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CHAIN REACTION



Is limiting the influx of big box and chain stores helping or hurting smaller businesses nearby?

By Jane Hodges Young

Back in 1970, just before he retired as head of the San Francisco District of Highways, Alan S. Hart—for reasons unknown—ordered rainbows to be painted on the south portals of the Waldo Tunnel on Highway 101 just north of the Golden Gate Bridge. People have speculated why for years, but if Judy Garland’s “Somewhere Over the Rainbow” was his inspiration, one thing is for certain: Once a car glides through the tunnel heading north, the fog recedes, the clattering din of The City fades and the skies are (almost) always blue. “Portals to paradise.”

The North Bay is unique, with rolling hills, sweeping vineyards, pristine pastures and picturesque small towns dotting its semi-rural landscape. But a haul up Highway 101—the main traffic corridor—also provides vistas of some not-so-bucolic settings: automobile “malls” with side-by-side-by-side car dealerships, sprawling shopping centers and a host of big box stores.

For the most part, development has been kept in check, with smaller towns retaining their own distinct personalities while chain stores maintain a focus on higher traffic locations. But lately, as the economy slowly rebounds, North Bay small towns and their idyllic “lifestyle” charm that beckons tourists and sustains locals have become targets for big box and formula store expansions.

And the result is nothing short of a “chain reaction.” Sleepy Sonoma awoke abruptly when one of the town’s auto dealerships closed and was replaced by a Staples office supply store just blocks from its historic downtown plaza. It responded by forming a committee to study the situation and make recommendations, and ultimately by enacting regulations on chain establishments, with particular emphasis on downtown and the “historic overlay zone.” Last September, the town’s planning commission denied a business application to Berkeley-based Peet’s Coffee and Tea, which was seeking to open an outlet near the plaza, citing the new guidelines that an incoming “formula business establishment[s] will promote diversity and variety to assure a balanced mix of commercial uses available to serve both resident and visitor populations.”

“Several of the commissioners noted that there are already a number of coffee shops downtown, so it didn’t, in their opinion, promote business diversity,” says David Goodison, Sonoma’s planning director.

In Petaluma, neighbors banded together to create an association to fight big box stores and won settlements from two large developers. Another grassroots organization has been formed in Napa to put downtown redevelopment plans under closer scrutiny. And throughout Marin, some off-101 communities are considering anti-chain policies to retain their small town flavor.

Main Street, not mainstream

In short, it’s a war to keep Main Street from going mainstream—an admirable quest, to be sure. But in an economy that’s starving for jobs and with commercial vacancy rates still quite high, it’s also a battle being fought on a slippery slope. And, in the end, who will be the real loser?

Marko Mlikotin is president of River City Communications, a Sacramento area public affairs firm that builds public support and develops political risk analyses for commercial developers so they can determine which communities are business-friendly. Mlikotin notes that, statewide, a number of big box ordinances that were previously passed by communities are now being repealed, primarily because of the tough economic times and the fact that the ordinances became prohibitive when businesses tried to expand or fill vacant space.

“It’s a fact that larger stores draw the foot traffic and the surrounding smaller stores benefit as a result,” Mlikotin says. “Just look at the shopping centers that housed Mervyns and Circuit City stores [two chains that declared bankruptcy during the last decade]. Once those stores closed, smaller stores around them quickly went out of business. Anchor stores drive significant foot traffic into business districts. If one or two anchors in a shopping center go out of business, so do the smaller stores. Anchors provide a strong synergy that benefits large and small retailers,” he explains.

While several North Bay communities are actively pursuing big box ordinances, Mlikotin cautions against it, noting that the North Bay might be a bit out of sync with the economic realities.

“Where ordinances [against big box/chains] are put in place, the big box companies will build outside the city but still serve the same consumers, who simply drive greater distances. Meanwhile, the city with the big-box ordinance loses jobs and tax revenue for public services,” Mlikotin says—money they could well use during these troubled times, when many municipalities are wallowing in red ink and cutting city services. “The bottom line is, if there’s demand, retailers will serve it. They prefer to be close to their customers, but if there’s risk for litigation, they’ll build outside the community.”

And then there’s the old adage: “If you build it, they will come.”

“There was a study done by the University of California at Davis that revealed shoppers will travel looking for specific box stores,” Mlikotin continues. “Retail leakage becomes a real problem for cities when these consumers shop outside of town for greater retail choices, and then dine and shop at neighboring stores.” This effectively robs Main Street merchants located in areas where such stores are prohibited.

Preserving Petaluma

One of RCC’s clients is Merlone Geier Partners, a private real estate investment

company, headquartered in San Francisco, that’s focused on the acquisition, development and redevelopment of retail and retail-driven mixed-use properties on the West Coast. For the past four years, Merlone Geier has been in talks with the city of Petaluma to build Deer Creek Village, a shopping center with locally owned Friedman’s Hardware as an anchor tenant. Economic studies conducted by the city of Petaluma show that its consumers are purchasing \$24 million in home furnishings and appliances at stores outside Petaluma—and leakage for home improvement spending is more than \$27 million in taxable sales. In addition to helping reclaim lost tax revenues to help line Petaluma’s city coffers, the Deer Creek Village project will generate 500 new retail and office jobs and 300 new construction jobs. Nonetheless, it faced significant opposition.

Eight years ago, the Petaluma Neighborhood Association (PNA) was formed by a small group of people living in Old East Petaluma, who were concerned about lack of oversight in the proposed design of “a big, giant, sprawling Target shopping center” to be built near the town’s fairgrounds, according to Paul Francis, a commercial photographer and one of the group’s founding members.

Florida-based Regency Centers was the developer of what Francis describes as “just a big, 1970-esque shopping center with a huge, 16.5-acre parking lot on a 37-acre site. In terms of contemporary planning, not many communities are building these anymore,” Francis explains.

What PNA wanted was something with more mixed use, “residential, businesses and offices integrated with retail, wine bars and restaurants, with good pedestrian access,” Francis says. Lawsuits ensued (the developer sued the city during the approval process, which pressured the city to green light the project, and PNA filed a suit against the project in an attempt to stop it) and a three-way settlement was reached in 2010, allowing the project to go forward and requiring the Florida-based developer to pay for on- and offsite mitigations, including traffic calming in the adjacent neighborhoods. It also required the developer to drop its still-pending lawsuit against the city of Petaluma and pay back up to \$50,000 in nonindemnified city costs. PNA was reimbursed \$100,000 to drop its suit and also received an additional \$50,000 to cover its legal fees. Francis says PNA used a portion of the \$100,000 to establish a nonprofit organization and used the remainder of the funds to award grants to other neighborhood groups that want



Marko Mlikotin of River City Communications

to do various improvement projects throughout Petaluma.

When the Deer Creek/Friedman's project surfaced, PNA members challenged it because the required Environmental Impact Report (EIR) "had 15 significant unmitigated impacts, mostly related to traffic and air quality," Francis says.

"The report relied on the construction of the Rainier Crosstown Connector, and that's a \$100 million project that's been on the city's radar for 40 years," he continues. "Caltrans isn't on board with the

project and the city has no budget for it. It was cited as mitigation [for traffic concerns] and it's not fiscally feasible."

At the same time that PNA challenged the Deer Creek project, it also went into discussions with Merlone Geier, working with its representative, Greg Geersten.

"Greg was great to work with and brought good ideas to the table. The best thing is that he was open to different ideas," Francis says. Over several weeks, the two sides carved an agreement that resulted in PNA dropping its opposition to the project in exchange for nearly \$200,000 in concessions from Merlone Geier, including improvements to the East/West pedestrian-and-bike trail, which links the project to downtown; more street, bike, pedestrian and traffic improvements in the adjacent neighborhood; reimbursement of some of PNA's legal fees; and grants to a city tree-planting fund and two local groups, the Petaluma River Heritage Center and Heritage Homes of Petaluma. (Heritage Homes of Petaluma later declined the grant. The \$10,000 it was awarded was then given to the Petaluma River Heritage Center to help rebuild an old livery stable as a museum and tourist destination.)

While some see PNA as the proverbial "fly in the ointment," Francis sees it as the way things are supposed to work in America. "This is all a part of the public process. The way the law is written provides for the public to be involved. We have a right to be involved in the planning process. It's the way it's designed and is supposed to work."

Francis stresses he isn't against development. "Growth is inevitable. When you wrap your mind around all this, in this country, it's constant expansion and growth. It will always continue to happen. The key is to do it right and in a sustainable manner, while providing something for the people living here. We need to figure out a way to cultivate land use policies to let growth happen in a sustainable manner with the least amount of impact," he says.

"For example, the water use estimate for a Target store is about 13 million gallons per year. In other countries, when they do new developments, they integrate water conservation methods that they've had in place for decades and we have yet to get to—dual flush toilets, gray water systems, rainwater cisterns and using solar pumps for irrigation. Yet it's nearly impossible to get these simple improvements into projects," Francis explains.

With its rich mix of architecture and small town appeal, Petaluma has been used as the backdrop for many Hollywood movies, including the all-time classic "American Graffiti" and the thriller "Basic Instinct." In 1985, director Francis Ford Coppola filmed "Peggy Sue Got Married," which was released the following year. In the movie, a voice says, "Peggy Sue, right now you're just browsing through time. Choose the things you'll be proud of, the things that last...."

When Paul Francis was a young boy, his grandfather trained and raised horses in the North Bay. He fondly remembers how charming the town of Petaluma was in the 1960s. He's lived there for the last 10 years and, a little like Peggy Sue, Francis is a "preservationist who's hanging on to the good things while not adding to the problems we already have. Other communities are spending a lot of money trying to create what we have here in Petaluma," Francis says. "There's a *there*, here. And those of us in the community need to take on the responsibility and become engaged. That's what it's all about."

Negotiating in Napa

While PNA is well-organized and has financial reserves, upstart Napa Local is six months young, with just a handful of members and fewer than 100 Facebook fans, but it's already starting to be heard. And by and large, it isn't a big fans of Starbucks or many other "corporate" stores.

Matt Grantham and his fellow Green Party buddy, Alex Shantz, were disturbed to hear that the Seattle-based coffee mega-chain would soon be setting up shop right across the street from locally owned Napa Valley Coffee Roasting in downtown Napa, so they organized a cadre of activists to talk with downtown merchants about writing a local business ordinance to put before the Napa City Council.

"In general, the way we've written it, [formula stores] cannot be in direct competition with a local downtown business. We're not proposing they be eliminated, we're proposing that the city have a process where business applications could be considered through a more public process than the present situation," Grantham says.

Napa Local member Catherine George says the group has been before the Napa City Council several times to discuss moving forward on the ordinance, and the group has more than 30 local businesses—mostly located downtown—that are supporting its efforts. However, "the council hasn't really been receptive," she says. One potential thing in its favor is the fact that several seats were up for grabs in the November election and, if things went the group's way, the ordinance might be moved to the front burner. [Note: This issue went to press before election day.]

Jeff Doran, owner of Napa Valley Development Company and a self-described "small player in a big pie," sat on the committee that researched and wrote Napa's Downtown Specific Plan—a process that took three years. He describes Napa Local as "well intended" and says its goal to keep downtown Napa interesting and unique is "laudable." But, in his opinion, its methods are lacking. "I don't really think they understand how businesses and development work. They're using a stick, but they'd be better served to use a carrot, because we're all interested in having authentic, high-quality



Friedman's will be the anchor tenant in Petaluma's new Deer Creek Village.



John Bly is EVP of the Northern California Engineering Contractors Association.

businesses in downtown Napa.”

One of the big issues with downtown Napa—and with many North Bay communities—is the abundance of empty retail and office space. The recent recession

took a heavy toll on smaller businesses and, according to Doran, there’s more than 100,000 square feet of empty space currently available.

“While it’s a problem, it’s also a tremendous opportunity. Several developments are on the cusp of happening. A number of developers are interested in downtown Napa, with investments ranging up to \$400 million,” Doran says. “We have to be careful with our approach and what we wish for—and make sure we have good planning.”

One major project is a proposed new hotel and retail center by developer Todd Zapolski, who purchased Napa Town Center—a long-troubled pedestrian mall—last May (it’s now known as The Shops at Napa Center). Zapolski wants to build a new hotel with 75 to 150 rooms to accommodate more overnight visitors downtown. Napa’s downtown scene has been dramatically changed for the better with the addition of three new hotels: Westin, Andaz (a Hyatt hotel, formerly Avia) and Napa River Inn. Developer Harry Price, who owns Napa River Inn and Napa Center, was quoted in the *Napa Valley Register* as being in favor of Zapolski’s plans, noting that he personally thinks Napa needs another 500 hotel rooms to reach critical mass to bring enough spending power to change the nature of the shops in downtown Napa.

Doran believes the Downtown Specific Plan takes care of making sure downtown Napa retains its local character. The controversial Starbucks was approved and opened in October.

“It will be a catalyst for the businesses that surround them,” Doran says. “People will come to buy coffee and the local business environment will flourish. I’m even betting the local coffee company right across the street [Napa Valley Coffee Roasting] will see business increase. After all, there’s a reason car dealers like to be next to more car dealers.”

Doran says the biggest challenge going forward is “becoming better communicators. We need to put the carrot out and take the stick away. Ten years ago, Home Depot was a major controversy. And guess what? Everyone is shopping at Home Depot. Just because vanilla is the best-selling ice cream flavor, doesn’t mean we should ban it. We can’t survive just on exotic flavors. We have to have balance.”

It’s the economy, stupid

In debating the chain/no chain argument, what can’t be forgotten is the overwhelming need for jobs to foster further economic development.

John Bly is executive vice president of the Northern California Engineering Contractors Association, a group formed in the 1970s because its founding members felt national organizations didn’t pay much attention to the issues facing local material suppliers and contractors. And while Bly’s group has a local focus, he cautions those who take a myopic view in regard to business and growth.

“Communities that feel they should have a say-so regarding how much shelf space in Target has product produced outside the United States aren’t really helping the local cause. Are they monitoring what’s on the shelves of locally owned retailers as well? Requiring local hiring only [on construction jobs] will only encourage surrounding communities to do the same. Don’t forget we have specialty craftsmen who travel elsewhere to do jobs—you’re on a slippery slope if you try local hiring restrictions,” Bly says.

“People always point to big stores and say they have a lot of part-time employees who can’t amass enough hours to qualify for medical and health benefits. Well, that’s not much different than the Mom and Pop stores they seem to advocate for. I suspect if you did a survey, they hire part-time and don’t provide benefits, either,” he notes.

Mlikotin echoes Bly’s sentiments and also cautions against severe restrictions. “Investors aren’t playing with Monopoly money, and if elected officials don’t take the financial risks associated with construction seriously, jobs and tax revenue will migrate to business-friendly communities. It may take years before the economy rebounds and consumer confidence reaches pre-recession levels, so look for investors and developers to be cautious and very selective as to where they do business for years to come,” Mlikotin says.

“I appreciate communities trying to hold on to their small-town flavor,” Bly adds. “But you must have some growth in businesses and population just to hold

your own. If you don’t, you have to cut city services, because you have no way to fund them. Costs go up every year—they don’t go down. I’m a proponent of more businesses taxed than more tax on business. For that, you need some sort of controlled, intelligent and well-planned growth.”

Success, according to Bly, can be found if everyone has a seat at the table.

“You need a nice mix of local shops and solid retail outlets. Take Kelly-Moore Paint Stores, for example. You can have your local paint store, too, but I want that choice.

Today, dollars have to go farther, and having choices is very important. That’s living in America for me. More regulations limit people’s choices. I understand the [local-only] movement, but personally, I’d drive outside a town to go to a bigger store [if my options were limited],” Bly says.

“After all, that’s why we’re Americans. We have choices.” ■

Author’s note: Similar initiatives to limit chain/big box expansion are being studied in Marin County, specifically in the town of San Anselmo. Repeated attempts to reach planning department officials via telephone and email failed to elicit a response to our inquiries.

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