Many cities in the California are working towards densifying their downtowns. The push for densification is driven by different factors. The most significant factor is the State of California’s requirement for cities to identify and quantify how much housing will be made available in their General Plans to accommodate population growth in California over the next few decades. Other factors include demographic and generational changes that have not been planned for by older zoning codes.

Combining these densification factors with the desire by cities for retail sales tax has resulted in a proliferation of vertical mixed use projects (residential above ground floor retail) that are being developed in most cities in the greater Bay Area. Whether the vertical mixture of uses combines residential with retail or office with retail, configuration of the retail space located on the ground floor of multi-storied buildings has to adhere to the space configurations and design of the uses above. Often this requires the retail space to use dimensions that don’t meet the needs of typical retailers. The value of the building is almost always in the uses above the ground floor.

Retail tenants have strict location criteria. Retail is one category of real estate where location and store layout can affect the overall sales of a retailer. Retailers spend millions of dollars each year trying to make their store locations ideal for maximum sales, but also highly efficient in costs and size thereby allowing additional profits to accrue at the bottom line.

Starbucks, for example, had a prototype last year (it can change year by year) that required 1800 s.f (spaces that were 2400 s.f. were rejected) in a specific configuration. The company would only consider an “end cap” where one side of the building does not have another tenant and where there are no pillars (to support vertical uses) in the middle of the store. Starbucks may get the configuration it wants, but many sites are rejected before the exact one is found that maximizes the desired sales volume.

Another example are grocery stores (i.e. Safeway, Trader Joes, Whole Foods) that will analyze a proposed site, not only by its location, but by 1) how the proposed store lays out on the site; 2) ingress and egress from the street; 3) parking e.g. number of parking stalls and where they are located; 4) the surrounding trade area’s demographics; 5) the loading dock (available to handle 50’ to 80’ trucks), 6) the clear height inside the building; 7) the overall size of the premises; and 8) storefront and signage. If any one of these requirements fall short of the required prototype these retailers will advise the real estate industry that their sales will suffer. If sales suffer, stores cannot pay the expected rent. All rents are a ratio of sales.

As cities plan for the next 20 years of expected growth, they should consider the configuration and location of retail space as densities of projects increase and the retail environment changes. Size, layout of space and parking are important to all regional and national retail tenants.

Large Format (Anchor) Retail Tenants:

The number of large format retail spaces (anchor space) has declined in numbers across the Bay Area and the United States, but not in importance. The Bay Area, with its many challenges to development, never experienced an oversupply of large format retail spaces. While many large format retail tenants did close stores in the Bay Area, those stores were quickly leased by other large format tenants or demised into smaller spaces and re-leased.
Large format retail space is generally defined as a space of 10,000 s.f. or larger. Many retail tenants that previously searched for spaces as large as 150,000 s.f. (Target Greatland), are now looking at ways to reduce space, yet maintain efficiencies with sales. Most grocery stores in the Bay Area have found that spaces as small as 10,000 s.f. cannot offer what the typical grocery store customer wants. Consequently, most grocers have ended up leasing spaces ranging between 25,000 sf to 35,000 s.f..

Often, large format retail tenants cannot be accommodated in vertical mixed use buildings because the ground floor space must conform to the space configuration of uses on higher floors. There are a few grocery store formats that have been accommodated in mixed use, high-rise development (such as Safeway) but not without parking, circulation and space configuration challenges. It is important to note that larger store formats serve as anchors in commercial districts and downtowns in order to attract a consistent flow of customers for smaller, in-line shops. The caution for cities planning for growth is that consideration needs to be given as to where large format retail tenants will locate in the future as projects become denser.

Smaller Shop Retail Tenants:

With the proliferation of vertical mixed use projects, the availability of smaller shop space for retailers has increased. Many cities have experienced continuous vacancy in much of this new retail space. Typically, the reason for the failure of leasing smaller space in these projects is due to three reasons:

1) The vacant smaller shop space has a space configuration or location in the property that no longer meets the needs of existing and emerging retail tenants.
2) The vacant smaller shop space is located in a geographic area not desired by other retail tenants.
3) The vacant smaller shop space is located in an area where nearly every category of smaller shop retail is already represented.

There are ways to insure that new smaller shop retail space gets leased by taking precautions early in development of the project. These actions include; 1) developing standards of approval for vertical mixed-use space that allows the small shop space on the ground floor to be configured and located in the project based on the needs of retail tenants; b) identifying retail nodes in the City and not allowing retail on the ground floor of projects built outside of the nodes; c) engaging with retail experts to gather information on trends in the retail industry, including categories of retail tenants that are expanding.