Capturing Community Value to Fill Downtown Storefronts: A Conversation with Jerome Barth, Andrew Dane, and Norman Walzer

The ADRR's Series of Discussions with Authors of ADRR Articles: No. 2, October 8, 2020

Shortly after publishing the Fall 2020 issue the second in a series of E-Conversations was held on The ADRR's LinkedIn page to discuss the articles (and the principles within them) under The Spotlight special section titled "Using Community Value to Fill Downtown Storefronts" by Jerome Barth, Andrew Dane, and Norman Walzer. What ensued was a dynamic conversation about the principles and ideas for utilizing community value to improve our downtowns.

The following is a direct transcription from the event with only minor formatting done to represent the most accurate conversation flow.

Participants: N. David Milder (DM), Andrew Dane (AD), Jerome Barth (JB), Norman Walzer (NW), Max Musicant (MM), Andrew Manshel (AM), David Carlson (DC), Mike Frederick (MF), Frank Miele (FM), and Michael Berne (MB).

Organized and Transcribed by Mike Frederick

Intro by DM: *GOOD MORNING ALL AND WELCOME!*
Community value can be understood as the psychological value a community's residents and organizations place on a local business or place. As Jerome states in his article, many of us have merchants who we not only like a lot, but whose existence in our community we feel contributes significantly to its attractive quality of life. In recent years, approaches have been developed to monetize and capture this community value just as TIFs are able to monetize and capture the increased value of developed/redeveloped land. The three articles by these authors present three approaches to capturing community value.

TO JEROME, ANDREW AND NORMAN: Your approaches are different, yet somehow seem similar. What do you all have in common? How are you all different?
I have a follow up ready to go, too.

AM: Ideally, these projects need a source of patient capital -- including a patient landlord. It takes three to five years for them to generate a sufficient cash flow to

pay market rent. But, also, in my experience, after that three-to-five year period, the returns from well run, well thought out projects can be substantially in excess of market.

> **AD:** Great point. This also brings up another aspect of ownership. Having a patient landlord was critical to the project I was involved with. Separating out ownership of the building from operations can be useful in terms of tapping into different revenue sources and diversifying support for the project. It also means the business venture can focus more on operations without having to be distracted by maintenance issues, unforeseen capital expenses, etc.

AD: Norman Walzer authored a great article a few years ago on Community Supported Enterprises. The authors profiled a number of CSE businesses and found that many of them are born out of non-profit initiatives. We had one of these in Appleton Wisconsin called Harmony Cafe. People loved it but unfortunately it was not financially self sustainable and had to close. I think that's one of the challenges with that model of "community capture." https://www.cgs.niu.edu/Reports/Emergence-and-Growth-of-Community-Supported-Enterprises.pdf

> **NW:** This is absolutely correct. Interesting is the types of models used. Some are Cooperatives, others are LLCs, and some are nonprofits. Essentially to the success is community volunteers which reduces the costs of operations. This has been the case in Vermont as well as in the community shops in England. Lower cost of capital, less labor costs, etc. However, they usually don't just reopen a shop that was closing. Instead, broaden the services or lines of merchandise and market to new groups as you suggest.

AD: Each approach attempts to leverage both place and people. The focus is on how we to tap into adjacent neighborhoods for support, both in terms of customer loyalty as well as local expertise to help with projects. The difference in approaches can be looked at in terms of leadership structures which I think range from non-profit/public led initiatives to sole proprietors.

JB: Good morning.

MB: Really like your article on the "merchandise-plus" model -- indeed, I have already donated small amounts to my favorite local coffeehouse as well as my local independent cinema, partly out of fear that they will not make it through the current crisis. I wonder, though, whether people will feel the same urgency when we one day return to "normal". Also, there probably needs to be a communications sub-strategy clarifying how the model does not merely reinforce the separation between the have's and the have-not's. I am not one to believe that just because everyone cannot have something, no one should, but I imagine that, especially in the current political climate, this could and

probably would be criticized on equity grounds...

DM: Jerome, what do you think is the first step retailers should take to adapt to the new paradigm for revenues you write about?

> **JB:** A believe it is a change of mindset considering the experience of the « store » and its link to the community as even more critical than the product mix. I see this being done well around me by board game/gaming stores. They have become places for kids to meet and facilitate their games, introduce them to new ones and have become the place to be for them. And they make more money from it than from the products themselves.
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> **DM:** Jerome Barth How do they make so much money on non-products? Doing what specifically?

NW: Good Morning to all.
In looking at projected demographics especially in nonmetropolitan areas, many smaller communities will face population declines and growth in elderly residents. This seems to be true in many other countries as well. Downtowns will be affected by business retirements but also have opportunities to provide new offerings and opportunities as social spaces through new community investment strategies. I am compiling materials on innovative practices in 7 countries around the world for a forthcoming book on this topic.

What kinds of innovative practices are you seeing?

MF: Toledo, OH has recently done a lot of revitalization in their downtown led by major regional organizations including ProMedica (a healthcare system that moved their headquarters of +2,000 employees downtown) and The Toledo Mud Hens (a minor league baseball team that built a new stadium and then revitalized part of the old warehouse district which included public space). The successes and improvements come from well funded organizations, but more importantly from the gumption and pride of those leading the charge.

> **JB:** I went there, and the Art Museum also had a plan to acquire local real estate and lead a revitalization movement. In the end they did not move forward with it.

AD: In Waupaca, Wisconsin I am seeing a very strong arts and culture component filling in downtown. This includes growth in hands-on businesses (jewelry making, for example) as well as new cultural establishments like the Dane's Hall (no relation). These venues can help attract banquets, weddings, and other special events to the community. Perhaps more importantly they help establish a strong sense of place attachment, and play a strong role in helping orient and welcome new members to the community.

> **NW:** An interesting application that seems to be gaining ground is for CSEs that operate general stores have monthly or regular meals for the community. Check Hinnesburgh Public House in Vermont, Pierce's

General Store in Vermont, and Cow and Quince in New Glarus, Wisconsin. It is part of a community building initiative.

DC: On a state level, I quite like the Wisconsin Economic Development Corporation Community Development Investment Grant Program. It has effectively partnered with downtown businesses and communities to make significant changes

AD: Agreed, this has been a very effective program for downtown revitalization in my opinion. Large enough to have an impact but not as overwhelming in terms of grant administration (like some grants we know!)

DC: Do the Wright Thing, LLC was a three local families who got together to purchase and renovate the Wright Block in Lancaster, WI. Second story residential, 1st floor commercial. They also went out and recruited people to open new businesses (children's clothing store and a bakery) that did not exist in the community. While Andrew Dane story is one of small investors coming together, Do the Wright Thing is one of successful business persons deciding they wanted to do something for the community.

DM: David Carlson Do the Wright Thing sounds like a wonderful project and one that deserves wider recognition. It also sounds that market forces in Lancaster were working well and right-minded businesspeople could use them to produce a project that benefits the community in ways that met unmet needs. But Andrew's 602 project and the community owned businesses that Norman writes about tend to emerge when market forces are not working all that well. Usually profits might be possible, but not enough to attract an investor/operator.

DC: Generally speaking, they are hoping to just break even on the deal (they are on the apartments, still subsidizing one of the business they recruited.

NW: David Carlson

Also, a strong motivation in small towns in England was to address growing social isolation and loneliness. Engaging older residents in these projects caused them to volunteer their time (and money) on a wide range of activities. Michele Bianchi and Stephen McCusker have (independently) written on similar issues. where the nonfinancial issues were major motivations. Agree that, ideally, continued subsidization is not the intent.

FM: Hi Norman, I teach Local Economic Development at Ryerson University in Toronto and read your article. I was wondering if you would be interested in publishing it in the Economic Development Journal of Canada www.ecdevjournal.com Our readers would enjoy reading your thoughts. Thank you.

NW: Hi Frank. Happy to prepare something. Let's talk more or Zoom about what would work for the

journal. Actually, our forthcoming edited book on International Development: Community Owned Businesses Around the World has an article on how community led investments are used in serving residents with learning disabilities. It discusses ways to engage local groups and businesses in employing groups. A variation on the traditional CSE but interesting use of many of the same principles. Let's talk more.

DC: N David Milder Central Social District concept I think is key on the municipal government/chamber of commerce side of this issue. People have to want to come downtown.

DM: TO Jerome Barth, Andrew Dane AND Norman Walzer: How replicable and relevant is your approach as we work to recover from the Covid crisis, given our downtowns' geographic, demographic and economic variations?

AD: David I believe these approaches are highly replicable, more so in today's uncertain economic environment. If executed well they can help people share risk while building something of importance for the community. I'm curious if more downtown development organizations and commercial districts could play a role here. In a COVID world there may be an opportunity to shift some time and resources from events to supporting startups, especially those with strong community support. Perhaps these projects could also serve as business incubators, with the local EDO helping network interested individuals and get them to the table. With a small group of dedicated individuals there is a strong opportunity to crowd fund for start up costs as well as put in place the types of membership and customer loyalty programs Jerome discussed in his article.

DM: Andrew, I think you are right in target in so many ways. First, about local district management organizations (DMOs) shifting resources from events to desired/needed startups. Second, that BIDs and Main Street organizations need to make small business development a real and very high priority, and that means not only paying attention to walkability and public spaces, but also to the construction and maintenance of a supportive entrepreneurial environment. You know, many smaller downtowns have assets that make them the equivalent of informal small business incubators, bit local leaders fail to either recognize the value of these aggregated assets or to leverage them. Crowdfunding, of course, fits in with community value capture, and can be an invaluable tool. It's great for a one-time significant cash infusion, but seems to have much less value as an everyday operational asset.

JB: I can only speak to NYC as I have not traveled much lately but Covid has been devastating to small scale retail. It will push down rents as many more spaces will chase fewer possible tenants. But for those new businesses coming in, it might be an opportunity to break with the patterns of

the past. I also believe there will be a pent up demand by citizens for more interaction with neighbors. Overall, this is a good time for reinvention. We saw restaurants become grocers, or operate food pantries. Many will want to keep some of the "good" aspects of the experience of the past few months, such as they are.

> **DM:** Jerome, cash on hand data from Census Bureau national surveys certainly show many SMB retailers are very vulnerable to failure, but the number of them that will permanently close is often hidden by crisis imposed restrictions on evictions and CARE financing that soon will need to be repaid. So many downtowns outside of NYC may also be interested in capturing community value to refill their vacant storefronts.

NW: Not much hard data that I have seen but a FRB Chicago report in May indicated that rural responses were hit harder than metro but the numbers of responses were small so not sure how accurate. A double-whammy may be that as the number of elderly increases so will business owner retirements. Also, increases in the COVID-19 contacts may adversely affect elderly in rural. Finally, rural counties, on average, receive higher percentages of sales taxes from vulnerable businesses such as restaurants and accommodation industries. My thought is that a CSE type of financing model will become more prevalent in the future.

> **DM:** Norm, I certainly hear you and agree that the Community supported Enterprise model will become more prevalent in rural areas in the future. At the same time, remote work may be a way of improving the earning power of rural residents while also facilitating "brain gain" that will enrich the skills level of their local workforces. Still the changing nature of the retail and service industries might still mean that capturing community value will be needed to develop and keep a lot of locally desired/needed retail, entertainment and service operations. I know urban places are not your focus, but wonder if they too will find increased use for the community value capture tools. Indeed, I think a worthy hypothesis is that their greatest growth in use will be in suburban and urban districts.

NW: Definitely. Large cities have neighborhoods with population declines and closings of neighborhood restaurants, groceries etc. CSE approaches to financing can apply equally well in reopening these ventures just as well as in rural areas. What also is happening as in Italy and Canada, is that CSE financing is branching out to social services such as health care, counseling, etc. on a part-time basis. A closed store front can be made into ☺ a multi-use building with various services offered one or two days per week.

MM: What strategies have you all seen for use agreements to encourage this type of use? Short term use agreements, lease terms, differences between agreements

with community groups vs. private entities, liability, rent, etc.

AD: Max, I'd love to follow up with you to discuss this further. I need to run some errands now but here's a link to the Facebook page we set up for the 602 club. The social club rents space from a private LLC which owns the building, and in this case we have no formal agreement in place. The club developed a 1 page set of by-laws that got us started, and I think these are on the FB page. We used the proceeds from donations and dues to pay the LLC, which in turn used those funds (and donated labor) to make incremental improvements to the property.
https://www.facebook.com/the602club

> **MM:** Thanks Andrew Dane that would be great. Towards the subquestion, the complexity of commercial leases seems to be a significant barrier to entry for these sorts of arrangements. Having a template that protects both sides and is an "industry standard" would be very valuable. Having a local non profit be able to cover the insurance liability for unincorporated and low capitalized groups also seems to be a key ingredient.
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> **DM:** Max Musicant That sounds like a really good idea, Max.

DM: Max Musicant do you have some notion in mind about how they might? Norman Walzer Andrew Dane Jerome Barth do you have any examples of what Max is looking for?

DC: How do you identify, recruit, and support project initiators?
Community Led Investment, IMHO, needs one key person/family to be the pied piper. Yes, there are many participants to be successful, but you need Neo to form and hold them together
How does a local govt help do this?

DM: Norman Walzer in his article finds that community owned businesses need some kind of organization to provide the organizational spine during their creation process, and maybe even later as managers. David, I think your question is a really good one and as a local government official I'd like to know what incentives you think municipalities can provide to recruit such organizations? Norman Walzer and Andrew Dane what do you think?

> **NW:** You are correct that the ecosystem or environment in which the Community led investments are to occur. Vermont, for example, has been a leader in creating a supportive environment for these efforts and has been successful in stimulating CSEs. The Preservation Trust of Vermont works with local groups to reopen stores etc. by providing technical assistance, grants, etc. This approach could be used in other states as well. Bruce Seifer and Rhonda Phillips have written about these efforts.

NW: Interviews with CSE financed activities in small towns suggest that people tend to surface around a readily apparent and important issue, e.g. losing a grocery or restaurant. These people then form a group and use a cooperative, nonprofit, or LLC arrangement to solidify the support and

attract investments. Crowdfunding approaches have been a serious help. See: The Local Crowd (Wyoming) or Milk Money (Vermont) or Goodworks Evergreen (Montana) that actually buys businesses and resells them to keep them in Montana. Different models. Does not answer your question directly but many types of formats are used.

DC: with the death of regional shopping malls, does the community investment model have a better chance, or will Amazon et al simply soak up the opportunity?

JB: I will take a shot at this. I think that if retailers consider their offering through the lens of sociability and community building, they stand an excellent chance to differentiate and put forward a product that the internet giants cannot replicate. They will always lead on price and convenience, you have to find another way to compete and the social link could be one area to do so.

AD: Thanks for the question David! I think it's a question of scale. In my experience the smaller independent retailers/service providers are more able to compete with Amazon for the reasons Jerome outlined. I'm skeptical that the community-driven model we're discussing today can help resuscitate regional shopping malls. On the other hand, it may not be entirely far-fetched. REI is a consumer cooperative that has grown to 168 stores nationwide. It started in 1938 by a group of climbers that wanted a better deal on ice picks. Perhaps the same could be done to fill the gap for the types of retail now missing in many of our rural communities.

> **DC:** To be clear, not advocating saving Regional Malls. More of a question on who replaces them and does the C.Invest model stand a chance v. Amazon.

NW: Our work is more with smaller communities that don't have shopping malls but have been adversely affected by them. We are seeing local groups investing to retain or reopen grocery stores, restaurants, etc. to remain attractive to potential retirees. The Plunkett Foundation in England under different settings has been successful with retaining community pubs which were on the decline. They have expanded to social centers with other services and are even working with churches on social enterprises. Might check their web site.

DM: That will in part depend on the retail sector -- some GAFO retail is already heavily online. But the kind of approaches outlined by these authors and similar ones definitely give our downtowns a much better chance of competing successfully with online merchants