Innovative Models for Supporting Retail in a Mixed-Use, TOD Setting

This report explores policy and planning models for supporting retail activities in a community-envisioned, affordable housing, mixed-use, and Transit Oriented Development (TOD) settings. Specifically, this report examines Southeast Seattle’s Community Cornerstone Initiative (CCI) and Thai Community Development Center’s (CDC) progress in developing Thai Town Marketplace in East Hollywood. This report draws on first-hand interviews with the CCI’s evaluation team and Thai CDC’s Executive Director, Chanchanit Martorell. These findings supplement our interim report, “Rolland Curtis Gardens: Evaluating Transit Oriented Development & Community Serving Retail”, and further informs T.R.U.S.T. South LA and its development partner Abode Communities as we move forward in the development, leasing, and supporting operations of Rolland Curtis Gardens’ commercial space.

The Challenges
As identified in our interim report, affordable housing developers face these challenges to implementing successful retail development:
- Market supply – Generally, demand for retail services lags behind demand for retail.
- Financing – No public subsidies for commercial space.
- Operating costs – Once the commercial development is built, developers often face challenges in providing tenant improvement budgets; budgets for utilities, taxes, insurance, and common area charges
- Capacity – Commercial development is largely not a core competency of affordable housing developers.

Compounding these challenges, many cities require mixed-use development through zoning to control and manage the commercial market through policy. As a result, Los Angeles like many other cities are left with unoccupied retail space. While these case studies do not provide a definitive solution to this widespread problem, they exemplify innovative strategies to financing commercial development and stewarding retail space for community-serving uses.

Community Cornerstone Initiative
In 2012, the City of Seattle received a $3 million HUD Sustainable Communities Initiative Challenge Grant to advance equitable TOD. With this grant, Seattle developed the Community Cornerstones Initiative which focused on preventing residential and commercial displacement in Southeastern Seattle where light rail would be introduced. The Community Cornerstones Initiative pursued these interrelated strategies in the area:
- Assist affordable housing developers to acquire sites at station areas
- Stabilize and strengthen multicultural commercial districts
- Plan for a shared multicultural community center
- Engage and empower community residents

In supporting commercial development CCI implemented the following initiatives:
• The Equitable Transit Oriented Development (ETOD) Loan program provided $6.5 million in funds for short-term financing for acquisition and pre-development activities.

• A commercial stability strategy to support economic development in the Othello-Graham commercial corridor shifted from ensuring affordable commercial space to assisting existing small businesses and leasing vacant retail space.

Community Cornerstones demonstrated these best practices for supporting commercial development in a TOD context:

• ETOD land acquisition loan program developed three TOD projects resulting in 290 affordable housing units and 30,000 square feet of commercial space. The program was so successful that the model is being expanded into the Central Puget Sound region of Seattle.

• Partnering with local nonprofits to provide immigrant and ethnically focused technical assistance to existing businesses improved the efficacy of the commercial stability strategy.

Implications for TRUST
Community Cornerstones provides a model for strategic lending tools for TOD areas. However, the funding was made possible through a one-time grant. To understand how such a model can be sustained, we must conduct more research on the ETOD loan program’s expansion in the Central Puget Sound region. CCI also provides a model for technical assistance to immigrant and ethnic business owners. While this will be important to Rolland Curtis Garden retail tenants after the site is in operation, we face the challenge of securing the space for such tenants. Thus, we are proposing a convening of Los Angeles area affordable housing developers, financial intermediaries, and small business technical assistance providers to further explore models and collaboratively analyze the challenges and proposed solutions.

We understand that the scope of CCI is broader than a single development and that such policy in LA will not likely be implemented within the time frame of the development of Rolland Curtis Gardens. However, we have a stake in advocating for such policies which address the issues we are experiencing with Rolland Curtis Garden’s commercial development as we continue to develop other mixed-use TOD sites (such as the Bethune Library site).

Thai Town Market Place
Thai CDC is in the process of developing the Thai Town Market Place. The market place will be a food-focused business incubator that will include 12 food kiosks and 6 retail kiosks in the 5,000 square feet commercial space on the ground floor of an affordable housing development, directly on top of the Hollywood/Western Metro Red Line station. The site is a Metro Joint Development. McCormack Baron Salazar (MBS) manages the retail space, Hollywood Community Housing Corporation owns and operates the affordable housing, and Metro owns the land.

The goals of the Thai Town Market Place are to:
• Provide a low-cost entry point for immigrants to pursue entrepreneurship
• Create jobs
• Enhance the Thai Town cultural designation

Retail tenants must complete Thai CDC’s small business entrepreneurship program, have their business plan reviewed, and be low income. Only first-time brick and mortar business' qualify. Tenants are offered low rents, ongoing technical assistance, shared office space, and marketing assistance. Businesses are expected to graduate into conventional commercial space after five years, the maximum time of occupancy.

Thai CDC has been engaged in the development of Thai Town Market Place since 2009. They have had to secure grant funding for predevelopment, complete tenant improvements, and lease the space from MBS. Although Thai CDC completed the entitlements process, started tenant improvements, and executed a lease with MBS, they face legal challenges that have resulted in delays in completing the development and retaining potential tenants. Specifically, in MBS’s agreement with Metro, MBS did not secure the rights to the patio space. Consequently and unbeknownst to Thai CDC at the time of executing the lease, they were unable to include the patio space, essential to the viability of the Thai Town Market Place model, in MBS’s lease with Thai CDC. Although Thai CDC has identified potential tenants for the kiosks, some of these immigrant first-time entrepreneurs cannot afford to withstand the project delays and have had to withdraw their interest in the project. At the time of our interview, Martorell expected to continue tenant improvement in June and begin operation of the space in December. We must follow up with Thai CDC to know if they are on track with this timeline.

Implications for TRUST

The Thai Town Market Place development exemplifies a number of common characteristics with Rolland Curtis Gardens. Both are community-envisioned, include affordable housing, are mixed-use, and are in close proximity to light rail. Thai CDC’s model confirms that community-based retailers cannot afford to commit to retail space far in advance of the space being available. This is exactly what is being asked by loan providers to underwrite Rolland Curtis Gardens’ construction loan, thus it is important to execute a lease guarantee to demonstrate our viability in the underwriting process if we are unable to execute a lease. Thai CDC’s experience has informed our conversation with government and community-based agencies as we discuss the need for a lease guarantee.

While a small business incubator is an innovative community-serving retail strategy, TRUST is not well positioned to take it on because of the limited size of the space and TRUST’s organizational history and focus.

Thai Town Market Place’s space is much larger than Rolland Curtis Gardens, 5000 square feet and 1500 square feet respectively. The retail space in Rolland Curtis Gardens is small and it would be difficult to accommodate multiple tenants, as the business incubator model requires.
Furthermore, the market conditions are different. The Hollywood/Western Metro Rail station has much more foot traffic than the Expo/Vermont station. Thus, we must anticipate less customer volume. The Thai Town Market Place is well integrated with Thai CDC’s existing programs. Thai CDC is able to draw from its base of immigrant entrepreneurs and its working knowledge of business technical assistance. While T.R.U.S.T. South LA does not have entrepreneur programming, we have started a financial resources working group and peer lending circle to encourage financial literacy and personal savings. As we continue to develop this strategy, supporting immigrant and first-time entrepreneurs may be a viable strategy in the future.