed in three categories that share characteristics related to the types of goods they sell and their method of operation

- **Neighborhood Goods & Services (NG&S):** Includes grocery stores and other food retailers, convenience stores, pharmacies and other businesses that serve the regular needs of nearby residents and workers. These businesses are generally visited on a daily or weekly basis and are patronized based on convenience and proximity rather than brand affinity.
- **Food & Beverage (F&B):** Restaurants, bars, coffee shops, cafes and similar businesses that provide food and beverages to consumers outside of their homes - includes both dine-in and carry-out restaurants.
- **General Merchandise, Apparel, Furnishings, and Other (GAFO):** These are the businesses that most people typically consider as retail - stores that sell clothing, shoes, books, furniture, electronics, and other personal and home goods. Branding can play a large role in these purchasing decisions and most consumers decide on these items after comparison shopping. These are also the types of businesses most likely to lose sales to online shopping. Clustering GAFO businesses in districts helps them succeed.

Non-retail

Businesses that may require an appointment, are visited less often, and/or do not sell goods for consumption - medical offices, banks, auto-oriented businesses, professional services and office space.

Non-retail Space

Many Detroit commercial corridors have retail spaces and both office and light industrial spaces. These spaces tend to be less accessible to the public and their use is less readily accessible to passersby. They are less suited to retail uses, and are thus less desirable for many business owners.

Credit Tenant

A commercial tenant with a high credit rating, often a large national company or government entity, indicating a low risk of default on lease payments - chain restaurants like Subway, big brands like Foot Locker, large banks

Multitenant Spaces

Commercial property that houses multiple independent retail businesses within a single building or complex, each with its own lease and operating independently.

Mixed Use Spaces

A property or development that integrates multiple types of uses, such as residential, commercial (retail, office), and/or industrial spaces, within the same location or building.

TYPES OF COMMERCIAL VACANCY

Finding small businesses to fill commercial vacancies is dependent on an accurate understanding of the broader market conditions that lead to vacancy and the specific circumstances unique to each property. Some seem to see-saw between vacant and occupied every few months. Others may appear to have some activity occurring in them, but obscured windows and doors make it difficult to know. Others are occupied with furniture but appear to have activity. Understanding the differences between the status of various spaces will help create effective strategies for tenanting.

Under-Capacity Spaces

In addition to vacancy, many local entrepreneurs find themselves in spaces that may be mismatched to current market conditions. Changing customer preferences after the pandemic mean that some small businesses, especially retail, find themselves in long-term leases in locations that provide more floor space than is necessary for the amount of customer foot traffic they receive. The small businesses occupying an under-capacity space may be interested in co-retailing with another similar business to maximize the profitability of their space.

Under-Capacity Space

A retail space with more available floor space than is needed to accommodate a businesses current volume of customers or sales.

Transitional Vacancy

Some vacancy occurs naturally in the life cycle of a commercial property. Buildings may sit vacant for short periods between tenants or when undergoing renovations or improvements. These temporary breaks in tenancy are normal. More prolonged vacancy as a result of changing market conditions can also be expected. As long as property owners or managers areactively marketing the space and performing required maintenance, these periods should not be looked upon as problematic.


Transitional Vacancy

Transitional Vacancy

Temporary periods of vacancy related to tenant turnover, building renovations, or adjustments to changing market demand.

Unoccupied Spaces

Not all spaces that go long periods without an active use are technically considered vacant. When commercial spaces sit vacant for extended periods, changes to their property insurance occur. Many policies will not offer the same coverage for claims of damage after a space has remained vacant for more than 60 days. Because of this, property owners will often leave furniture or equipment in a space or convert the space to another, less intensive use when finding a tenant becomes difficult. This allows the property to avoid lapsing in vacancy status even though no productive commercial activity is occurring. These spaces may be unoccupied, but are technically not vacant.


Unoccupied Commercial Space

Unoccupied Spaces

Commercial spaces that do not have a regular use but do hold working commercial furniture, fixtures, or equipment. This status may occur if a property owner anticipates selling a building or does not want to make the investments necessary to attract a tenant.

City of Detroit Vacant Property Enforcement

Leaving working furniture or equipment in a building or converting commercial spaces to personal use are also strategies property owners may use to avoid the regulatory scrutiny of the City of Detroit's Buildings, Safety, Engineering, and Environmental Department (BSEED). BSEED can issue correction orders to owners of vacant property that is unsafe or unsecured, which when unheeded can lead to a demolition order for a property.

- **City of Detroit - Vacant Building:** The city considers a building vacant if it is unoccupied for more than 30 days, unsecured or secured by other than normal means, illegally occupied, or poses an imminent danger to the health and safety of the surrounding residents, properties or the general public.
- **Vacant Property Registration** - All properties meeting the above definition of vacancy must be registered with the City of Detroit through its **online portal**. After registering the property, the owner must schedule an inspection. Vacant properties that are not in compliance with **required maintenance regulations** will be issued a correction order. Failure to correct maintenance issues will result in citations and fines along with penalties of increasing severity for subsequent violations.

Chronic Vacancy

Properties that attract tenants, but regularly experience business closings and periods of vacancy may be classified as chronic vacancies. These spaces usually suffer from a lack of investment, and could otherwise be desirable and appropriate spaces for small business tenants. Some chronic vacancies may have some characteristics that make them attractive to prospective tenants, but a lack of access to capital, functional management, or professional brokerage services make it difficult to secure appropriate long-term tenants. These places can be ideal targets for grant funding, tenant recruitment assistance, and alternative tenanting models.

Chronic Vacancy

Chronic Vacancy

Spaces that experience periods of vacancy that last 3 months or more in two consecutive years. Typically, this type of vacancy is as a result of factors not directly tied to changing markets - mismanagement, poor tenant recruitment, lack of building maintenance.

Long-term Vacancy

Properties that have remained vacant for many years often experience a high degree of physical deterioration and require significant investment to make re-tenanting a viable option. When clustered together, these spaces become commercial blight and can drag down the economic prospects of the surrounding area. Paired with the loss of population and broader public disinvestment, these long-term vacancies can exacerbate already occurring economic decline. An overall reduction of tax revenue along with reduced property values of adjacent properties is common. Attracting tenants or investors to activate these properties is increasingly difficult.

Long-term Vacancy

Long-term Vacancy

Spaces that remain vacant for one year or more. This condition may indicate a property owner that is not engaged in actively attracting tenants and may be an indication of delinquency on regulatory matters. Regular enforcement of nuisance violations and tax delinquency are important factors limiting the long-term vacancy. In Michigan, commercial properties are foreclosed after three years of unpaid taxes. Properties that revert to the city of Detroit are available for purchase.

Structural Vacancy

Unlike chronic vacancies, structural vacancy refers to properties that are undesirable because of fundamental changes to the market. In Detroit, structural vacancies would include former industrial spaces that are no longer the appropriate height or floorplate to accommodate modern manufacturing. Similarly, large vacant grocery store spaces in areas that no longer have the population to support them and industrial spaces built to support manufacturing that no longer exist but cannot be easily converted to other uses can be considered structural vacancies. These spaces generally require targeted, specific programming like artist or maker spaces to become viable again.

Structural Vacancy

Structural Vacancy

Long-term, underlying vacancy within a property or market that is influenced by factors such as demographics, economic conditions, and industry shifts.

Financial Vacancy

Commercial spaces in new developments and spaces in highly desirable districts sometimes sit vacant for long periods, sometimes even sitting unfinished. Apparent market conditions suggest that these spaces should be in-high demand. But often, asking rents for these spaces are unaffordable to most local small businesses. Additionally, property owners may prefer to rent these spaces to credit tenants on long-term leases. When local businesses cannot afford the space, and credit tenants are not forthcoming, some property owners are willing to let the spaces sit vacant for long periods because they believe lowering rent in the short-term would negatively affect the long-term financial viability of the development or space. In other situations, property owners may have acquired their buildings with financing agreements that would result in default if the property owner were to allow the space to be rented at a rate below a certain threshold. For these financial reasons, some desirable spaces may remain vacant even though appear ideally suited to successful retail.

In even more extreme cases, a national retailer in a long term lease may decide to close a specific location if sales decline. They may judge the losses from a business closure to be less significant than the costs of terminating the lease or may believe that market conditions will change and reopening at a later date is viable.

Financial Vacancy

Highly desirable spaces that are priced too high for currently existing demand that sit vacant for long periods because lowering asking rent would negatively affect the long-term financial status of the building or space.

Dark Vacancies

In high-demand markets, credit tenants often sign long-term leases with 10-25 year terms. These are typically large corporations that take a decades long view on investments. For some companies, closing a store temporarily only to reopen when demand rebounds or closing a store to save on operational costs while continuing lease payments for the remaining term may be a reasonable financial decision. This results in unoccupied spaces that are leased, but not active.

Financial Vacancy

HOW PROPERTY OWNERSHIP INFLUENCES VACANCY

When they are built, no property owner intends their building to sit vacant or underused. But as markets change, so do the demands of prospective tenants. In addition to the physical characteristics of a building and the market conditions in which it operates, the financial constraints and operational capacity of a property owner can determine how and why a building becomes vacant. While all property owners are driven by a complex set of overlapping interests and personal circumstances, categorizing ownership types is a useful framing for understanding common characteristics and challenges. Some types of property owners may be more willing to participate in alternative tenanting strategies if the characteristics of the strategy align with their broader goals and management capacity. Though not all property owners will fit neatly into a single category, understanding what factors contribute to the motivations of various ownership types can lead to more targeted and practical implementation strategies.

Legacy Owners

Landlords who have owned their properties for many decades, inherited properties, or own property in partnership with family members fall into this category.

CHARACTERISTICS

Outright Ownership: Legacy owners are more likely to own their properties without debt, and may only need to generate enough revenue to cover maintenance and tax obligations.

Community Members: Many legacy owners are known to neighborhood residents and currently live in the community or come from families with a history in the community.

Limited Investment Capital: These owners may have limited access to capital, and may be unwilling or unable to access loans. Many would be open to alternative tenanting models if a clear pathway to capital and management was available.

Willingness to Sell: These owners are sometimes willing to sell the property for a high profit to developers or outside investors and may display some of the same characteristics as speculators.

Related Types of Vacancy: Unoccupied Spaces, Long-term Vacancy, Structural Vacancy

Owner Operators

Owner Operators

Business owners that also own the building from which they operate their business are another distinct group.

CHARACTERISTICS

Creative Economy: Owner operators are often artisans like furniture, clothing, or jewelry makers or service providers in the creative economy like architects or designers.

Underutilized Space: Because many owner operators need large spaces, they may have periods where portions of the space are available for other uses.

Openness to Alternative Revenue Streams: This group of owners are entrepreneurial, and tend to be open to alternative tenanting arrangements as a way to increase revenue.

Stretched Capacity: Operating a small business demands a commitment of immense physical and mental resources, leaving owner operators with sometimes limited capacity to execute additional projects.

Potentially Limited Development Expertise: Owner operators are experts in their fields, butmay lack the expertise or capacity to engage in expanded tenanting arrangements.

Related Types of Vacancy: Transitional Vacancy, Unoccupied Spaces, Chronic Vacancy

Independent Owners

These groups or individuals may own multiple properties, but they tend to operate only in Detroit or the surrounding suburbs, and their projects tend to be funded with a large share of owner equity and local financing.

CHARACTERISTICS

Gap Financing: Many of projects developed by independent owners require additional capital in the form of incentives, grants, or additional funding from non-traditional lenders.

Partnerships with Stakeholders: Projects are often financed and executed in partnership with city and state governments and in consultation with residents and neighborhood stewardship organizations.

Invested in Communities: Because these owners operate locally, their projects are often framed as community investments and they express a desire to offer opportunities to local businesses.

Mixed Use Development: Some of these operators may take-on residential development with ground floor commercial spaces that prove hard to tenant at their asking rates.

Own Multiple Properties Locally: Many independent owners own multiple properties around the city and are familiar with public resources and the small business ecosystem.

Related Types of Vacancy: Transitional Vacancy, Unoccupied Spaces, Chronic Vacancy

Large Developers

These owners include local firms with significant commercial assets in both Detroit and the region and national firms operating in Detroit. Large developers execute projects budgeted around $100 million or more and are often leaders in major planning and redevelopment initiatives.

Large Developer Space

CHARACTERISTICS

Incentives: It is common for large developers to work with state and local government to secure tax incentives, abatements, or credits and to use other tools made availabile through legislation that incentives development.

Ownership Part of Portfolio Strategy: Own and operate a substantial number of properties across multiple sectors and geographies - they may view vacancies in individual projects through a long-term financial lens rather than considering the effects of those vacancies on the surrounding neighborhood.

Credit tenants: Large developers seek credit tenants, national retailers that are low risk, have capital to invest, and are willing to sign a long-term lease.

High Rental Rates: A preference for credit tenants leads to high asking rent and can result in vacancies when tenants that fit the developer’s preferred profile are not available.

Restrictive Financing Requirements: Financing agreements may include requirements for certain rental rates and could include penalties or default as a consequence for leasing space at lower rates.

Related Types of Vacancy: Transitional Vacancy, Financial Vacancy

Absentee Ownership

Property owners that are unreachable and neither maintain nor invest in their properties.

CHARACTERISTICS

Non-residents: These property owners are typically not residents of the community where their property is located, and may even be international speculators.

Opaque: Many absentee owners shield their identities by holding properties in third party companies making it difficult to reach an individual regarding efforts to activate the property.

No Investment: Whether purchased or inherited, absentee owners view their properties as part of a speculative effort to profit when markets shift.

Passive Income: A desire for the property to offer passive income without heavy investment is common. Likely these owners are anticipating a market spike or naturally occurring property value appreciation over time.

Intention to Sell: Absentee owners intend to sell their property for a profit, and are thus not likely to participate actively in alternative tenanting projects.

Related Types of Vacancy: Long-term Vacancy, Structural Vacancy

Absentee Ownership

Staekholder Ownership, Ypsilanti Farmers Market

Stakeholder Ownership

Properties owned by public entities, community land trusts, neighborhood stewardship organizations, and non-profits.

CHARACTERISTICS

Economic Development: Stakeholders view vacant properties as opportunities for economic development initiatives.

Blight remediation: Groups may seek ownership of vacant properties when they are poorly maintained or pose a safety risk to the surrounding community.

Underfunded: These groups tend to be funded through a combination of public and philanthropic dollars and may lack flexible funding to implement strategies that are not part of approved budgets.

Local Opportunities: Stakeholder groups want to offer opportunities to local groups that may lack resources and are often the ideal collaborators for alternative tenanting strategies.

Tools for Wealth Building: Often rooted in community, stakeholder organizations view the activation of vacant properties as a way to offer neighborhood residents an opportunity for ownership or entrepreneurship.

Related Types of Vacancy: Transitional Vacancy, Under Capacity Spaces

FACTORS RELATED TO COMMERCIAL VACANCY

Vacant and underutilized space indicate there is a mismatch between the commercial space available and the spaces small business tenants want to rent. How these mismatches manifest in an individual space is influenced by the motivations and intentions of the property owners, a building's condition and its location.

In the simplest terms, commercial vacancies occur when at least one of two conditions are present:

- Businesses do not want to rent the space even if they can afford to - the space is **not desirable**
- Businesses want to rent the space, but cannot afford to do so - the space is **not affordable**

Desirability

While small business tenants may not be consciously aware of why they are drawn to some locations over others, most have an idea of which locations are desirable and which are not. Some spaces possess characteristics that are durable in changing markets - they are the right size, built of the right material, and in the right location to withstand market fluctuations. There are a series of basic physical characterists location

Folk, Corktown, Detroit

Woodward Avenue, Downtown Detroit

factors that help to understand why some spaces are desirable and others are not. The absence of these characteristics make it difficult for small businesses to thrive.

CHARACTERISTICS

Appropriately Sized: The ideal retail space will vary based on business type and location.

- Width of 1-20 feet and ceiling heights of 12 feet are recommened. Even small boutiques will typically have a width of at least 15 feet and ceiling heights of at least 10 feet.
- Most retailers can thrive in spaces between 1,000 and 1,500 square feet.
- Restaurants generally account for 1person per 15 square feet of space - so a 1,500 square foot restaurant could serve 100 customers.

Accessible: Proximity to major commercial corridors and public transportation allows easier access for both customers and employees to reach the business. A good retail location is accessible from multiple directions by multiple modes of transportation - car, bus, and pedestrian

High Visibility and Foot Traffic: Storefronts that are highly visible to both passing traffic and pedestrians are desirable for most businesses. Ideally, potential customers should be able to clearly understand what a business sells as they are passing by.

Bagley Street, Mexican Town Detroit

Proximate Customer Deman: For businesses that depend on repeat customers from the surrounding area, neighborhoods with lower incomes and less purchasing power are not ideal locations.

Complementary Businesses Nearby: Businesses are most successful when they are clustered together with other successful businesses. Dense retail nodes and commercial corridors with a wide range of business types can support multiple types of businesses.

Adequate Parking: Sufficient free parking is a primary concern for most business owners. Regular difficulty in finding parking near the business may act as a deterrent to future trips. In Detroit, a retailer is required to have parking space per 200 sq. ft. of gross floor area. Though a waiver for parking requirements is available in some geographies - **Detroit Planning and Development Department Parking Waiver Information**

Market Mismatched Spaces

Buildings that were purpose-built for a specific use, time, and place may be rended obsolete by demographic shifts, population changes, and technological advances. In these cases, the physical characteristics do not match the market. Other spaces may possess the physical characteristics to attract tenants, but are in the wrong location or require significant investment. In all of these situations, there is a mismatch between the type of space that is desirable in the market and some characteristics of a vacant space.

CHARACTERISTICS

Size Mismatches: Commercial spaces in evolving corridors may be too large or too small to meet the demands of prospective tenants. Additionally, some newly constructed spaces have floor plates intended to attract single tenants to large spaces, and are unable or unwilling to subdivide the space to accommodate multiple smaller tenants that would be willing to rent it.

Deferred Maintenance: Older buildings, long-term vacancies, and underutilized spaces often do not receive necessary maintenance and are often not weather-proofed or secured against vandalism and intruders. These spaces are no longer viable for tenants without significant investment and upgrades

Lack of Systems or Amenities: Mechanical, electrical, and plumbing (MEP) systems are required infrastructure in commercial spaces. Buildings that lack functioning MEP systems or the infrastructure to support those systems - ventilation, electrical boxes, sewer pipes and sewer lines - require more investment to make them operational. Additionally, businesses typically require amenities like bathrooms, loading docks, and storage to operate successfully. Buildings that lack these amenities are not desirable to prospective tenants.

Land Use or Zoning Issues: Some sections of the city may not have the appropriate zoning to accommodate the business types that wish to locate in a vacant space. Some dining or entertainment uses may require conditional use permission. Parcels on W. McNichols west of Livernois are zoned B2, which requires conditional use approval for restaurants.

Hazardous Previous Uses: Some previous commercial uses in a building - laundromats, drycleaners, car mechanics - require new tenants to complete environmental testing and potentially remediation.

Former Auto Repair Shop, Washington

What do we mean when we say rent?

The term "rent" can refer to many different arrangements or calculations of payment related to the lease of a commercial space. Before determining how much rent a business must pay per month, it is important to understand the terminology and factors included when referring to and negotiating "rent." In general, commercial rent is often expressed as an Annual Cost Per Square Foot – this is the total yearly rent divided by the number of square feet being leased. A business owner can calculate monthly rent based on the annual cost per square foot and calculate annual cost per square foot based on monthly rent.

- **Asking Rent:** The initial rent amount that a landlord advertises or requests for a property when it becomes available for rent; the rate at which the landlord intends to lease the property, but this can be negotiated.
- **Market Rent:** Market rent is the average rent that similar properties in a specific area are commanding. It reflects the prevailing conditions in the local rental market, including supply and demand dynamics.
- **Base Rent:** The minimum monthly rent due in accordance with the lease, most commonly calculated on a per-square-foot basis.
- **Effective Rent:** The actual monthly rent rate when aggregate rent costs and benefits are added together. Calculate by adding the total rent paid over the course of a year; (includes base rent, additional rent) subtract rent concessions, and divide by 12 months.
- **Additional Rent:** Regularly occurring charges in addition to the base rent in a commercial lease, which may include utilities and service fees, Common Area Maintenance (CAM) charges, percentage rent, and taxes and insurance.
- **Common Area Maintenance:** In a net lease, property owners usually pass along the costs of maintaining and operating their building onto their tenants. These costs can be added onto monthly rent as a "CAM" charge. CAM is calculated by assigning each tenant a portion of maintenance costs equal to the portion of the building they occupy – if the tenant occupies 10% of the building's rentable square feet, they will be charged 10% of the total common area maintenance costs.
- **Percentage Rent:** Applies in a percentage lease; an additional payment based on a predetermined percentage of the tenant's revenue. Generally, a breakpoint representing a revenue milestone after which the designated percentage of any additional revenue is added to the base rent.

Affordability

For many small business owners, the cost of opening in a space that suits their business in a desirable location is just too high. The asking rent in new developments or on prime commercial corridors combined with the cost of build-out makes renting their own space unrealistic. Rising construction costs and long waits to access capital reinforces this conclusion. In many spaces, the asking rent rate is too high to attract tenants, yet the prospect of vacancy does not result in lowered rent rates. Even desirable spaces may remain unoccupied for long periods. Which begs the question, why won't property owners lower their rates to sign tenants? And further, isn't some rent better than no rent? The answers to those questions are complicated. For most property owners, there are a complex set of factors and buildings characteristics that prevent lowering asking rent to attract tenants.

Rising Construction Costs

Construction costs continue to rise as materials prices are negatively affected by inflation and skilled trade labor costs increase. As a result, new buildings are more expensive to develop, and landlords may pass these costs on to prospective tenants.

Cost of Build-out: The increased cost of building out a commercial space, even in new buildings, can make them unaffordable to small business tenants.

Renovation and Improvement Costs: Regardless of age, all commercial buildings require maintenance, regular improvements, and some renovations to attract tenants. These costs, especially post-pandemic, have risen significantly, pushing landlords to maintain higher rents to cover their investment.

Impact on Property Valuation

In some situations, lowering rent would result in a series of knock-on effects that could result in a property owner defaulting on debt obligations. Developments financed before the pandemic may find themselves in this situation. Market conditions have changed in ways that make their pre-pandemic rent forecasts unrealistic, but debt obligations prevent the property owner from reducing rent without defaulting.

Lender Requirements: In some cases, landlords may be required to maintain certain rent levels as part of loan agreements or covenants with lenders. Lowering rents too much could put these agreements in jeopardy or lead to financial penalties.

Property Values Tied to Rent: The value of a commercial property is often based on its rental income. Reducing rent can lead to a lower property valuation, which could affect financing, loan terms, and the landlord's ability to sell the property in the future. This can lead to opportunities for prospective tenants to negotiate higher tenant improvement allowances or even some rent deferral or abatement.

Fixed Landlord Costs

High fixed costs related to the property may cause a landlord to be willing to wait for a tenant that will pay their desired rental rate. The net benefit of waiting for a higher long-term rental rate may outweigh the immediate costs of leaving a space vacant. However that is only true for a certain amount of time, and eventually property owners motivated by high fixed costs may be forced to rent at lower rates to reduce their losses.

High Mortgage and Debt Payments: Landlords often have fixed mortgage payments and debt obligations based on the property's value at the time of financing. They need to maintain high rents to cover fixed costs, since lowering rents could jeopardize their ability to make payments.

Operational Costs: Expenses such as property taxes, insurance, and maintenance are largely fixed and do not decrease with higher vacancy. To cover these operational costs, landlords maintain higher rents, even when attracting tenants proves difficult.

Long-term Market Projections

Especially in high-demand markets like downtown Detroit, property owners may anticipate that demand will rebound and current asking rates will seem more reasonable in the future. Some landlords might hold out for high-paying tenants rather than filling space immediately at lower rates. If they believe demand will rebound, they may be willing to tolerate higher vacancies temporarily to avoid signing long-term leases at lower rates.

Market Outlook: Landlords may see the current vacancy rates as temporary. This is especially true in downtown Detroit. More companies are requiring employees to return to work and more residential development is occurring, and additional retail anchors are set to open in the near future. These are all indications to some property owners that current vacancies will soon be more desirable and that current asking rents will seem affordable in the near future.

Mother Road Market, Tulsa

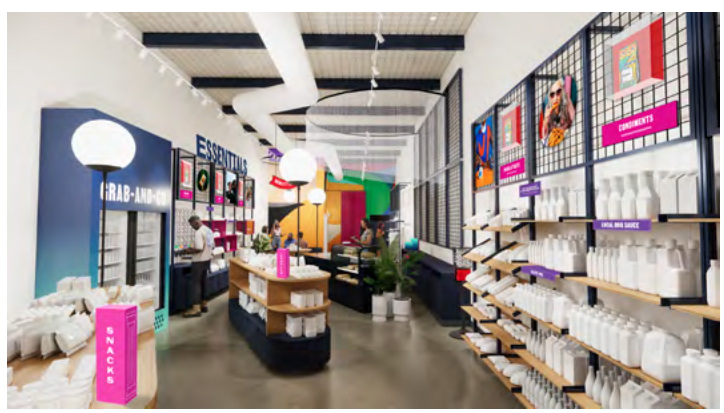

Seattle Restored Artist Residency, Seattle

SECTION 2

Solutions to Vacancy

Matching small businesses with commercial spaces to create long-term success requires business owner priorities, landlord motives, market forces, and building conditions to align. When that alignment occurs, both business owners and property owners tend to opt-in to traditional tenanting arrangements - one business per space in a long-term lease. Success for both parties is tied to negotiating lease terms and building costs in a way that aligns priorities and results in a long-term arrangement.

However, when the space needs and budget constraints of a business owner and the asking rent and compensation requirements of a building owner are mismatched, vacancy rather than concessions may be the result. Because each commercial vacancy can have an impact on the overall health of a commercial corridor, neighborhood stewardship organizations are often well-positioned to use non-traditional tenanting strategies to help business and property owners align their priorities. This can take the form of facilitating short-term lease arrangements, connecting parties to grants or entering into an alternative lease arrangement as a master tenant.



Rendering of Shops on 6, L:ive 6 Alliance, Detroit

Traditional Tenanting

Many commercial property owners are inclined to reduce the costs associated with building ownership in whatever ways they can. Most of the costs associated with property ownership can be partially passed on to tenants. This includes property maintenance, insurance, and taxes. So landlords typically do not want their buildings to sit vacant for long periods without a tenant to share the costs associated with building maintenance and tenant turnover. Tenant turnover costs money, time, and labor. Property owners typically want single tenants to pay as high a rental rate as possible for as long as possible with as few interruptions in tenancy as possible since it reduces the cost of ownership.

Similarly, many business owners prefer long-term leases because they offer location stability and the ability to manage budgets and make financial decisions around predictable rent and space costs. As a result, long-term leases for single tenants are the traditional and preferred tenanting arrangement for most landlords and tenants.

Traditional Tenanting

Long-term (more than 1-year, typically 3-10 years) lease arrangements between a property owner and a single tenant in which that tenant pays monthly rent, utilities, and some share of expenses associated with the ownership costs of the property.

This preference for traditional tenanting arrangements can be a factor that contributes to chronic vacancy and unoccupied buildings. Landlords are sometimes willing to forgo short-term leases or non-traditional leasing arrangements because they perceive the added costs associated with managing these arrangements will result in lower net earnings over time. They may be similarly hesitant to enter leases below asking rent, because they deem the rent generated at reduced rates to be insufficient to maximize profits in the long-term. In this way, some problems with commercial vacancy can result from property owner preferences for traditional leases as part of a strategy to maximize earnings over the long-term in spite of the negative effects in the short-term. This presents an opportunity for third parties - business service organizations, neighborhood stewardship groups, or entrepreneurs - to take on the management responsibility for alternative strategies in a way that benefits both landlords and business owners.

Alternative Tenanting Models

In an environment of escalating challenges to both property owners and entrepreneurs, alternative tenanting strategies offer a way to make space affordable for entrepreneurs while still allowing landlords to cover the costs of maintaining their property. Unaffordable rents, rising construction costs, and the changes to in-person shopping caused by e-commerce and remote work have all contributed to a growing hesitancy for small businesses to sign long-term leases in brick and mortar spaces.

When commercial property owners are unable to find single tenants to occupy them, property owners and community stakeholders can work together to create a set of alternative solutions. The same is true for chronic and long-term commercial vacancies - neighborhood stewardship organizations have the opportunity to facilitate re-activation with alternative tenanting strategies. While these strategies can take many forms and have a wide variety of structures, in general, alternative tenanting strategies differ from traditional tenanting in one or more of following ways:

- Third Party Management
- Non-traditional Occupancy Periods
- Multiple Tenants or Non-traditional Types
- Lease or Payment Arrangement

Because alternative tenanting strategies typically add additional costs and labor to managing commercial spaces, they require management or special accommodations from property owners. Neighborhood stewardship groups can position themselves to take on these management responsibilities and activate vacant or underutilized spaces in a way that benefits local entrepreneurs and property owners. In this way, alternative tenanting strategies can be a useful tool for activating key vacant or underutilized commercial spaces in a way that prevents broader neighborhood decline and catalyzes additional investment on commercial corridors.

Characteristics of Alternative Tenanting Models

To be successful, alternative tenanting strategies should take into account the reasons a commercial property is vacant or underutilized. This includes the desirability and affordability of the space, the underlying type of vacancy, and the possible hesitancy of property owners to engage in a new type of tenanting arrangement. These reasons point towards mismatches between the characteristics of the space and the market and funding gaps for property owners or prospective tenants. Understanding space type, ownership characteristics, and vacancy type should inform strategies for counteracting vacancy and underutilization of commercial space. Effective strategies should aim to connect mismatches and funding gaps and be informed by the characteristics of specific space type, vacancy type, type of ownership.

Third-Party Management

To be effective, most alternative strategies require a third-party manager to set-up and maintain the space - alternative leasing arrangements require negotiation, shorter occupancy periods require additional maintenance, multiple tenants require additional recruitment, multiple uses require scheduling, and non-traditional hours require coordination.

More Tenants, More Management: Typically, as alternative tenanting strategies increase the number of tenants, the burdens of management increase as well.

Less Foot Traffic, More Programming: Locations that have fewer customers walking by have fewer opportunities to attract walk-in and incidental visitors. This requires more intentional programming targeted at specific audiences, which in turn requires more management.

Less-established Business, More Customer Attraction: Businesses with less experience and a less established customer base require the managing organization to engage in more customer attraction.

Neighborhood stewardship organizations should engage in strategies that meet their capacity to manage the space. The DEGC's implementation of the Revolve program and the Live 6 Alliance's forthcoming **Shops on 6** space are examples of successful third-party management. Neighborhood stewardship organizations have an opportunity to fill this role and offer value to property owners and opportunity to local businesses.

Non-traditional Occupancy Periods

Short-term Leases: When a formal lease is involved, these strategies typically involve leases of 1-year or less, sometimes with an option to extend and often with the goal of transitioning a participating business into a traditional tenanting arrangement.

Limited or Irregular Hours: Businesses involved in these activations often have limited staff capacity and are open during specific periods when they are most likely to attract walk-in customers or during periods aligned with events and programming.

Temporary Activations: Many alternative models are based on a hours-long or days-long activation that does not require extensive build-out or installation process.

Event-based Activations: Spaces that lack the physical or locational characteristics that make them viable for successful retail can often be successfully activated with targeted events marketed at a specific customer or base or offering an in-demand product or service. Events can induce customers to travel from farther distances to a location that they would not typically patronize.

Multiple Tenants or Non-traditional Tenant Types

Co-retailing: Housing multiple brands or business types in one location is a hallmark of alternative tenanting. Together, multiple complementary businesses can attract more customers than any one business could on its own. Food halls and multitenant marketplaces are examples of co-retailing.

Programmed for Flexible or Multiple-uses: To offset gaps in rent and mismatches in tenant attraction, spaces can be arranged and programmed to house different businesses or activations during different hours or days. A location may have sufficient foot traffic to support traditional retail on weekends, but need event activations on weeknights to attract visitors.

Experiential: Creating memorable, engaging environments or activities can attract visitors to a space they would normally not travel to for a standard shopping experience. Photo-worthy displays and decorations, participatory activations, or limited time product or service availability are all experiential techniques.

Lake City Artist Residency, Seattle

Limited Food & Beverage Service: The prohibitive cost of build-out makes opening a stand alone restaurant an unrealistic option for many property owners and food entrepreneurs. Creating a space that meets the requirements for limited food service - warming and plating rather than onsite cooking and food storage - can offer a low-cost alternative to traditional restaurants for burgeoning food businesses or effective venue for supplemental revenue for established food businesses.

Non-retail Tenants: Businesses that offer regularly recurring or scheduled visits can be good candidates to fill vacant retail spaces. Fitness classes, business services, and some personal care services like hair or nails could be sustainable in spaces that are not conducive to successful retail.

Lease Basics

The way that the landlord calculates and organizes payments is determined by the type of lease agreed to with the tenant. While every lease is different, commercial leases generally fall into one of three categories: Gross Leases, Net Leases, and Percentage Leases. Some landlords may negotiate a hybrid of these types of leases, but those hybrid leases would involve a combination of the terms and structures found in the three main lease types.

- **Gross Lease:** In a gross lease, the tenant pays a single, flat amount that includes rent, taxes, utilities, and insurance. The landlord is responsible for paying taxes, utilities, and insurance from the rent fees.
- **Net Lease:** In a net lease agreement, the renter pays not only a fixed rent to the landlord but also covers all incidental costs.
  - **Single Net Lease:** When a tenant signs a single net lease, they pay a portion of one of the three expense categories - property taxes, insurance, or common area maintenance
  - **Double Net Lease:** Tenants who have a double net lease pay a portion of two of the three expense categories. These leases are also called net-net leases
  - **Triple Net Lease:** In a triple net lease, also known as a net-net-net lease, the tenant pays a portion of all three expense categories.
- **Percentage Lease:** A percentage lease typically includes a fixed rental rate and a percentage of the profits of the business renting the premises. This allows for a lower base rental rate in comparison to net and gross leases. However, the tenant can potentially pay more in total rent to the landlord if the business generates more revenue. Conversely, the renter may pay less in rent in lower revenue periods. Taxes, utilities, insurance, and other operational costs can either be included in gross or net lease terms.

Master Leases

One common arrangement that enables alternative tenanting models is master leasing. Unlike in a traditional landlord tenant arrangement, where an individual space is leased to a single tenant for their exclusive use, a master lease anticipates that the master tenant will lease sections of the space to other businesses. In non-traditional tenanting strategies, neighborhood stewardship organizations typically act as the holder of the master lease.

As a strategy for reducing persistent commercial vacancies, master leases are an opportunity for community groups to offer the benefit of reduced risk and reduced management responsibilities to property owners while offering increased affordability and desirability to prospective tenants.

Master Lease

An agreement between a single party, the master tenant, and a property owner, for that single party to lease an entire space with the explicit intention of subleasing sections of the space to other tenants. The specifics of master leases can vary widely, but they would typically mirror traditional lease models.

Affordable Net Effective Rent for Tenants

Master leasing allows a neighborhood stewardship organization to offer smaller spaces to multiple tenants at a net effective rate that is affordable for each business. Though the rate per square foot is typically higher than it would be for a single tenant, the smaller spaces allow affordability to be maintained for each individual tenant.

Sufficient Net Effective Rent for Property Owners

By spreading the cost of rent among more businesses, a master lease holder may be able to pay the property owner a net effective rent that meets their asking price. For many vacant or underutilized properties, this would not be possible with a single tenant.

Characteristics of Pop-ups

Alternative tenanting strategies are sometimes grouped under the term "pop-up". Pop-up has become a catch-all, often used to describe a wide range of temporary or flexible retail and food concepts. While popular, this broad usage can make it difficult to distinguish what specific strategies are effective in specific contexts. At a baseline, a pop-up has two key characteristics,

#1: It is deliberately temporary or short-term

#2: It is an activation at a different scale than the space was originally intended to serve - either for a less intense activity, for a different use, or by a different user.

Access and Opportunity

Often curated intentionally to provide opportunity, pop-ups can allow businesses that would otherwise not be able to afford or access a brick and mortar space the chance to test their concept and attract in-person customers. Pop-ups offer a low-risk way for entrepreneurs to test new products, locations, or concepts without committing to a long-term lease or investing significant capital in start-up costs.

Incubators and Accelerators

Providing business support services and education in conjunction with access to space is a common strategy for non-profits and business support organizations attempting to help under-resourced businesses grow. Retail incubator and accelerator programs borrow from a practice commonly used in the tech world - bringing like minded entrepreneurs together and providing instruction and expertise to the group, combined with the place-based concept of the pop-up movement.

Accelerator

Also typically cohort based, but targeting more established businesses, accelerators aim to help existing businesses grow into their next phase. Many small businesses struggle to see a clear pathway to growth. Accelerators help make that pathway clear, and offer the expertise and connections needed for small businesses to grow into their next phase.

Incubator

Highly programmed and usually cohort-based, these short-term, place-based engagements target new and early stage businesses. They offer a combination of education, mentoring, and often the promise of funding as a springboard to success. This model can be employed by business service and neighborhood stewardship organizations as a way to connect local entrepreneurs, especially home-based businesses with the support needed to expand.

Locally, TechTown Detroit's Retail Boot Camp and the Shop, Build Institute's Grow classes, and Eastern Market's Shed 5 Incubator Kitchen offer opportunities for business training, pop-ups, and incubator programs.

In addition to offering co-working space, organizations like Hunt Street Station and Bas Blue offer platforms for business training, events, and pop-ups. Their focus on a targeted group of entrepreneurs and creating a space that serves multiple functions - meeting place, incubator, cafe, and more - allows them to carve out a unique success with non-traditional strategies. The spaces are curated and managed in a way that offers entrepreneurs more than just space.

Events & Art Spaces

For decades, cities have leaned into arts and culture districts as a catalyst for broad based economic development and the revitalization of specific neighborhoods. These strategies range from centering arts and culture institutions like museums and concert halls as the cornerstones of transformative development initiatives to creative placemaking like the adaptive reuse of office and retail spaces into galleries and performance venues. Whether at a districtwide scale or as a strategy for activating individual properties, event and art-based programming can be a successful strategy to attract specific audiences for targeted programming as a way to create incidental traffic for adjacent businesses.

Downtown Austin Space Activation, Austin

Spaces that lack the characteristics to attract local retailers - mismatched sizes, deferred maintenance issues or lack of systems and amenities - can be built-out more affordably for less intensive uses like galleries or small scale performances. Spaces that lack the characteristics to attract regular visitors - lack of parking or accessibility, not highly visible, or not in proximity to other retailers - can be programmed to attract specific audiences during specific times. Effectively positioning and marketing arts programming, live performances, or outdoor installations, can make vacant space vibrant and transform it into a complement to adjacent brick and mortar businesses.


Trinosophes, Gratiot Ave., Detroit

Many of the underlying principals that make arts and cultural spaces successful anchors - high spend per visit, the attraction of non-local visitors, and increased visitorship to adjacent businesses - are true at a smaller scale. Neighborhood stewardship organizations can replicate the methods of larger district-wide strategies and tactical arts and culture programs as a strategy for reducing vacancy of individual spaces on their corridors. Specifically, programs like Seattle Restored lay out a framework for leveraging public and private resources to recruit commercial property owners and local artists and entrepreneurs to activate vacant storefronts with arts and cultural programming.

CASE STUDY

Seattle Restored

In 2021, downtown Seattle, like most downtowns across the country, was reeling from the massive disruption of the pandemic. Average weekday worker foot traffic was down by 76%. Office vacancy rates had tripled to more than 15%. The credit tenants that downtown landlords aimed to attract were hesitant to sign new leases amid the uncertainty of the changing market. Property owners and city officials recognized the urgent need to attract visitors back downtown and understood that activating the growing number of retail and ground floor commercial vacancies would play a key role in this process. Out of this need, grew Seattle Restored. The program took a non-traditional approach to activating dormant downtown spaces - art installations, artist residencies, and short-term pop-ups. The program matched empty storefronts with local artists and entrepreneurs to bring vibrancy back to downtown streets.

PROGRAM PREMISE

For local artists and entrepreneurs, Seattle Restored offers affordable access to prime commercial space as a way to reinvigorate commercial corridors. These projects benefit Seattle neighborhoods by creating vibrant and engaging streetscapes, while encouraging the public to support local businesses and artists.

For property owners, the program serves as a tool to attract future long-term tenants. It asks landlords to provide their space at a below market rate in exchange for exposure, marketing (all spaces are professionally photographed for future use), and some tenant improvements (grants funds are available for build-out).

PROGRAM MANAGER

Seattle Office of Economic Development (OED) in partnership with the Seattle Good Business Network and Shunpike, an arts advocacy organization.

LOCATION

The program began in downtown Seattle as a specific strategy for mitigating rising ground floor vacancy during the pandemic. It has since expanded to 10 different neighborhoods and has become a key component of the city's commercial corridor improvement strategy.

- **Currently 35 Active Spaces - all privately owned**
- **Currently 6 Neighborhoods**

FORMAT

- Short-term tenancy, 3 and 6 month leases

PARTICIPANTS

- 125 artist and small business participants throughout the history of the program

PROGRAM STRUCTURE

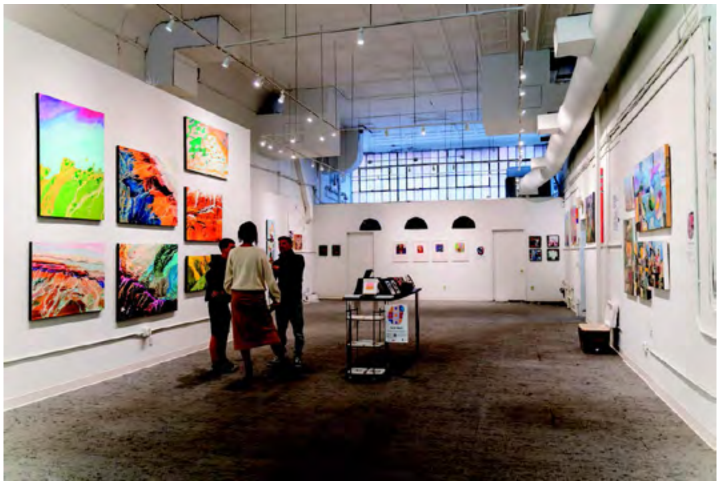
Window Display

Exhibit artwork in a street-facing window display in a vacant or underutilizied space in key locations. Work can be purchased via a QR code displayed with the art. This activation is displayed for a duration of six months and includes an artist stipend.

Window Display, Seattle Restored

Artist Residency

Artists work in a shared studio space alone or with a group of other artists. Work is displayed in exterior windows and by activating the space as a gallery. Art can be sold via a QR code in window displays and through open gallery hours. This activation is in place for a duration of six months and includes an artist stipend, tenant improvement funding and no-cost lease.



Artist Residency, Seattle Restored

Pop-up

Offers a test run for retail or service industry pop-up concepts in a pre-furnished storefront location. All pop-up shops are open to the public. Three month lease that results in a two month pop-up (two weeks of build-out and removal at either end of activation). Includes a stipend, tenant improvement funding and no-cost lease. Participants are required to remain open for a minimum of 24 hours per week and be open at least 4 days per week.

Pop-up Shop, Seattle Restored

LEASE STRUCTURE

Seattle OED provides a lease template and facilitates terms of three party agreement between Seattle Good Business Network and Shunpike, the building owner and the artist/business owner. Seattle Good Business Network and Shunpike act as master lease holders.

- Gross lease paid by the program directly to property owners. Participants are not required to pay additional rent or utilities.
- Program aims to pay around $1,500 in rent per month per participant - often below market rate and requires some flexibility on the landlord's part.
- Program provides property insurance for each activated property for the duration of the activation.
- Program provides a fixed stipend in working capital to help support installation, merchandising, and staffing.
- Program hires contractors to support tenant improvements.
- Program hires contractors to support tenant improvements.

SUPPORT

Participants gain access to financial and technical support to help grow their businesses. The program includes a $2,5000 stipend for build-out, free rent in a short-term lease, along with technical assistance in commercial space development, marketing, and business planning. Participants also benefit from professional photography and are featured in a citywide multimedia campaign..

- Approximately $1,500 monthly rent per space
- Participants receive a $2,000 stipend for build-out and expenses related to opening.

PROGRAM CHALLENGES

The program has become a mainstay for Seattle small businesses and a primary tool for filling vacancies for property owners. Neighborhood stewardship groups facilitate introductions between the program and prospective tenants and landlords, and work with city staff and the program's support agency to bring projects to fruition.

Versatility: For both property owners and business owners, Seattle Restored offers a wide range of options for activation.

Affordability: Rent is free for all artist and entrepreneurs, the program offers access to prime space that allows them to generate revenue. Additionally, there is a manageable expectation for in-person commitments.

Accessibility: Barriers to entry are low and new or growing businesses can easily participate in the program. Likewise, artists can use the program without a long history of sales or gallery representation.

PROGRAM CHALLENGES

While the program has seen consistent success, high demand and a large number of applications results in a long waitlist and long processing times. Additionally, funding uncertainty can distrupt the regular application cadence.

Long Application Process: Application reviews take around two months followed by multiple interviews. The program offers applications twice yearly. It has proven so successful that there is now an extensive waiting list.

Administrative and Management: Because the program offers several pathways, it requires multiple applications and processes. Additionally, it utilizes multiple spaces simultaneously, creating a high burden of management and staffing needs.

Funding: The program is operated with a mix of public and philanthropic dollars, allowing artists and business owners to participate at no cost. Changes to city budgets or donor priorities could eliminate the program. Both to cover the costs of each space and to staff the program, a high level of public support and fundraising is required.

Food & Beverage Activations

While the upheaval of the pandemic saw the closures of nearly 10% of the nation's restaurants, spending on food has rebounded to exceed pre-pandemic levels. Americans are still buying lots of food, they're just doing it differently. They are less likely to leave the house in general, but spend far more money on carry-out and delivery than before the pandemic. These trends, along with the rising costs of construction and commercial rent, have helped position food halls as a sought after alternative to stand alone locations for established and up and coming chefs and restaurateurs. Additionally, this increased spending points to the opportunity to draw potential customers to unique food and beverage activations at locations that might otherwise sit vacant.

As a result, alternative tenanting strategies for food and beverage businesses offer a unique opportunity. Food halls offer lower barriers to entry, and though they may charge higher rental rates per square foot, the much smaller space that each restaurant occupies translates to a lower monthly cost for each restaurant. A smaller scale corollary that is possible on neighborhood commercial corridors, a community commercial kitchen can be used for a variety of food and beverage uses. Restaurant pop-ups, meal prep services, and restaurant hybrids allow a wide range of food and beverage entrepreneurs for a range of activations. Like in food halls, building owners can charge an hourly rate that would equate to a higher monthly rent than a single business would typically pay to rent their own space, but splitting that rental rate into smaller increments between more tenants can provide an aggregate rent at or above market rates. Similarly, both food halls and other alternative tenanting arrangements

Whatch Wanna Eat Food Hall, W. McNichols, Detroit

for food and beverage entrepreneurs offer the benefit of attracting more customers than any one business could on its own. This happens through the combined customer attraction power of all the businesses in a food hall and the targeted programming and marketing available in a shared community space. Both food halls and community commercial kitchens offer similar benefits

- Increased customer attraction
- Lower startup costs as a result of limited build-out
- Flexibility of short-term leases
- Reduced operating costs through shared maintenance fees
- Lower labor costs as a result of operating in a managed space

But both arrangements carry a similarly high management requirement. Neighborhood stewardship groups and business service organizations are likely to have access to public and philanthropic resources and local entrepreneur networks. Because many property owners will be unwilling to take on the management of these hybrid food and beverage spaces, this leaves local organizations ideally positioned to step in as both space manager and vendor curator.

CASE STUDY

Mother Road Market/ Kitchen 66

Mother Road Market, Tulsa

Since it opened in 2018, Tulsa's Mother Road Market has been a resounding success. The project is owned and operated by the Lobeck Taylor Family Foundation, and was named the #1 food hall in America by USA Today in both 2023 and 2024. Mother Road Market is located in Tulsa's Market District on Route 66, a part of the city's Kendall Whittier Destination District. The City of Tulsa Destination Districts program aims to stimulate economic development by creating walkable corridors filled with local businesses that emphasize unique cultural, retail, and entertainment opportunities and offer reflections of the unique characteristics of each neighborhood. While Mother Road Market is not located in Tulsa's downtown, it is located proximate to additional retail, dining, and entertainment options. Perhaps most importantly, it offers ample parking for visitors from all over the city and region. Institutional support includes streetscape improvements, facade improvement funding, and support for the creation of business organizations, all in the service of creating a district that attracts visitors and investment.

Kitchen 66 is a commissary kitchen and incubator program offering the opportunity for food entrepreneurs to start and grow their businesses. Part of Kitchen 66, the Launch Program offers training, sales, and distribution opportunities through platforms like the Takeover Cafe, Landmark Food Truck, Takeover Cafe Residency, and General Store at Mother Road Market. This emphasis on opportunity for underserved entrepreneurs helps Tulsa's food scene thrive and creates a pipeline for Mother Road Market tenants.

PROGRAM PREMISE

Not just a dining destination for Tulsa and the surrounding region, Mother Road Market is dedicated to decreasing barriers to success for food entrepreneurs. The market and food hall offers vendor space, education, and mentoring as well as a pathway to brick and mortar for local food entrepreneurs.

PROGRAM OPERATOR

Lobeck Taylor Family Foundation

LOCATION

The space is located at 1124 S. Lewis Ave, Tulsa, in Tulsa's

FORMAT

27,000 SF food hall including a commissary kitchen, classroom and workshop spaces, and a rentable event space.

PARTICIPANTS

- 18 food vendors, including one rotating pop-up food trailer
- 2 retailers with their own space
- 2 pop-up retail spaces - monthly and
- General store selling curated merchandise from local small businesses

PROGRAM STRUCTURE

Food Hall: 20 available market spaces

Kitchen 66 Landmark Food Truck: On premise food truck located on back patio that is open to rotating food vendors that are not tenants in the market.

Mother Road Market, Tulsa

Kitchen 66 Takeover Cafe Pop-up: This daily pop-up offers space to participants in the Kitchen 66 Food Pop-up program.

Kitchen 66 Takeover Cafe Residency: This extended stay food pop-up is also open to Kitchen 66 Food program participants.

Kitchen 66 General Store: A retail shop dedicated to start-up and local packaged food entrepreneurs.

Limited Time Only Market: This retail space is a monthly rotating retail popup for a select local entrepreneurs.

LEASE STRUCTURE

- 1-year 'shop agreements' for food vendors - program was originally designed for 1 year terms but may increase offerings for up to 3 years
- Graduates of Kitchen 66 get 50% of rent for the first 6 months, then pay market rate for the duration of the lease
- Spaces are around 325 SF
- Space is equipped with 11 hoods, but vendors are expected to pay for start-up costs that average around $10,000 - signage, additional equipment, and inventory

SUPPORT

Kitchen 66 commissary kitchen offers rentable hourly food preparation access, monthly rentable storage space and 24/7 access for participating businesses. Their Launch Program is a 15-week comprehensive business training course where a community of industry experts equips participants with the skill building and knowledge needed to launch a food business.

PROGRAM STRENGTHS

Mother Road market offers points of entry for businesses of all stages, and supplements revenue generating opportunities with education and technical support. The program provides a wide range of opportunities to both food and beverage, apparel, and artisanal goods makers.

High Foot Traffic: Mother Road Market offers a choice for diners of all tastes, and as a result is able to attract a larger number of customers than any one restaurant could attract on its own

Affordability: Vendors at Kitchen 66 are able to operate their businesses at a rental rate that they can afford with low fixed costs like labor and space maintenance.

Training and Support: The Lobeck Taylor Foundation offers extensive training, mentorship, and technical support to vendors at Mother Road Market.

K66 General Store, Mother Road Market, Tulsa

PROGRAM CHALLENGES

Though Mother Road Market has been recognized as great success and a model for food halls nationwide, the model is dependent on philanthropic funding. In siutation where this funding is not avaialble, it is unlikely that the additional wraparound services would available sustainably.

Administrative and Management: The wide variety of programming, assistance, and mentorship offered through Kitchen 66 and the Launch Program crates high staff costs and management requirements for the Mother Road team. t

Disincentive to Brick & Mortar Expansion: Many vendors at Mother Road Market are hesitant to leave. While their success at the market can serve as proof of concept, it is also a disincentive to invest in a larger space that requires loans and a higher level of risk.

Hybrid Retailing & Multi-Vendor Marketplaces

Post, Kercheval. Detroit

As small business owners look for strategies to succeed in a changing retail environment, smaller shared spaces are often more appealing. When well-managed, these multi-vendor marketplaces can move beyond simply selling products and offer a shopping environment that prioritizes engaging and memorable customer experiences. A curated mix of local vendors combined with regularly occurring events and community resources can bring larger concentrations of customers than any single vendor could attract on their own. Access to a larger customer base combined with reduced costs make marketplaces a viable option for small retailers that otherwise would not be able to afford a brick and mortar space.

Many Detroit small business owners are hesitant to sign long-term, brick and mortar leases because of the high cost of build-out and maintenance. This is especially true of spaces that have experienced prolonged periods of vacancy. They are more likely to require significant repairs to structures and systems and as a result face a higher burden of regulatory management. So while property owners may be willing to rent undesirable spaces for more affordable rates, the additional cost of build-out makes the effective rent over the course of the lease prohibitive. Coupled with added costs, more repairs require a longer build-out period, which prevents the business owner from operating normally while adding the additional challenges of managing construction.

Similarly, many businesses combine two or more product types or business models to attract a broader customer base. Cafes and reatil goods, wine bars with record shops, and other hybrid businesses are growing in prominence. By creating one businesse that combines multiple models, entrepreneurs may be more likely to sustain their prensence in a brick and mortar space. For organizations like Live 6 Alliance, the multi-tenant marketplaces format is an opportunity to create space for small-scale entrepreneurs and curate products that fill gaps in the retail demand of local residents. Their Shops on Six will offer home essentials, personal care items, and much needed access to quick, convenient, healthy food. For entrepreneurs, the project is an opportunity to increase revenue while minimizing the cost of build-out and start-up for entrepreneurs that may not otherwise have a presence in a brick and mortar space. In downtown Detroit, DDP works with partners to offer these opportunities through seasonal pop-ups and outdoor events.

Pararmita Sound, Broadway Street, Detroit

CASE STUDY

Andersonville Galleria

Andersonville Galleria interior, Chicago

Andersonville Galleria facade, Chicago

Clear pathways to brick and mortar success are harder and harder to discern for many home-based businesses and artisans. One place that offers a reliable opportunity for successful vending as well as a pathway to permanent brick and mortar is the Andersonville Galleria in Chicago. This 7,000 square foot two floor space on Clark Street in Chicago's Andersonville neighborhood is home to more than 100 vendors and small retailers with a focus on handcrafted artisan goods from local artists and designers.

Andersonville boasts one of Chicago's most walkable and desirable retail corridors leaving commercial space in high demand and rental rates out of reach for many new businesses and home-based entrepreneurs looking to find a permanent or semi-permanent location. Since 2007, the Andersonville Galleria has offered small spaces - booths, floor displays, and kiosks - to a wide range of local businesses. Vendors range from clothing, to candles, to jewelry, and other hand crafted art pieces - businesses and makers that may not generate enough revenue to support a stand alone brick and mortar shop but when brought together in one space create a bustling ecosystem of small shops and unique products.

Several rental arrangements are possible in the Galleria - permanent space, monthly artist showcases, or weekend pop-ups. The key advantage the Galleria offers to vendors is a unified point of sale system that allows transactions to be made and managed by staff rather than the business owner. This allows the revenue to be generated even when the artisan or maker is not present and reduces the opportunity cost that comes with being present for pop-up engagements. Additionally, the Galleria offers an online portal with merchandise available from all vendors. An 18% commission is charged to offset the cost of space management, staff, and marketing. For buyers, the Andersonville Galleria is a unique shopping experience in the vibrant Andersonville retail corridor, offering an eclectic mix of more than 110 vendors. Shoppers can explore a wide array of goods ranging from bespoke apparel and handcrafted jewelry to original artwork and artisanal home furnishings.

PROGRAM PREMISE

For buyers, the Andersonville Galleria is a unique shopping experience in the vibrant Andersonville retail corridor, offering an eclectic mix of more than 110 vendors. Shoppers can explore a wide array of goods ranging from bespoke apparel and handcrafted jewelry to original artwork and artisanal home furnishings.

For sellers, the Andersonville Galleria represents a premier opportunity to engage with a dynamic market in a highly sought-after retail corridor. Market vendors gain access to a a dedicated geographically varied customer base eager for unique and high-quality products. The Galleria offers a supportive environment for both established and emerging sellers to showcase their creativity and expand their reach.

PROGRAM OPERATOR

Andersonville Galleria - privately owned and operated by the with subleases to tenant.

FORMAT

Long-Term micro spaces and pop-ups of varying length.

PARTICIPANTS

- 90-125 vendors - mostly hand crafted artisan goods, art, and clothing

Andersonville Galleria interior, Chicago

PROGRAM STRUCTURE

Vendors make sales through an account tied to a unified POS system operated by Galleria staff

- Revenue is disbursed monthly to vendors through their account
- Operating costs including rent and commission are automatically deducted from vendor accounts monthly

LEASE STRUCTURE

Andersonville Galleria offers entrepreneurs a range of options for engaging with its space.

Full-time Vendor: Lease terms begin at month-to-month and require one month security deposit, rent ranges from $120-$600 per month depending on the size of the space and requires an 18% commission of gross sales
Monthly Loft Artist: One month gallery residency in artist loft spaces, no rent is required, selected artists agree to pay a 40% commission of all work sold but are free to set the the price of all work
Weekend Pop-up Vendor: Approximately 8'x8' space equipped with tables and chairs - $100 fee for vending space on Saturdays, $75 fee for vending space on Sundays or $150 for both days; vendors keep all revenue but must collect their own payment for sales in a manner of their choosing.

SUPPORT

Andersonville Galleria offers assistance creating and maintaining merchandising displays and vendor set-ups. Additionally, the space gives access to a unified point of sale system that allows goods to be purchased even when vendors are not present. Additionally, vendors will have items made available for purchase via the Galleria's online portal. Marketing, events, and regularly occurring markets are all programmed and managed by the Andersonville Galleria offering expanded exposure to a wide range of customers. Former vendors like Vase and Vessel, Rare Form, and Transit Tees have moved on to their own successful brick and mortar shops after beginning at the galleria.

PROGRAM STRENGTHS

Andersonville Galleria has proven to be both a viable long-term retail location for artisans and makers as well as a launching pad to stand alone brick and mortar locations. Vendors are able to leverage shared resources, create a customer base, and when ready, use that experience as a launching pad for their next phase.

Shared Point of Sale System: Andersonville Galleria vendors make sales through one, unified system. This allows vendors to make sales without being present in the space and allows them the freedom to create their goods and administer their business while still making revenue.

Unified Marketing Efforts for the Entire Space: Part of the rent that vendors pay goes directly to marketing for the entire space. Sharing this cost reduces expense for individual businesses while attracting a wider customer base.

Flexible Rent Structure: Because Andersonville Galleria offers several different points of access for entrpreneurs, the space is accessible to a wide range of exprience levels and revenue. The space is an afforable option that can be sustainable for businesses at many stages.

PROGRAM CHALLENGES

The large space in a prime location that Andersonville Galleria occupies is difficult to replicate for many neighborhood stewardship organizations. Many locations that are as desirable as the Galleria's building on Clark Street in Chicago would be unaffordable. The space greatly benefits from its location on a prime retail corridor with outstanding walkability and foot traffic.

High Upfront Costs: Building ownership and investment in a shared point of sale system require access to capital that may be unattainable for neighborhood stewardship organizations.

Requirement for Staff: While features like a shared point of sale system, shared marketing, and several levels of rent make the space accessible and affordable for entrepreneurs, it also places a high burden of management and labor on the space's managing agency. In a location with less foot traffic, lower sales may not support the staff required to replicate this model.

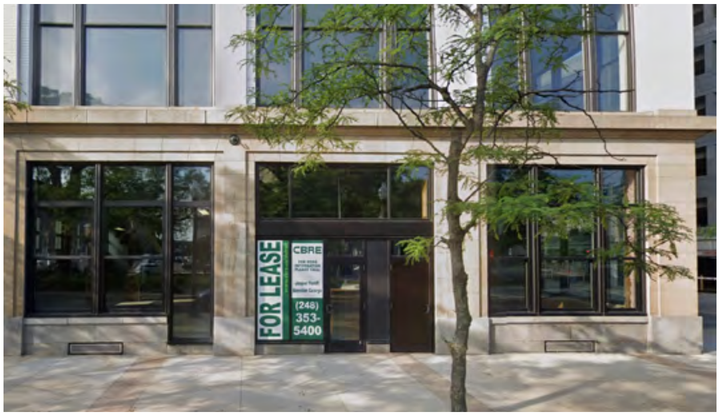
EXPLORING ALTERNATIVE TENANTING STRATEGIES

This section offers a set of scenarios and hypothetical alternative tenanting strategies to illustrate how a neighborhood stewardship organization or business support group could design programming to correct mismatches between available spaces and market demands. Strategies focus on filling gaps in funding or expertise for property owners and business owners and effectively managing the space as a third party. These strategies should be tailored to the characteristics of the space - property age, condition, vacancy type, and ownership characteristics - and consider the needs of local residents. To be successful, alternative funding strategies should connect business and building owners to a range of funding sources and resource providers. The following examples show how local market context and the characteristics of a space can be integrated into the design and implementation of a potential strategy.

Example 1: Arts Space

A downtown building has recently changed hands and been refurbished. The building is seven stories, with the top six floors housing several sizes and types of apartments - from studios to luxury lofts. The floor plate is 7,000 square feet, and the ground floor contains two retail spaces of 1,000 square feet. The building sits in a district that will see considerable redevelopment in the next five years, up to 100 residential units and more than 50,000 square feet of retail, entertainment, and office space. Considering the location and recent renovations, this is considered Class A space.

The new owner acquired the building around two years ago, and finished the refurbishing of the ground floor spaces 18 months ago. All three spaces have been vacant since. Because the district is still in the early stages of redevelopment, few tenants have been interested in renting the space at the asking rent of $28 per square foot. Several local entrepreneurs have inquired about renting the space at below market rate, but the property owner is hesitant to agree to this because he expects credit tenants will be interested in the near future as surrounding development continues.



Example 1 Space

SPACE PROFILE

Ownership Type

Large Developer

Vacancy Type

Long-term vacancy transitioned to financial vacancy

Zoning

B5 Major Business District

Space Classification

Class A

Condition

White box - working utilities, finished walls, floors and ceiling

Retail Space Available

2 spaces - 1,000 SF each

Shared Artist Residency, Seattle

Common Area
400 SF

Usable SF
2,000 SF

Rentable SF
2,400 SF

Asking Rent
$28 SF/YR

Estimated Annual CAM
$3 SF/YR

Estimated Annual Insurance
$1 SF/YR

Estimated Annual Taxes
$1 SF/YR

Estimated TIA
$20 SF

Desired Lease Term
5 years

Net Effective Rent
$33 SF/YR x 5 years - $20,000 TIA = $29 SF YR

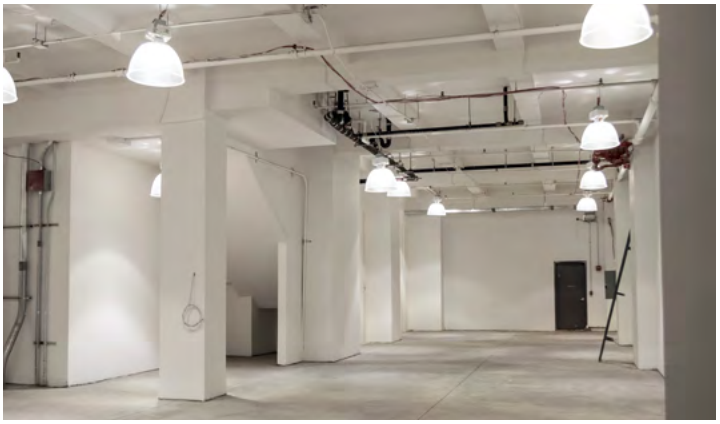
Proposal

As a way of activating the space, the local downtown business association approaches the landlord with a proposal to utilize the space as artist studios and gallery space. The city's department of Arts, Culture, and Entrepreneurship is interested in creating space downtown to showcase local artists, and is on board to partner on the initiative. The goal of the project is to bring local artists into downtown, exposing them to visitors and creating a pattern of behavior among visitors to expect when visiting the district for arts, culture and entertainment in the future.

The downtown business association offers to enter into a one-year master lease agreement through which they will subdivide the two 1,000 SF spaces into ten 100 SF artist studios (five in each space) that includes art gallery space.

- At a discounted rate of $20 SF/YR, the downtown business association will sublease the space to artists for six months each and charge $200 per month to each artist.
- With the help of the city, the program will seek $15,000 in grant funding - $5,000 will be used as TIA to build out and frame the studio space, $10,000 will be allocated evenly to each artist as a $1,000 grant for supplies or to cover rent.
- A percentage of all art sales, 10%, will be contributed in additional rent by each artist.

The lease will include a requirement to hold monthly open studios on the last weekend of each month and a first Friday gallery show. Each artist will have the opportunity to extend their stay to 1-year if they notify the business association of their desire to stay before the end of the 3rd month. Additionally, the downtown business association in conjunction with the city department of Arts, Culture, and Entrepreneurship will manage the recruitment and application process to find artists for the space.



Example 1 Space

Master Lease Terms

Lease Type

Triple-net

Base Rent

$20 SF/YR

Estimated Annual CAM

$3 SF/YR

Estimated Annual Insurance

$1 SF/YR

Estimated Annual Taxes

$1 SF/YR

Estimated Additional Rent from Arts Sales

$1,200 annually

Estimated TIA

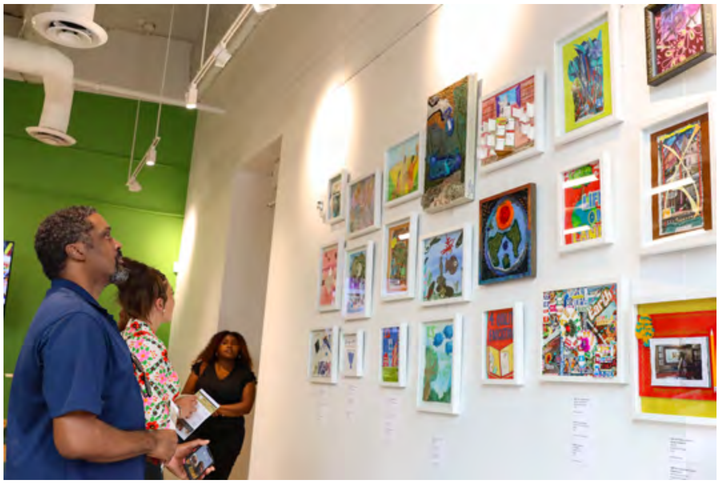
$5,000 Contributed through grant funds

Net Effective Rent

$20 SF/YR + $1,200 + $5,000 x 1 year = $26.20 SF/YR

Value Proposition

The project has the ability to activate the space at a rate that comes close to meeting the property owner's asking rent. It will do so on a short term basis that will not prevent the property owner from signing a long-term tenant if they become interested. By activating the space with daily use and programming regular events, the project will showcase the space to prospective tenants and serve as free marketing. without a tenant.



Seattle Restored Gallery Opening, Seattle

Example 2: Multi-Vendor Marketplace

A property owner on Detroit's west side inherited her father's shoe store after her father retired. After struggling for several years of declining sales to keep the store afloat, the business closed permanently during the pandemic. Since then, over nearly three years, the building has had few tenants that have not worked out and has been vacant for the last 6 months. Though the building owner no longer lives in the city, she has deep affection for the neighborhood and wants to see local entrepreneurs have an opportunity to build a business like her father did.

While the building owner has consistently attempted to recruit tenants and is willing to offer affordable rent, the building needs considerable work and she lacks the funding to refurbish it. Without a tenant, securing a loan has proven both too difficult and too risky. The building is paid for and she manages to keep up with the taxes, but cannot risk a monthly loan payment without a tenant.

The space is 1,800 square feet, with an open floor plan, a store room, and an office located in the back. It's located on a main commercial corridor next door to a tax office and a clothing store that is also struggling. A few carry-out restaurants on the same block are usually busy. The property owner decides to reach out to the local neighborhood stewardship organization for help finding a tenant.

Space Profile

Ownership Type

Legacy Owner

Vacancy Type

Chronic vacancy

Example 2 Space

Zoning

B2 Local Business and Residential District

Space Classification

Class B

Condition

Deferred maintenance - needs upgrades to HVAC and plumbing

Retail Space Available

1,800 square feet

Asking Rent

$10 SF/YR

Estimated Annual Insurance

$1 SF/YR

Estimated Annual Taxes

4 SF/YR

Estimated TIA

No TIA available

Desired Lease Term

3 years

Net Effective Rent

$15 SF/YR

Craig's Coffee, Cass Corridor, Detroit

Proposal

The neighborhood stewardship organization regularly works with the City of Detroit's economic development agency to enroll residents in business planning classes. Many of those residents have home-based businesses and participate in vendor markets and pop-ups around the city. While the neighborhood group wants to offer an opportunity for the vendors to locate in a brick & mortar space, they also recognize that most of the entrepreneurs work other jobs and do not have the capacity to operate a store full time. Additionally, refurbishing the store would require a significant investment, and there is a risk that a single vendor would not be able to generate enough revenue to cover the monthly rent, expenses, and debt service.

As a solution, the neighborhood group proposes a hybrid retail space - it will house a small coffee shop and cafe that sells pastries and drinks, along with a selection of local soft goods like apparel and jewelry, and a weekend marketplace where vendors can set up tables and displays. The space will also be available for event rentals.

- The neighborhood stewardship organization will sign a master lease at a rate of $15 per square foot.
- A coffee shop vendor will operate in the space six-days per week in a sublease at a rate of $1,000 per month.
- A minimum of 10 vendors will retail goods in the space, and will pay 15% of their gross sales in additional rent to neighborhood stewardship organization.
- Retail sales will be processed at the coffee shop counter on weekdays through an integrated Point of Sale system.

To be successful, an initial investment in the space of $50,000 is required - the rental rate of $15 SF/YR is sufficient to cover the debt service, maintenance, and taxes. The neighborhood stewardship organization will work with local lenders and the property owner to secure a loan, and will attempt to secure matching grant funding to offset some of the cost of build-out.

Master Lease Terms

Lease Type

Gross Lease

Lease Term

3 years

Base Rent

$15 SF/YR, for a total of $27,000 paid by the neighborhood group

- Annual Revenue from Cafe Sublease: $12,000
- Estimated Annual Additional Rent from Sales: $12,000 (Average of $670 in sales per month per vendor)
- Estimated Annual Revenue from Space Rental: $3,000

Value Proposition

By entering into a three year master leasing agreement with the neighborhood stewardship organization, the property owner can cover regularly occurring expenses and complete necessary upgrades to the space. While the margins will remain slim for all involved, this type of activation allows the neighborhood stewardship organization to essentially offer to program and manage the space on behalf of the property owner. In exchange, the space is activated, the neighborhood is more vibrant, and the space can serve as a launch pad for entrepreneurs.

Planned 'Smal Market', Ballard, Seattle

PROGRAMMING AND POLICY SOLUTIONS

Success for alternative tenanting models depends on those models filling a market gap that traditional tenanting cannot fill. Smart programming and policy can help formalize and normalize these alternative tenanting strategies to make property owners, business owners, and funders more willing to engage with them and give neighborhood stewardship organizations the tools they need for implementation.

Business Owners

'A La Carte' micro grants for small businesses: While Detroit has lots of CDFIs that offer a wide range of loans and established grant programs like Hatch and Motor City Match, quick access to small amounts of funding are often difficult to come by. The strategies explored in this project all reduce the upfront capital costs for business owners to participate. Offering additional grants of less than $5,000 to further reduce those costs will increase the range of business owners able to participate and result in more equitable access. These grants should be quickly accessible, within 30 days, and have clear guidelines to streamline the application process.

Commercial Rent Assistance: Resources and grants are available for business owners during the start-up process and when unforeseen or emergency circumstances occur, but there is little material assistance throughout the life of a business to cover regularly occurring expenses. Many new spaces that have been developed in coordination with broader strategic initiatives are unaffordable and result in chronic and financial vacancies. Creating a program to provide medium-term, up to 1-year, rental assistance for businesses locating in strategically important corridors or for those that offer goods and services that provide a public benefit would fill the gap between asking and market rent for independent owners and larger developers. This would reduce vacancies and allow local businesses serving neighborhood residents to thrive in the most desirable places.

Property Owners

White box fund: Many property owners are willing to offer spaces at affordable rates but do not have access to the capital necessary to make the physical spaces desirable to prospective tenants. This is especially true for legacy and independent building owners who are attempting to activate chronic vacancies and long-term vacancies. Grants of up to $50,000 to upgrade mechanical, electrical, and plumbing systems would greatly reduce the barriers to success for both traditional and alternative tenanting models. While existing programs like Motor City March offer grants to business owners to offset tenant improvement costs, they do not make buildings that are currently vacant more desirable. Creating a resource to make vacant spaces more move-in ready will make them more desirable to prospective tenants, **reduce the length** of build-out periods at the beginning of leases, and result in reduced debt burden for business owners.

Tenant Improvement Forgivable Loan Fund: Efforts to offer financial assistance to property owners are sometimes met with reticence and public resistance. Because property owners tend to have more access to capital than local small business owners, programs are often designed with the business owner at the center. Forgivable loans to property owners could be conditioned on the long-term success of a local business.

Loans of up to $100,000 for tenant improvements could be 25% forgivable after a local business that provides a community benefit operates in the space for 5 years. This would allow landlords to increase tenant improvement allowances to offset the net effective rent of the space over the five year period making desirable spaces more affordable to local businesses.

Neighborhood Stewardship Organizations

Assistance in BIZ/BID/PSD Creation: Creation of dependable revenue sources are essential for neighborhood stewardship organizations to thrive. BIZ's, BID's, and PSD's offer regularly occurring revenue that would allow neighborhood stewardship organizations to employ staff to manage alternative tenanting projects and even offer direct benefits or incentives to local businesses. DDP's efforts to guide other local neighborhood stewardship organizations through the process should continue and be expanded.

Commercial Community Land Trust: By following the models created to preserve home ownership and affordability using residential community land trusts, neighborhood stewardship organizations can preserve affordability for small businesses operated by local businesses in gentrifying areas at risk of displacement from rising rents. Community ownership led by neighborhood stewardship organizations can serve as a strategy to retain local businesses, prevent vacancy, and offer neighborhood organizations a platform to adopt alternative tenanting strategies that lean into the unique cultural character of their neighborhoods.

People Mover, Downtown Detroit

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LIVE 6 ALLIANCE

DOWNTOWN DETROIT PARTNERSHIP — EST. 1922 —

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