

RECAST BOOST REPORT

Downtown Santa Monica, CA

May 2021

Current Situation & Urgency

The Third Street Promenade in Downtown Santa Monica is a core part of the city filled with music, outdoor dining, and daytime workers, but struggles with growing storefront vacancies, generic businesses, and nothing unique to draw in residents or visitors. Changes in national retail trends reveal that this shopping street is losing its brand image, its market share in the region, and causing residents to lose affection and pride in Downtown Santa Monica. These issues challenge the goal of creating a one-of-a-kind experience that draws people from throughout the region to an outdoor, European-feel area that showcases the special creativity of Santa Monica's population.

But Downtown Santa Monica, Inc. (DTSM) sees the chance to try new things, re-establish the Third Street Promenade as the anchor of downtown, and bring small-scale manufacturing businesses into the solutions for the city to build a more inclusive and vibrant downtown that creates more opportunity for more people.

The current vacancies on the Promenade and throughout downtown are likely to continue to increase over time if nothing happens. If the core cannot bring in new businesses and build a unique identity, then the downtown economy will be severely compromised, take longer to recover, and continue to lose its retail sales market share in the region.

The Third Street Promenade is likely to stifle the legacy brand of Santa Monica, lose people who believe in the creativity of the city, and lose hope for near-term recovery.

DTSM requested help to 1) identify how small-scale manufacturing can help create more opportunity for more businesses on the Promenade and throughout downtown, 2) bring this new business type into storefronts or other spaces, 3) create programming to support these small businesses and others like them, and 4) establish Downtown Santa Monica as a destination for small-scale manufacturing businesses, inclusive economic growth, and consumers seeking a unique and authentic experience.

Downtown and Economic Development Opportunity

A strategy that focuses on small-scale manufacturing will bring energy and new development back to downtown.

Small-scale manufacturing businesses, and space for this business type in downtown, are missing tools to create thriving community centers and downtowns. This type of business produces tangible goods (for example - hot sauce, handbags, or hardware) with one to fifty employees - a size that fits into the fabric of the neighborhood and storefronts. These businesses provide a number of benefits to a city and the neighborhood:

- Business ownership is open to anyone with an entrepreneurial spirit and the ability to make something - college and advanced degree not required.
- The skill to create comes from every population in the city - allowing us to build an inclusive community of business owners and have more people build wealth for their families.
- Employees at these businesses make, on average, 50-100% more than their service or retail counterparts, allowing more people to move out of poverty and into the middle class.
- The businesses are locally owned, meaning they typically invest their revenue back into the community and hire from within it.

- They are often native to e-commerce which means that they bring revenue into the city from the rest of the country (and possibly internationally) from online sales.
- They help a city stand out and remain unique even as a place is built up and changes.

These kinds of businesses will be an essential resource to build up the business presence in downtown, build foot traffic, and brand downtown as a place to be, stroll, and linger with family and visitors.

Vision for Downtown

Santa Monica residents, business owners, and other community leaders universally envision a downtown that has more energy, builds on the foot traffic with visitors, and welcomes more unique, thriving businesses throughout downtown. In interviews with community members a number of dominant themes for this vision came out in conversation. These include:

- People walking around downtown, stopping in for dinner or music, lingering to pop into local shops and see something special.
- Local shops and programming that cater to the creative community alongside new destinations and activities that bring in visitors from throughout the world.
- A downtown with good paying jobs and a diversity of business owners.
- Storefronts filled with businesses that are uniquely Santa Monica and the Los Angeles region.
- Places for the close-knit community of Santa Monica to come together for events.
- An area where small product businesses share space to create a special kind of retail experience and support each other to grow.

- A place where everyone feels like family and feels like they are included in downtown.

This combination of visions all come together in the way the city pursues future development, what businesses occupy downtown's storefronts, the programming hosted downtown, and the diversity of individuals who participate and lead those pieces.

Downtown Santa Monica Assets and Challenges

We know that creating a strong local economy in a thriving downtown takes a number of different elements. The place needs adequate and affordable space for small businesses, welcoming property owners, appropriately sized commercial spaces for current retail trends, programming to attract customers to the area, and assistance for business owners to stabilize and grow their enterprises.

As a starting point to understand how Downtown Santa Monica can achieve the vision set out by its residents and business owners, Recast City worked with the team to understand what works and what might be challenging for small businesses and real estate development in downtown.

Downtown Santa Monica Assets

A number of Downtown Santa Monica assets came through in the interviews and small group discussions. People are proud of the community and its close-knit feel, including:

- People see Downtown Santa Monica as a draw because it is walkable, has more outdoor space than downtown Los Angeles, and the area is perceived as a bit more upscale than the surrounding areas.

- The perception of downtown is strong and local business owners want to locate there.
- Downtown has a strong tourism draw to the ocean front and people are proud to provide these visitors with a uniquely Santa Monica experience.
- The area caters to both locals and visitors and has a reputation of being innovative and creative.
- Downtown is a place to see and be seen.
- The city is supporting a commercial shared kitchen outside of downtown and there are other facilities like this in the region supporting small food product business growth.
- Santa Monica College, the regional Small Business Development Center, and the Los Angeles Downtown Women's Center all support residents who want to launch and grow product businesses.
- Many people launched new product businesses during the pandemic and now want to turn them into full-time and growing enterprises. They are excited about being a part of Santa Monica and shared spaces and they are interested in programming for this business sector.

People interviewed recognized the brand of the Promenade and the ocean front as major draws to Downtown Santa Monica alongside the potential to reach new customer audiences as major assets to businesses in the area.

Downtown Santa Monica Challenges

While these assets are wonderful opportunities for the city and its downtown to build a thriving place with extraordinary local businesses, a number of challenges came up in the interviews and small group discussions that are essential to address. Some of these issues may be resolved with small, quick solutions and others will be bigger, long-term projects to fix. The primary challenges that came up include:

- There are a significant number of retail vacancies on the Promenade and throughout downtown both deterring new tenants as well as depressing property values. These

vacancies are likely due to a number of causes: reduction in retail market demand from national chains that used to fill the Promenade, smaller size of space needed for newer tenants, high asking price of the spaces even with surrounding vacancies, lack of interest from property owners to subdivide spaces without tenant commitments.

- Promenade commercial spaces are legacies from retail needs of decades past (at 100-150 feet deep) and are too deep and too large for most current tenant demand.
- Cost of construction, including lumber, is high and climbing which makes investments in these properties feel high risk for current lower lease rates.
- Property owners are hesitant to try something new. Some legacy owners only know the retail market of the 1980's and 1990's and are waiting for it to come back. Other owners purchased their property more recently (before the pandemic) and paid premium prices that make it feel impossible for them to lease space at lower prices.
- Many property owners do not understand how significantly the market has changed and that the draw to retail needs to focus on experiences and products you can't access online and everywhere. They do not understand yet that unique is what will sell and draw in the higher paying tenants.
- There is a perception that homelessness downtown makes the area less safe and less welcoming for people to wander shops.
- Programming available in the region for small businesses is often out of date with current methods and trends, not focused on daily needs of e-commerce, Instagram marketing, and small batch distribution challenges.
- Most small-scale manufacturing business owners feel like they are figuring out their business and growth model on their own, with little support. They are hunting down one or two mentors independently and not part of any program that helps them scale up faster.
- Many businesses launched since the start of the pandemic. This means that they are in the highest risk period of their business life and may need more training, capital, and support to become stable and higher revenue producing enterprises.
- Capital support for small businesses often a struggle and there are few programs in the region directing support to Black, Latino, and other business owners of color

who likely have not benefited from local, state, and federal grant or loan programs in the past.

- City permitting is slow and not up to date for current storefront needs. Small businesses need a simple and fast way to get an occupancy permit – within 60 days if there are no major health or fire issues. Permitting also needs to acknowledge that commercial space is going to include retail, production, events, and food in varying mixtures in storefronts – both as permanent mixes as well as popups.

These assets and challenges are important considerations as we develop plans for the future of Downtown Santa Monica – both to build on the assets already working for the city and to address the most important challenges to create a newly thriving downtown for the community and its visitors.

Recommendations for Action in Downtown Santa Monica

By bringing small-scale production businesses into the economic and real estate strategy, Downtown Santa Monica can fill vacant storefronts, create a new cool factor to attract new business and entrepreneurs, build an inclusive and diverse community of business owners, increase strong middle-income jobs, increase property values, and bring increasing foot traffic back to downtown. This, in turn, will increase the resiliency of the local business community, showcase the hidden gems of the community, and make a place that people love.

There are essential elements of success that are core to this work:

- Clear outcomes
- Launch programs for product business owners & customers
- Invest in affordable commercial space as a public good
- Focus on mentorship and business support
- Fix local policies to support these outcomes

The community has a clear outcome that came through in the small group discussions and interviews: a downtown that has families and neighbors out on the Promenade and the surrounding downtown, storefronts filled with unique businesses, programming that brings together the local community and the visitors from around the world, and a diversity of business owners that shows off the distinctiveness of Santa Monica and Los Angeles region.

Now we need to get the other elements in line for implementation. All of the recommendations below are actions the community can choose to take. Consider both immediate actions that can build the momentum and goodwill alongside the bigger or more difficult actions that might take more time. Every community needs the short-term wins – people can't wait for change. They need the support and opportunity now.



1. Launch programs for product business owners & customers

Downtown Santa Monica already has a strong brand and an international draw. The community can build on this reputation to create more opportunity for small-scale manufacturing businesses to grow their customer base and re-brand downtown as the place to see unique items and meet one-of-a-kind businesses from the region. Programming can also give these small business owners low-risk ways to try out new

products and test their business to build up to storefront tenants. A number of programming actions will help to achieve these outcomes:

- **Add product businesses as vendors to the farmers' market in Downtown Santa Monica.** Artisans, growing small-scale manufacturers of consumer products, and food product businesses growing out of local and regional commercial shared kitchens can all add a unique flavor to the downtown farmers' market. The city can add these vendors to a weekly or monthly artisan market alongside the famous farmers' market. DTSM can facilitate this by announcing the new opportunity for vendors and work with Connectors from this project to identify a diversity of business owners and products from the city and the region to participate in these events. This will quickly give the city a way to re-brand the downtown as a destination and experience that you will not find anywhere else.
- **Add space for product businesses to the cart program and as an addition to other sponsored events downtown.** Work with the city to allow product businesses to occupy the carts on the Promenade and give a set of small business owners a longer-term opportunity to build up a customer base downtown. Additionally, work with the city to more easily allow events downtown and establish a system where DTSM can invite a set of vendors to every event as a way to highlight local businesses and create the consistent brand (and opportunity) around product businesses.
- **Launch a Makers or Artisan Week in downtown to showcase all the aspects of this sector and bring business owners together for training.** This can build on the model of Los Angeles' Fashion Week or Knoxville's [Maker Summit](#), but the goal is to build up the community of product businesses through the programming and then bring them together for a focused event once a year to draw sharp attention to the sector and its unique connection to Santa Monica. This event can also be an opportunity to provide training, bring in national mentors, and showcase the city as a place for creative entrepreneurs. The city can also partner with the aviation industry to create innovation and maker events in downtown that showcase and educate people about technologies in that supply chain.
- **Launch a website for local product businesses.** This site can be modelled on Knoxville's [Maker City Directory](#) or Columbia, MO's [cre8como.com](#) site and can

include all product businesses in the city. The same site can be used to recruit and sign-up vendors from the region for local events. This can help to promote these businesses to the community and serve as a main branding point for this sector to the region. The city and other anchor institutions can also offer procurement incentives to the businesses listed on the site.

2. Invest in affordable commercial space as a public good

DTSM will need to partner with existing property owners, new developers, and the city to be able to create the vision of the thriving place, full of foot traffic and exciting small-scale manufacturing businesses. The way the real estate is used, the energy put into it, and the vision of what is possible in these spaces will all be impacted by the willingness of the property owners to see beyond the history of their retail spaces and the potential to make a place that stands out in a new way. There a number of ways DTSM can lead and partner with property owners to make this happen.

- **Create a popup shop program.** Many startup producers are looking for low-cost ways to build out their brand and attract customers both onsite and online. Popup shop programs can help bring visibility to these businesses, showcase community support for them, and attract new tenants to vacant spaces along the Promenade and throughout downtown. Popup shops are also a great opportunity to fill storefront space in transition – something slated for redevelopment in a few years but needs to be filled now to build up a brand and foot traffic. Popup programs can be single spaces – DTSM can announce competition for one storefront to be used by a rotating list of local producers for a limited time each – or it can be many spaces throughout downtown promoted in a coordinated brand and limited time period. The [St'artUp317 model](#) from Indianapolis and [Pop-Up Connect](#) in Los Angeles serve as good examples. The [retail incubator](#) in Rockville, Maryland may also serve as a popup model to help businesses expand into their own storefronts over time.
- **Encourage rear facing micro-retail spaces along the alleyways parallel to the Promenade.** Most retail spaces are too big for current potential tenants. The city could offer a financing incentive for existing property owners to subdivide their retail space and create a unique set of micro-shops that would be perfect for small-

scale producers – with a focus on consumer products that could grow into full or shared storefronts. The spaces at the [Art Walk at Monroe Street Market](#) and [Press Bay Alley](#) are both great models for this work. These spaces could be under a master lease managed by DTSM and subsidized by the city, they could be created in partnership with the property owners in exchange for a more flexible loading plan and moving utility and garbage access to another location (as opposed to the current rear location). This would require the city to approve a change to the trash space requirement for each property and approve a consolidated plan for block-wide trash collection. These rear units could be sold to a community development corporation or land trust as a commercial condo separated from the front facing commercial space. DTSM could also create a matching grant program for property owners interested in creating these micro-units to defray some of the cost of the build out. The goal would be to create long-term, low-cost micro-spaces for a diversity of producers and to create a cool alley experience (murals!) that would draw shoppers off of the main area.

- **Launch a Made in Santa Monica shop in downtown.** This storefront could include curated products from throughout the Santa Monica region and showcase diverse producers to new customers. This can be modeled on the [Shop Made in DC](#) store, including corporate gift boxes, onsite programming, and broad social media engagement. DTSM can invite operators to apply to run a space through a request for proposals, or work with Black-owned in LA or SoCal Etsy to create a co-branded location.
- **Invest in a new coop space that promotes Black, Latino, and other product business owners of color.** DTSM can compete an RFP to partner with a space manager who will establish a cooperative storefront in downtown, with a focus on business owners of color from the region, to bring more exposure and foot traffic to these businesses in Santa Monica. This can be modeled on the existing downtown artisan coop – Ten Women – but may need investment from outside partners to ensure that cost of space is not a barrier to these business owners.
- **Partner with a downtown property owner to create a small-scale manufacturing incubator.** This can be built off of the current plans to launch a commercial shared kitchen in Santa Monica and will likely work best off of the Promenade. This space can be modeled on [Crafted in LA](#) or [Off the Beaten Track](#) in

Washington, DC and include production space that is open to the public for sales on the weekends. Due to high lease rates in the city, this space may require a subsidy and be mission driven to grow good middle income jobs in the city and creating a more inclusive economic development program. For instance, the city could partner with Los Angeles' Downtown Women's Center to solicit foundation support and create space for graduates of DWC's entrepreneurship program to join this space. An incubator space can operate in 5,000 to 35,000 square feet or more, depending on the needs of the community.

3. Focus on mentorship and business support

Small businesses thrive and grow when they have the right support. Lessons from the tech sector show that business owners are more likely to succeed when they have the right training and access to mentors who can guide them through both growth opportunities and challenging times. DTSM has the opportunity to bring this kind of support to existing and new small businesses, with a specific focus on support for small-scale manufacturing businesses to help them grow in downtown.

- **Launch a business development cohort program for existing product businesses.** This program can be geared toward home-based businesses, businesses in shared spaces, and those already in small spaces to help them expand their distribution, build their revenues, and create stable and growing business opportunities in the future. This program can be modelled on the business development curriculum from [37Oaks University](#), ones like [Million Dollar Women](#), or other city-led initiatives like [Scaling Up South Bend](#) that pairs training with subsidized space to support growth and use of vacant properties.
- **Create a startup program for local small businesses.** Offer a broader startup training program for residents, and others in the region, who are interested in launching a business. This can include both product businesses and service businesses, or it can focus primarily on the producers. This kind of program helps more people understand how to create a product-market fit, price their goods correctly from the start, and set up their baseline systems effectively for a small business. The program can be modelled on the curriculum from [CO.STARTERS](#),

[MORTAR](#), or the existing program at DWC. The most effective program should be created with target audiences in mind, and with their involvement, to make sure the program meets their needs. This may also work well by bringing CCI and SoCal Etsy programming into downtown.

- **Invest in a micro-grant program with a focus on product businesses.** This investment can grow in tandem with one of the new DTSM programs, and/or focus on Black product business owners and other business owners of color. Many business owners were left out of the PPP and EIDL funding available through the federal government in 2020 and have not qualified for bank loans. A micro-grant program can support business growth by allowing owners to purchase more raw supplies, new equipment, get financial services to qualify for future loans, or to pay for staff to work at events.
- **Promote existing programming more intensely.** The region has a number of funding and training programs available to small product businesses but most owners are not aware of them. DTSM can serve as a convener and connector of these programs with small-scale manufacturing business owners and help get the assistance to more businesses involved with the downtown.

4. Fix local policies to support these outcomes

The best way to support small business growth and active use of storefronts is to make sure that all permitting and incentives point in that direction. The city can do a number of things to rethink existing processes from the perspective of the customer – the small business owner – and determine ways to make it easy to do exactly what the city wants. Similarly, the city does not need to accept some of the barriers created by property owners that are negatively impacting property values throughout the downtown.

- **Adopt a vacant property ordinance.** Property owners have a right to fill their storefront with the business of their choosing. But when landlords choose to leave storefronts vacant for extended periods of time, they depress the rest of the property values on that block. Many cities have [adopted ordinances](#) that penalize property owners with a fee if they leave their space vacant for extended periods of time without renovation or construction taking place. Santa Monica has a

responsibility to the community and other property owners to protect their investment and require landlords to be good stewards of the community.

- **Amend permitting to make it easier to do the great stuff.** The city should review its permitting process for live music, small business occupancy, and outdoor events to allow local business owners to more easily create the mix of activities that help storefronts thrive. Experiential retail (a storefront that is much more than a storefront) was the major trend before the pandemic, and this will quickly return. Places that make the mix of activities – from retail, to small-scale production, to small events with music or drinks – will be more successful both indoors and outside. Consider identifying an ombudsperson for small businesses to help expedite any city needs.
- **Establish a DTSM and city commitment to spend local.** Each city procures products throughout the year – everything from paper towels to food for events to chairs for the office. Local government, DTSM, and other anchor institutions can [commit to procure a minimum percent](#) of their needs from local or regional businesses. This is an incredibly effective way to use local dollars as an investment and anchor purchases from local businesses.
- **Consider a development incentive to include affordable commercial space.** In future redevelopment along the Promenade and throughout downtown, the city can offer added commercial or residential density in exchange for a percent of ground floor commercial space offered at below-market rates. This is similar to existing affordable housing models. The developer behind the [Art Walk micro-retail spaces](#) offered them as part of its community benefit negotiation with the city and committed to below-market lease rates for 30 years. These spaces are not prime retail frontage, but still a major brand for the site and attraction for the residential units above.

Next Steps

Downtown Santa Monica is primed to bring life back to the Promenade, fill storefronts, and create a destination that shows off the diversity of the city and the region. The potential to create a place that is full of unique experiences for residents and visitors alike is absolutely available to the city. But the opportunity needs to be seized right now – longer-term vacancies on the Promenade and throughout the city will continue to push away visitors, deter new tenants, and depress property values. The city needs to clearly state the goal of creating an increasingly welcoming place for both businesses and a diversity of business owners. This will not happen without purposeful outreach and investment. Now is the time to lead downtown toward an inclusive vision of economic success with families, long-term residents, and visitors from across the world all charmed by the new uniqueness of Downtown Santa Monica. With a comprehensive effort across these areas of action, the city can create a great place that families will call home for generations and where local product businesses will thrive.

RECAST CITY

Recast City is a national consulting firm that works with real estate developers, city, county and other civic leaders, and business owners to integrate manufacturing space for small-scale producers into redevelopment projects. We build the startup community for small manufacturers and makers in the city - across industries of textiles, electronics, wood, metal and other materials.

Recast City brings together small-scale manufacturers and community developers to strengthen our neighborhoods, build value in our real estate, and create more job opportunities for residents.

We help landowners, developers, and city leaders understand this growing business sector and how to incorporate it into real estate products. We help maker industry entrepreneurs and small manufacturing business owners get the support and exposure they need. And we help communities create more good paying jobs for our local residents.

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