RESTART
RESET
RETOOL
REFILL

How to begin thinking about post-pandemic economic recovery

Considerations for downtowns,
commercial corridors and main streets

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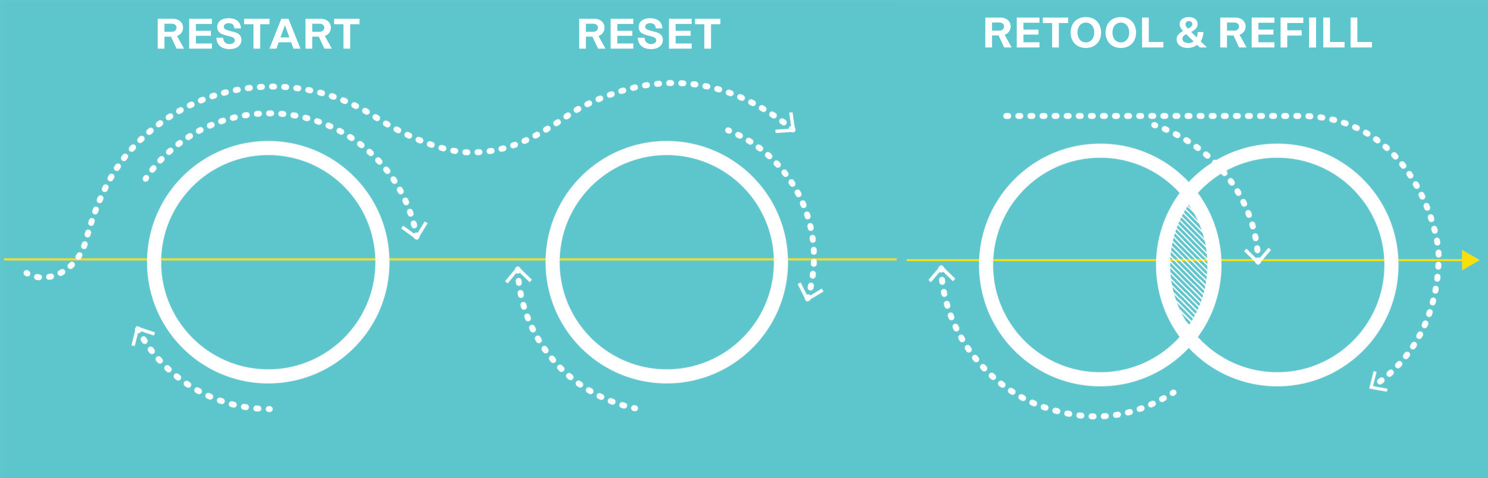
Action Areas

We see several key action areas evolving as the recovery from the COVID-19 pandemic moves forward...



Restarting is driven by public health considerations like physical distancing guidelines and personal protection requirements. It is important to remember that policy choices have economic consequences. There are a number of open questions particularly related to consumers returning to businesses and the implications for the economy. If we have to slow down or selectively close high-contact businesses because of a resurgence of infection, consideration needs to be given to how it is done to avoid locking in competitive advantages for big box retailers and large online sellers.

Stabilization programs - like the Paycheck Protection Program (PPP), eviction limits, and enhanced Unemployment Insurance, which aligned financial time with economic time - are coming to an end mid summer. Coupled with a phased **restart**, there is a risk of misalignment that causes significantly more stress to the economy and consumer confidence. This means serious consideration and support may be needed to **reset** the financial clock in ways that recognize the realities of the microeconomic situation of individual businesses, but are cognizant of the systemic impact through the financial system.

The pandemic magnified and amplified glaring, preexisting disparities and holes in our civic and economic structure. To move forward without reliving the mistakes of the past means we must comprehensively **retool** our public spaces, economic infrastructure, and approach to economic development.

There are going to be closures, vacancies, and job losses across employment centers, commercial corridors, downtowns, main streets, and neighborhood business districts. How long and how deep will be a function of how well the next three to six months are managed, how that impacts consumer confidence, and whether planners and development officials are ready to respond and begin to **refill** empty storefronts, offices, and industrial sites.

We see three important challenges on the horizon:

1. **Dealing with Vacancy**
2. **Maintaining a Sense of Vibrancy**
3. **Ensuring that Equity is Central to Recovery**

The following pages represent a thought process to shape a recovery strategy that helps your unique small business community.

Policy choices matter...

...because they impact economics.

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How fast can we get to 100% capacity?

RESTAURANT CAPACITY SCENARIOS

METRICS	BASELINE 100% capacity	APPROACHES: SCENARIO 1 Create capacity targets		SCENARIO 2 Allow max density	SCENARIO 3 Require social distancing*
Capacity	100%	25%	50%	10/500 sq ft	6 ft/144 sq ft
Revenue	$2,000,000	$500,000	$1,000,000	$600,000	$208,333
Total indoor seats	200	50	100	60	21
Revenue/month	$166,667	$41,667	$83,333	$50,000	$17,361
Monthly Occupancy ($)	$10,000	$10,000	$10,000	$10,000	$10,000
Monthly Tip Pool 18%	$30,000	$7,500	$15,000	$9,000	$3,125

Baseline assumptions:

SF/SEAT 15
DINING SF 3,000
REVENUE/SEAT $10,000
ANNUAL OCCUPANCY ($) $120,000

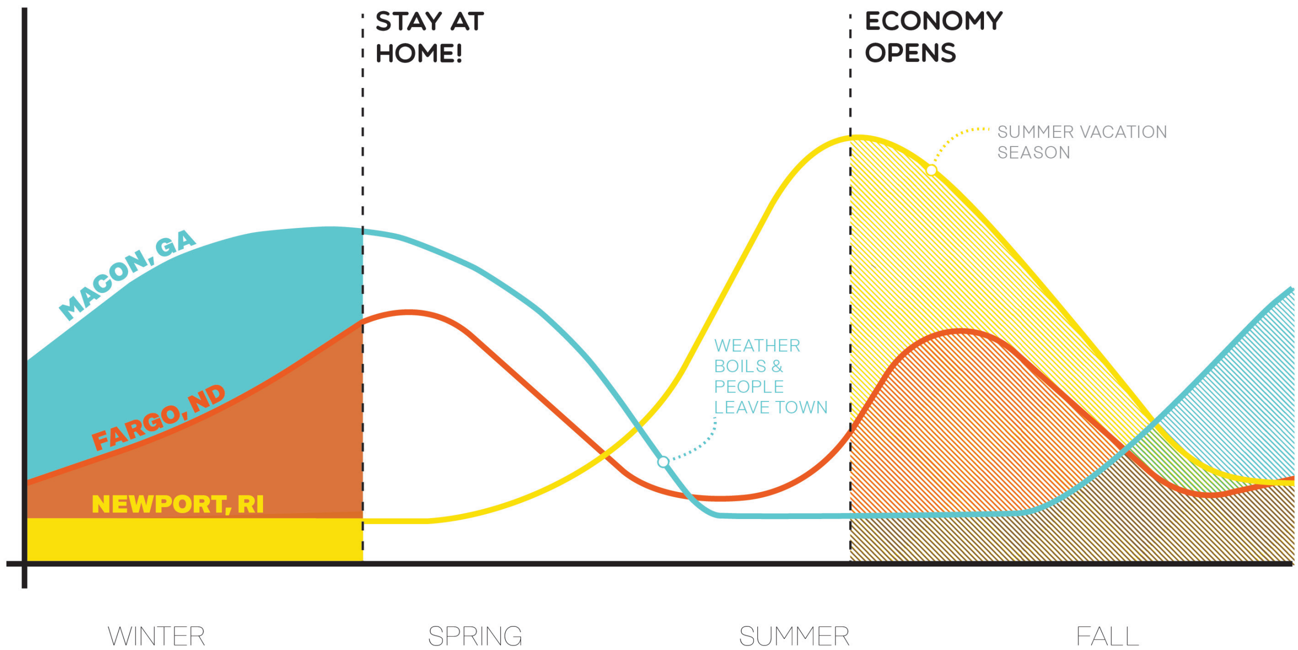
Notes:
* Indoor only - no outside / no takeout
* Social distance model is too high because it does not account for 300 square inches dining area for each seat
* Baseline: 100% capacity
* Capacity % approach: % of existing capacity
* Max Density approach: people per SF
* Social Distance approach: provide 6ft separation

We are at the end of the beginning. As restart rolls out across the country it is important to recognize that recovery will need to address some important financial burdens that phased-in reopening does not relieve. In some cases, reopening may exacerbate financial issues, particularly for restaurants or any business selling "time." More on that later.

The table above is a disguised example from an actual restaurant – the specific numbers have been simplified but remain within an approximate range of the original numbers. Several different reopening capacity scenarios based on concepts from around the country were used. These scenarios are presented so policy-makers understand the implications of their decisions in terms of revenue impacts and subsequent financial implications on factors such as business liquidity, rent, and staff compensation. How long reduced capacity stays in effect could have profound implications in three to six months.

Seasonality will likely impact what recovery looks like even at 100% capacity...

SEASONALITY OF SALES (TYPICAL YEAR)
Note: Curves are representative based on prior experience working in each area.

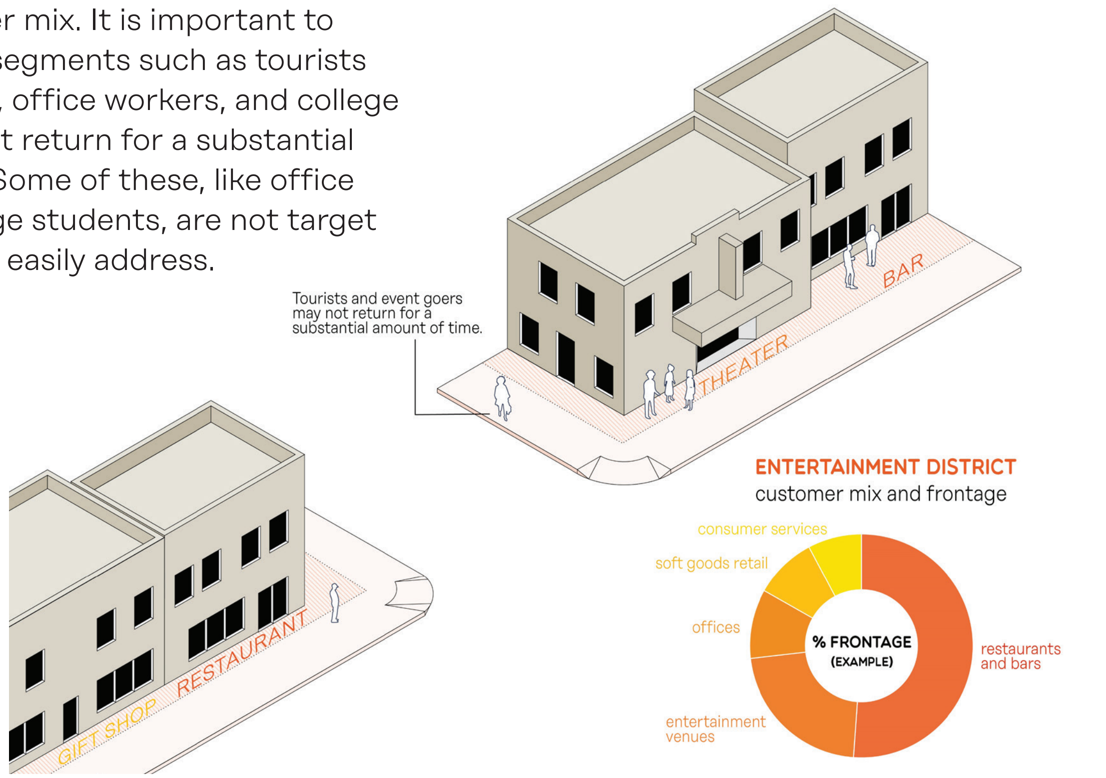


Seasonality of sales, particularly for downtowns, shopping districts, and entertainment districts, is something to take into consideration as one manages the reopening the process. For some geographies, summer may represent the slow season. For other markets, summer is the critical season. Based on our experience, seasonality may not be what one would assume simply based on climate. A number of customer factors come into play which is why it's critical to gain a sense of who the customers are and what their patterns are to best target resources based on anticipated revenue and sales flows.

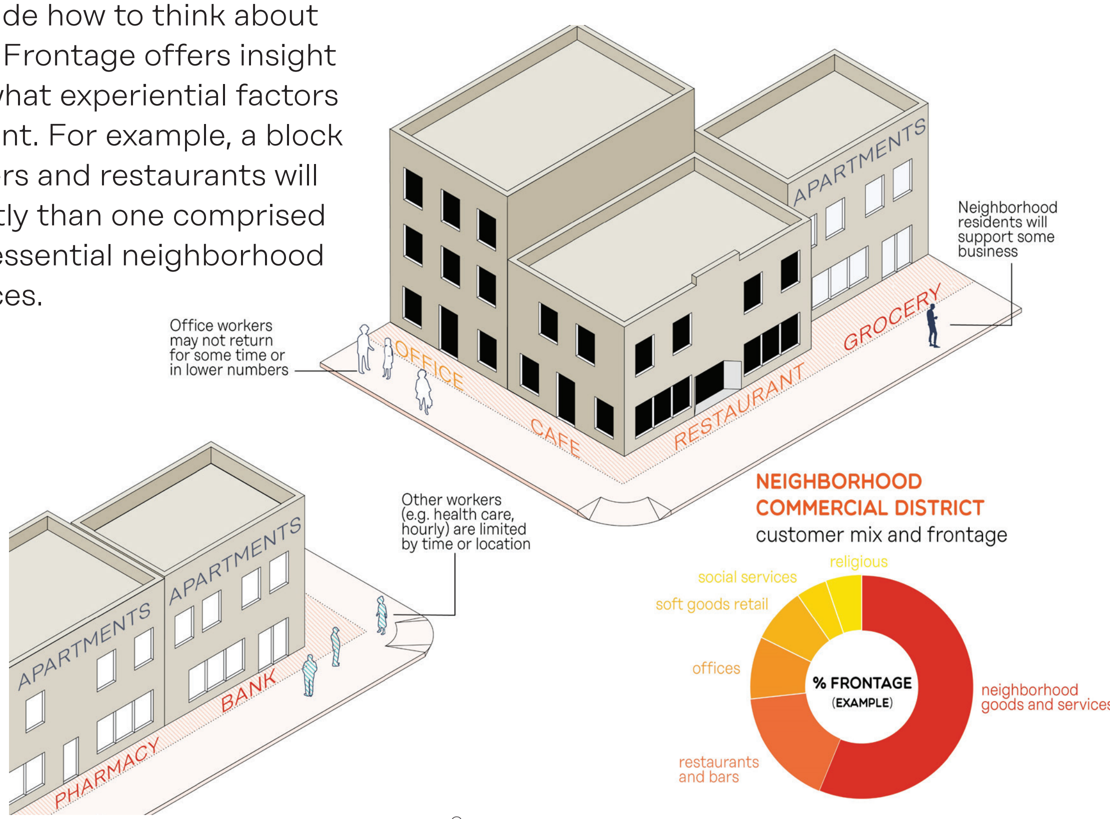
...and customer mix will impact recovery too.

It is critical to understand the "addressable market."

A successful restart will also be dependent on your customer mix. It is important to note that some segments such as tourists and event-goers, office workers, and college students may not return for a substantial period of time. Some of these, like office workers or college students, are not target markets you can easily address.



Understanding frontage will help you plan for and decide how to think about adding capacity. Frontage offers insight into where and what experiential factors need management. For example, a block filled with theaters and restaurants will recover differently than one comprised mostly of more essential neighborhood goods and services.



People need to feel safe to return...

...but people weigh their options differently. There are some consumers who are willing to take a “calculated risk.”

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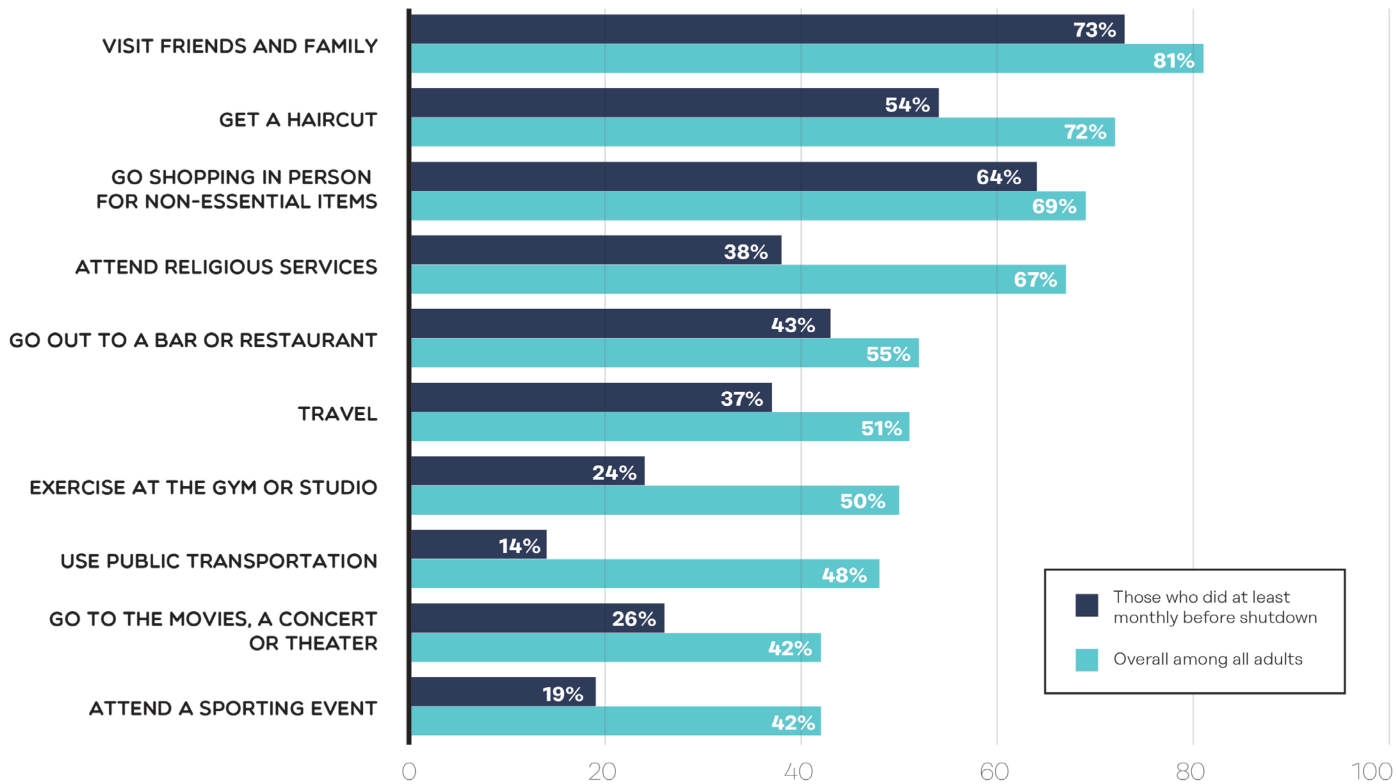
Getting businesses to sustainable levels of revenue is more complicated than just reopening.

IF THESE ACTIVITIES WERE ALLOWED IN THE NEXT FEW WEEKS, WOULD YOU....

Source: The Associated Press-NORC Center for Public Affairs Research Poll conducted May 14-18, 2020 with 1,056 adults. Questions referenced: “Before the coronavirus outbreak, about how often did you:” & “If these activities were allowed in the next few weeks, would you personally:”

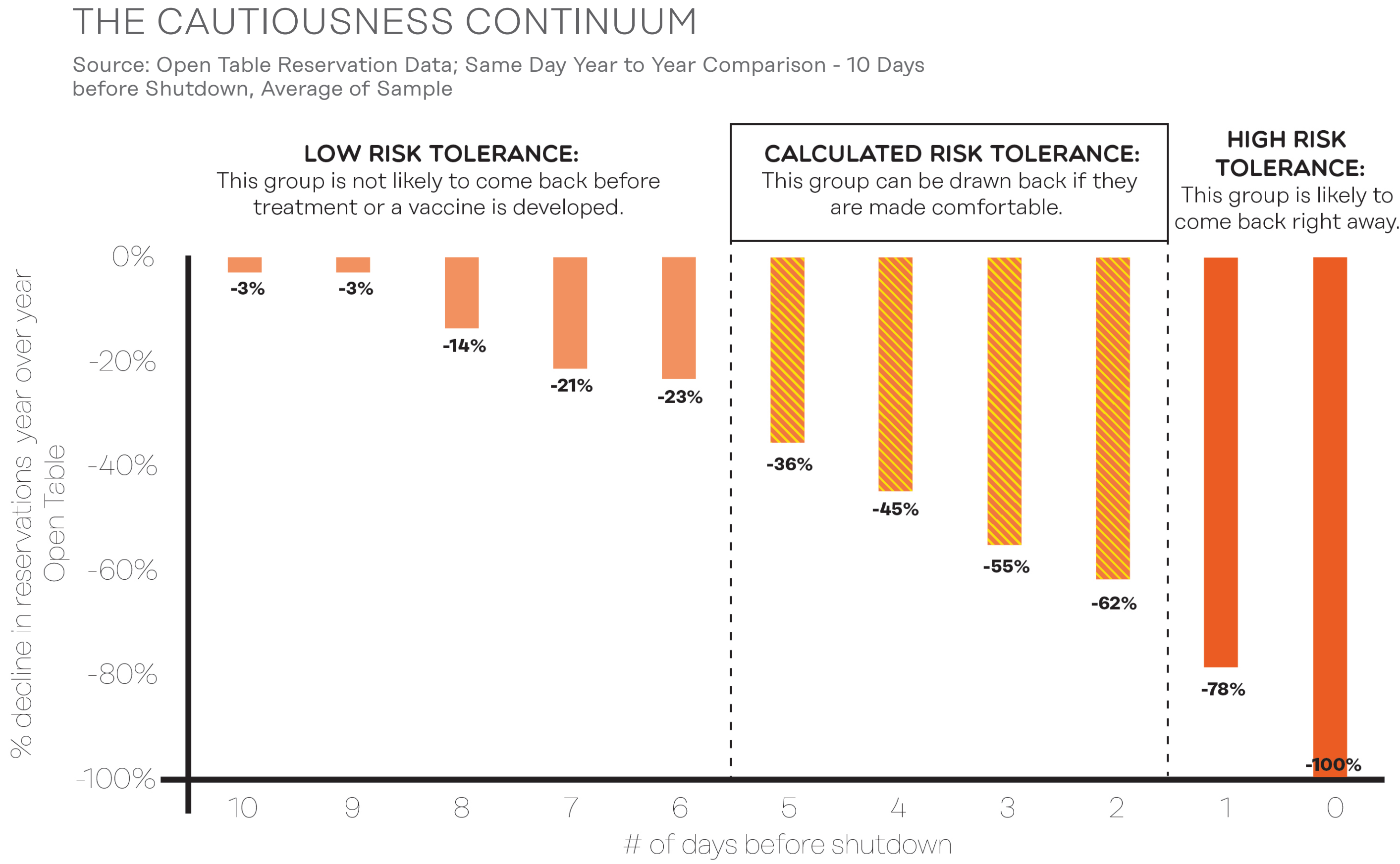


Adding capacity is the easiest part of the equation. However, it won’t matter if too few customers return, and news reports of the first stages of reopening suggest a mixed result depending on your geography. How do we get a sense of how many may return in the near term? Polling can provide some insight. The chart shows survey data from the AP / NORC poll taken before Memorial Day Weekend. What it shows is that “regulars” are basically a 50/50 proposition. Casual customers are a much more complex sell to bring back. Examining actual behavior can supplement information from survey data. For restaurants, Open Table provides some data that can provide some insight into actual behavior.

The AP / NORC poll can be found here: http://www.apnorc.org/projects/Pages/Economic-Attitudes-as-the-Country-Starts-to-Reopen.aspx

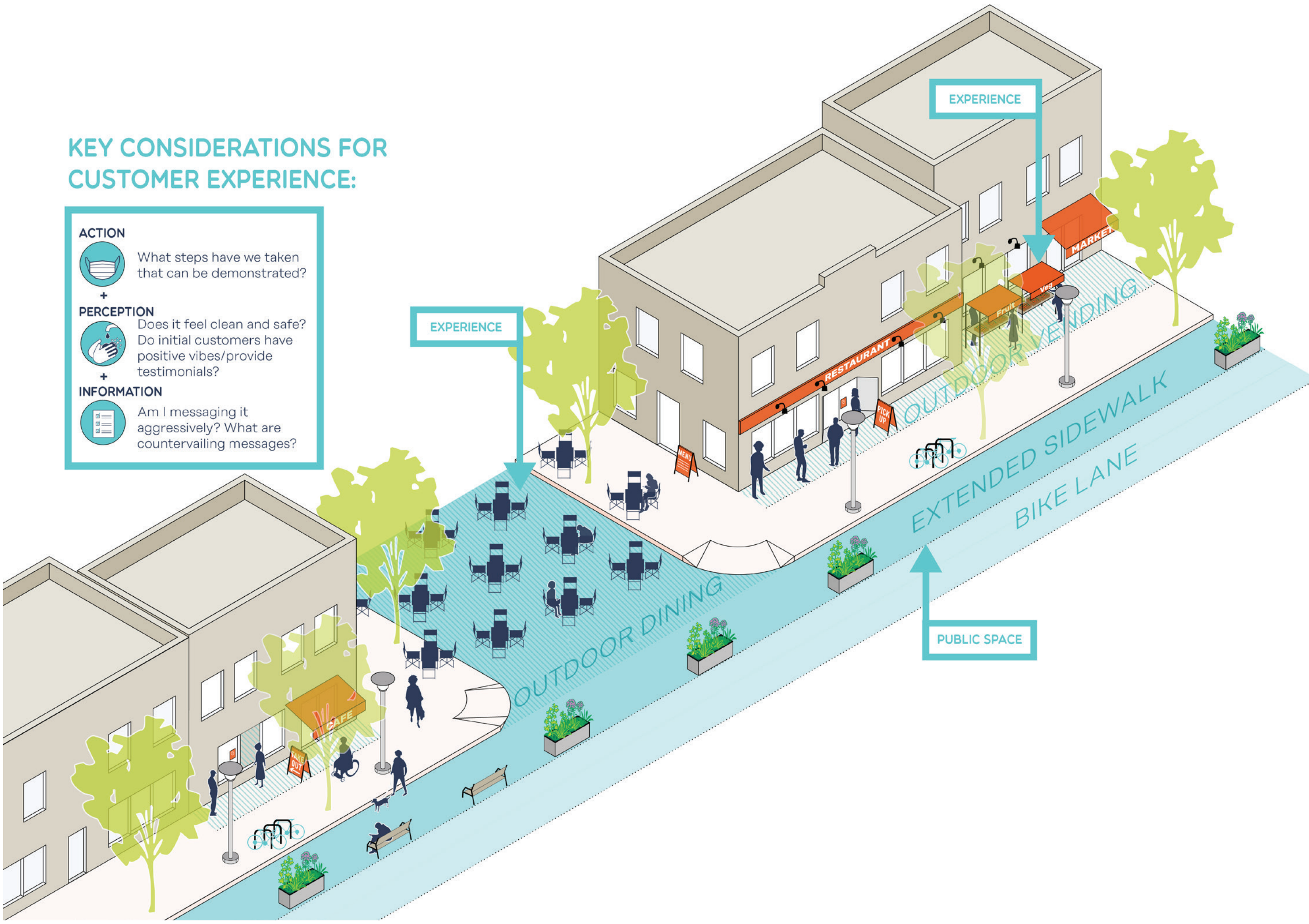
Bringing customers back is about managing "risk."

Businesses must focus on customers willing to take a calculated risk.



Open Table provides a dataset of locations with 50 or more businesses that take reservations through its mobile app. While it is not representative of the broad range of restaurants, it is instructive on potential consumer behavior for sit down dining and perhaps other "people proximate" activities. Understanding consumer behavior related to how reservations changed in the days leading up to the shutdown could be instructive of how this pool may behave as establishments reopen. We examined 21 geographies to get a perspective on consumer behavior leading up to the closure of restaurants. Ten to fifteen percent (10%-15%) of business disappeared immediately. One-third of business disappeared leading up to the last five days before the shutdown, as the crisis picked up speed and national attention. However, within two days of closure about one-third of the reservations remained. Combined with other survey data and some other insights such as the "worried well," phenomenon in health plans, 25% are not likely to come back before there is substantive improvement in clinical treatment or a vaccine is developed. Twenty percent (20%) are likely to come back right away. The key is going to be to make more comfortable the remaining 55% of people who are likely to be distributed across the middle part of the cautiousness continuum.

Managing calculated risk means addressing the key transmission variables of time, space, people and place.



The public realm can help reassure customers that retail establishments and restaurants are addressing the key transmission variables: **time**, **space**, **people**, and **place**.

Changes made in the public realm should focus on experiential issues. More dramatic and visible changes will be reassuring to patrons who are calculating the risk of patronizing these businesses.

If all of this fails,

we must reset the financial situation of these businesses where we can.

This requires a re-alignment of financial time and economic time.

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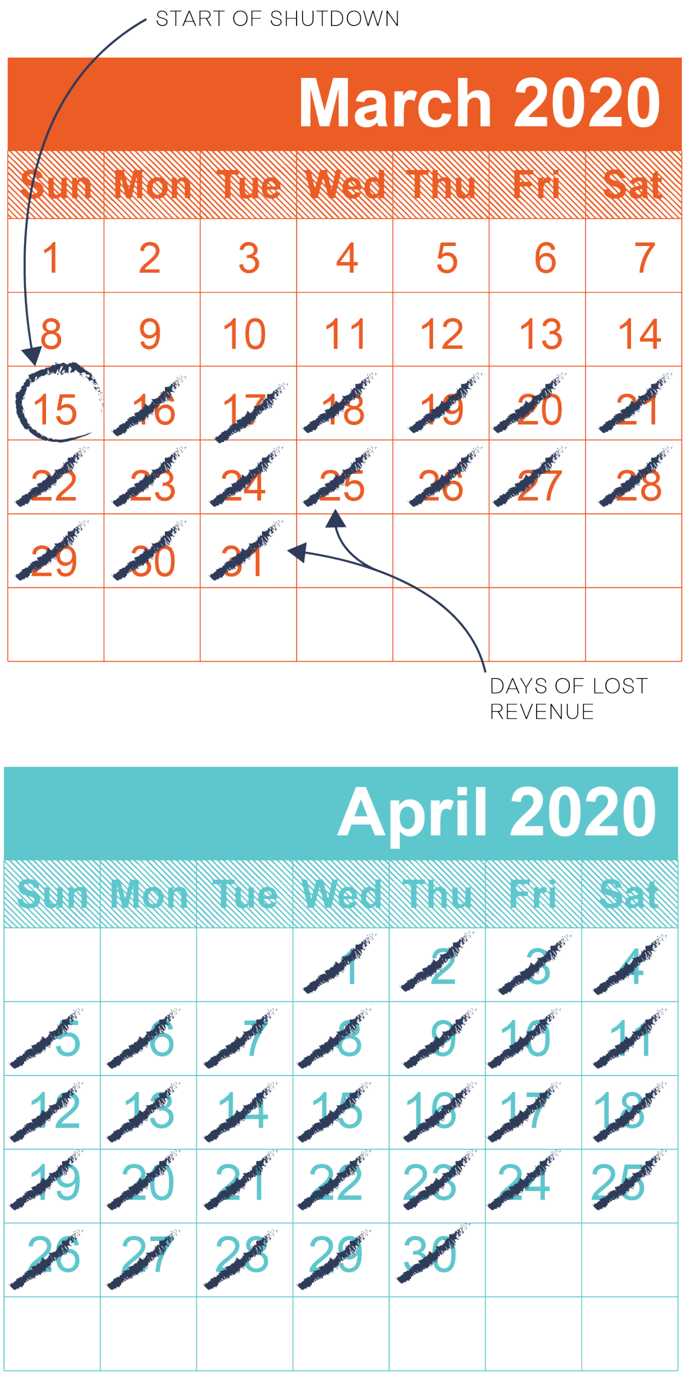
The business revenue model matters.

We must find ways for any business with a perishable revenue model to increase revenue generation in off-peak times.



Earlier we discussed businesses effectively "selling time." It is important to remember that for any business that sells time, seats, slots, beds, or the equivalent, these are perishable products. Once the moment has passed, if unsold, the revenue opportunity is forever lost - put simply, you can never again sell a Friday night in April 2020.

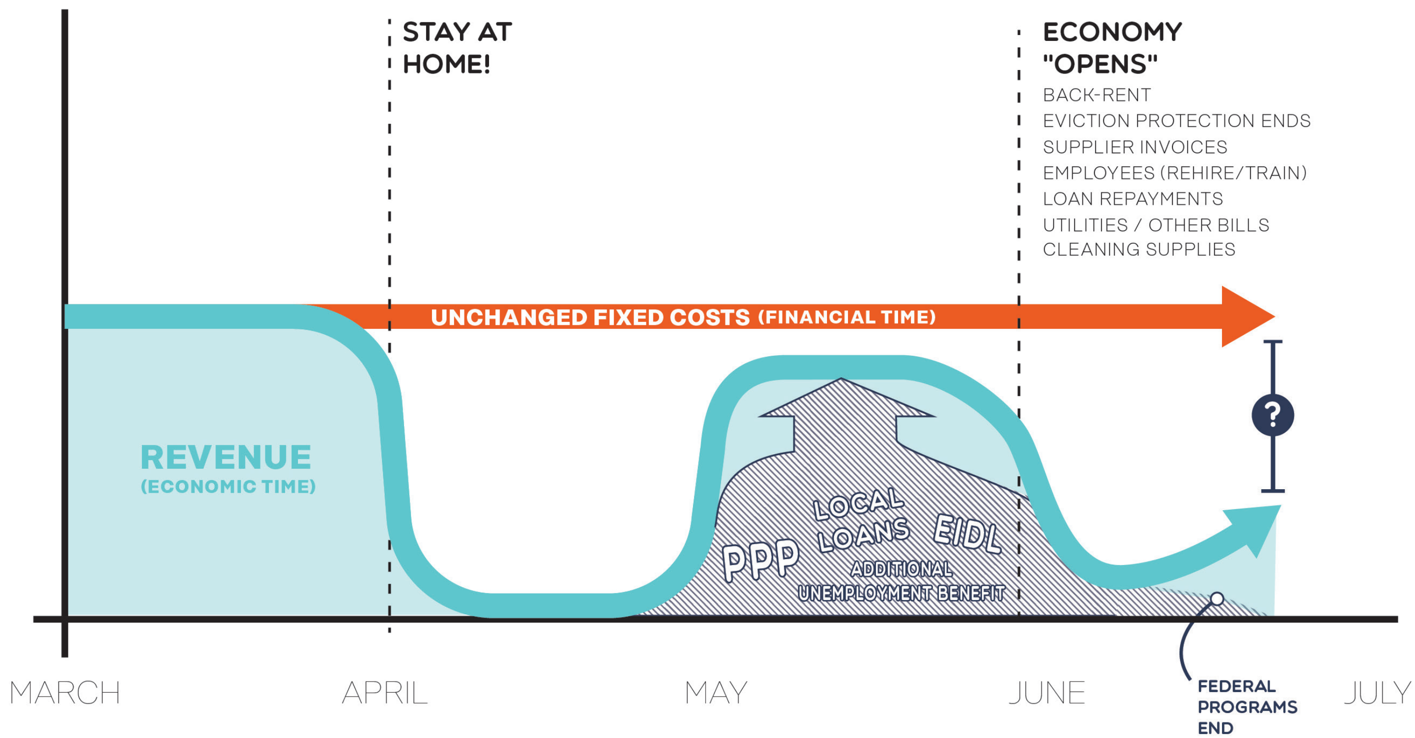
Adding capacity through outdoor seating may help, but it is weather dependent. The only other way to make up for this lost revenue is to get better utilization of underutilized days or time slots, e.g. for the restaurant business make every day Mother's Day or Valentine's Day and/or raise prices substantially.

For other businesses such as event-driven businesses or cultural institutions, many of these concepts are not really options. Supporting them as they find new models will be critical to their ability to withstand attendance restrictions.

After the economy "opens" there will be a big revenue gap to fill as bills become due.

For a period of time, financial time and economic time were aligned, but without additional legislative action, they will fall out of alignment again.

MISALIGNMENT OF FIXED COSTS AND REVENUE (FINANCIAL TIME & ECONOMIC TIME)



For a period of time, between federal stabilization actions such as the PPP and state actions to manage evictions, **financial time** (bill due dates) and **economic time** (stopped revenue from shutdown) were aligned. However, this summer and early fall, unless additional legislative action is taken, revenue and fixed costs will fall out of alignment again. With less revenue coming in for the foreseeable future and fixed costs remaining constant, the viability of a number of otherwise healthy businesses may come into question.

Because a number of these businesses have perishable revenue models, their ability to catch up is very limited. Additionally, households may be facing similar issues related to rent and mortgages, as the enhanced unemployment benefit comes to an end and job prospects remain limited.

For more on the economic time and financial time concepts, see this article: https://qz.com/emails/coronavirus/1820239/

Refilling will be a priority when the timing is right...

...and each block will need its own approach.

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Focus on the pieces you can control and influence.

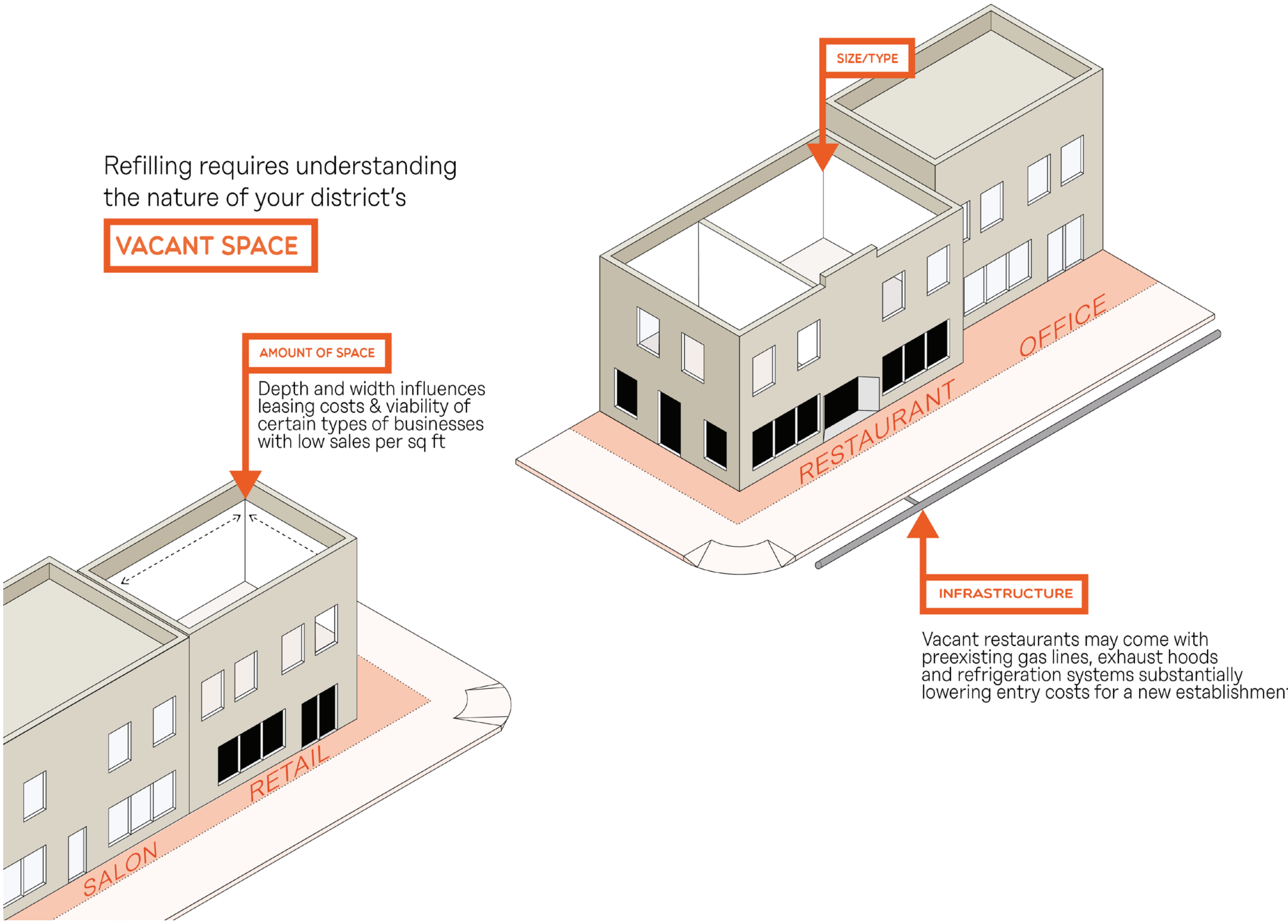
Don't focus on converting shoppers to actual buyers.

CHAIN OF RETAIL SALES GENERATION

Things you can control and influence include the first two shown in the graphic above: **Potential customer pool** and **shopping opportunities**. You can work on strengthening the potential customer pool through some actions that include: accessibility, traffic flow, programming, aesthetics, safety, housing policy, zoning and parking, property taxes, recruitment, and visibility. You can assist in the creation of shopping opportunities through recruitment activities, but shopping opportunities are actually driven by the customer profiles, as interpreted by retailers and property owners.

There are going to be vacancies.

The key question is: how do we address them?



Having an empty storefront program will be an important step, but creating a locally-owned tenant development pipeline is the real long-term solution. The lessons from start up accelerators provides a model of what an effort should include. The tenant development program should have a network of services and programs to assist with the launch and growth of these businesses, and be done in conjunction with landlords.

TENANT DEVELOPMENT PROGRAM

LOCAL TENANT PIPELINE

SUPPORTS	EXAMPLES
Space development migration	Property owners negotiations
Access to capital	CDBG 108, SBA 504, CDFI
Technical support	Accounting, operations
Marketing support	Social media, programming
Regulatory approach	Zoning, streamlined permitting
Public realm	Streetscape, amenities

Not all places have the building blocks or right tools to recover.

Some places will need to make organizational changes or create new policies to effect the changes needed.

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Building real **economic resilience** requires helping small business adapt to changing circumstances.

Most small business economic development functions in cities work as "case managers," trying to help small businesses resolve issues such as zoning, permits, facilities and occasionally loans. Going forward, helping small businesses increase their online presence as appropriate, assisting them to build banking relationships including potentially creating a CDFI, and supporting their efforts to identify potential customers, need to be part of the economic development team portfolio.

An important first step is mapping the existing small business support ecosystem and understanding the **actual** functions they perform and how the pieces interact with each other. For instance, are business supports networked together with clear linkages between programs, or are they relatively free floating / stand-alone services? Moreover, an important consideration is the cultural competence of these organizations, including knowledge of how informal networks support small businesses in ethnic communities. It's really important to remember that "entrepreneur" does not mean tech start up as is commonly associated. Programs targeted for tech companies are not designed to support consumer packaged goods, retail and food concepts, or neighborhood-type businesses.

Striving for **economic equity** through government and anchor institution contracting is a starting point not the solution.

M/WBE set-asides in public contracts and with anchor institutions is a typical approach to address economic equity concerns. However, simply requiring minority- and women-owned business contract set-asides is not enough to create a growing, sustainable base of minority businesses and entrepreneurs. Experience over the last several years suggests that assistance in obtaining certifications, bonding/insurance needs, and working capital to pay for materials and payroll or help manage slow receivable payments, are critical needs to fully capitalize on a set-aside approach. States, local governments, and institutions can work together and find creative solutions to the needs described above. For example, sponsoring accounts receivable factoring for public and institutional projects can help address short term financing needs that do not require credit checks or collateral from traditional lending models. Over the next several months and potentially years, there could be a substantial amount of public spending coming forward through a series of stimulus actions. Establishing an M/WBE program that provides wrap around services, if you don't already have one, can help build a more robust and viable ecosystem of companies.

Similarly, making sure that any tenant pipeline development programs or small business launch programs have established distribution channels and networks that reach across and into the broader community and traditionally underrepresented groups is vital to promoting equitable opportunities for participation.

Figuring out how to support “vibrancy” is crucial to the wellbeing of downtowns and main streets.

The pandemic makes vibrancy a public health concern. How do we preserve the things that make our cities vibrant? And does post-pandemic vibrancy look the same? Many things contribute to the vibrancy of a place. A mix of uses and activities available at all times of day and for different ages and interests create “third spaces” where people can connect to one another. Cultural institutions and sporting events make us feel a part of something bigger than ourselves. Vibrant places are what helps to distinguish cities from the suburbs and create an environment that supports the needs of main street and downtown businesses.

Ultimately, guidance from organizations like the Centers for Disease Control and Prevention (CDC), State and local policies will limit the number of people allowed in a place. For this reason, sporting events, theaters, and event venues are likely to be the last businesses to open. It will take coordination between many actors (government, institutions, businesses, and individuals) to sustain organizations that support vibrant places, and maintain the sense of activity while responding to public health requirements.

Rethinking first floors in downtowns and main streets needs to be on the agenda.

COVID-19 will force cities and towns to reconsider the amount and location of retail and restaurants across downtowns and main streets. Retail was already struggling because of the increasing movement to online sales for certain key categories plus rising rent costs. Some observers have referred to the past few years as the golden age for restaurants, but changing demographics in key customer segments plus oversaturation portend a coming shakeout. COVID simply accelerates that process.

If the number of restaurants and retail stores shrinks what becomes of the first floors? The search for active first floor uses is seen as critical to the vibrancy of a downtown or main street. Retail cannot go everywhere, and there are powerful experiential and customer synergies in concentrating it in a few areas. If tenant development programs are created, this linkage between space and place could be better integrated.

Accordingly, it may be time to revisit first floor usage and consider a range of alternative options including housing, lower cost office space, and other uses. This is going to become an important consideration for new development for the foreseeable future. Communities that mandate commercial space on first floors need to rethink this requirement.

How do you start?

First, answer the following questions...

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The process is important. Make sure you are asking the questions that provide a real understanding of your specific circumstances.

Do you understand the nature, scale, and scope of the challenge?

TAKE STOCK.

- Have I enhanced my safe and clean program to alleviate concerns about public spaces and common areas?
- Have I considered physical distancing issues for parking facilities or overlapping queues?
- Do I have a communications program, including collateral for our enhanced approach?
- Do I know my seasonality to better time the use of my resources? When is my slow season?
- Do I know my market profile? What is the mix of the customer base in different districts?
- Are they business travelers, students, event goers, night on the town regulars, tourists, workers?
- Do I know the use mix percentage of my street frontage in key districts? How vulnerable is it to vacancy from COVID-19?
- Do I know or have an estimate of how many of my main street and hospitality businesses own their building?

You can't solve everything. What are you focusing on?

DEFINE THE PROBLEM YOU ARE SOLVING.

- Are public health regulations challenging vibrancy?
- Is growing vacancy your critical concern?
- Do you need to increase capacity of your organization to provide the right support?
- Do you need to help businesses build consumer confidence?

There won't be enough to go around. How do we strategically establish priorities?

IDENTIFY WHO TO HELP, AND HOW.

- Do I know which blocks, streets, and corridors are well performing, able to fill vacancies relatively easily, and which are not?
- Do we help businesses that were in arrears on March 1, 2020? Do I know if they received PPP or EIDL, or if they applied?
- Do I have a policy on past due property taxes & assessments? For triple net leases?
- Is the business viable if it is brought to par on past due rent obligations?

What resources are at my immediate disposal to deploy? What am I missing?

CREATE AN INVENTORY OF THE TOOLS YOU HAVE.

- Do I have a marketing campaign to drive more utilization of off-peak capacity, e.g. free parking, happy hours?
- Have I created templates on different potential models, and how-to guides on restructuring leases? Can I provide access to legal resources?
- Do I have a lease assistance program, and can I provide critical short-term restart capital (buying supplies, materials, support for modifications)?
- Are grants available rather than loans?
- What lending programs and vehicles are available, and do they have lending capacity?
- Do I have an entity that can execute projects?