



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** July 25, 2019

**TO:** Mayor and Councilmembers

**FROM:** City Administrator's Office

**SUBJECT:** Recommendations For Downtown Revitalization From Kosmont Companies

**RECOMMENDATION:** That Council:

- A. Receive a presentation from Kosmont Companies on findings and recommendations to revitalize the downtown area based on economic research and public outreach; and
- B. Receive a brief update from staff on next steps to improve economic vitality downtown and provide direction on further actions as needed.

### **DISCUSSION:**

#### Executive Summary

Over the past few years, Council has been discussing ways to address economic vitality in the downtown area. On August 14, 2018, Council received a comprehensive update on various efforts, including business retention and commercial property vacancies, infrastructure enhancements, public safety, transportation and parking, arts and culture activities, events, marketing, planning and permitting, housing opportunities, and oversight of downtown issues. The business community also submitted a list of recommendations for Council consideration. Council voted to hire a consultant to conduct public outreach and prepare recommendations to guide next steps for the City, business organizations, and stakeholder groups to enhance downtown economic vitality.

Kosmont Companies was selected to do the work and will present their findings at a public hearing with the City Council on Thursday, July 25 at 4 PM at City Hall, Council Chambers. At the meeting, staff will also provide a brief update on the next steps to improve the economic vitality of Downtown.

## Background

Kosmont Companies was hired in January 2019 based on the most pertinent experience and approach to address the current retail vacancies and business retention needs. Kosmont is a full-service local government, economics and real estate advisory firm with a strong track record of working with cities and public agencies on economic development, downtown retail market analyses, and evaluating real estate projects. They bring a strong understanding of current retail trends and real estate investment and experience working with a wide range of cities.

## Work Plan

To understand local market conditions and the business environment, Kosmont prepared a detailed analysis of community demographics, retail sales, commercial space, and commercial lease rates. They reviewed numerous background reports and studies, including the Design Charrette Recommendations from local architects, marketing and tourism studies prepared for Visit Santa Barbara, the 2017 Retail Study, Downtown Economic Vitality Task Force Recommendations, and the Keyser Marston Housing Economic Feasibility Study. Kosmont met with the community at large, various City department staff, and numerous stakeholder groups, including architects, business owners, property owners, commercial brokers, housing professionals, tourism and hotel representatives, and various business organizations. They attended the Experiment Weekend in April and participated in a Downtown Innovation Workshop attended by 200 residents in May. Kosmont also reviewed best practices and actions implemented in other cities for possible application to Santa Barbara.

While their analysis incorporated public input, their recommendations reflect Kosmont's research findings and professional expertise to achieve the goal of revitalizing State Street as a vibrant commercial/entertainment district.

## Report Recommendations

Highlights from their report are outlined below.

### ***Key Findings***

- The Downtown retail vacancy rate is significantly higher than the overall regional market.
- In the last five years, Countywide retail sales have increased modestly, while State Street retailers have seen a 15% annual sales decline.
- Asking commercial lease rates on State Street are higher than neighboring markets, but have started declining.
- Of a total of 1.5 million SF in retail space downtown, approximately one-third or 400,000-500,000 SF is not supportable in the long term unless there are more customers, residents, and office workers Downtown.
- Millennials (ages 18-34) are the largest demographic group in Santa Barbara (28%) and future retail and housing uses need to take this into consideration.

### ***Observations***

- Retail is undergoing dramatic changes as a result of the Internet and social media (e.g. experiential activities vs. consumer goods purchases).
- Districts within communities are evolving into “blended use” areas with retail, residential, office, hotel and entertainment.
- State Street has lost cache for high end retail customers, with local residents appearing to avoid shops.
- Santa Barbara needs more specialty shops that provide unique goods and experience – Authenticity and Strong Customer Service.
- The City does not have a business-friendly reputation (e.g. difficult and unpredictable entitlement and permitting rules).
- The Accelerate Permit Program is perceived by stakeholders as not effective.
- Many property owners have high asking rents and some landlords are not motivated to lower rents because of past rent expectations.
- The permitting process for new retailers is expensive and high risk.
- The Planning and Building Divisions have been short staffed.
- Vagrancy is hurting the image of State Street.
- Many residents want to see increased police presence on State Street.
- It’s difficult to maintain a quality workforce due to the high cost of housing.

### ***Recommendations***

#### ***Regulatory Tools and Policies***

- Fundamentally review/revamp the zoning and permitting process to be more flexible to accommodate market and changing retailer and customer dynamics.
- Prioritize Economic Development within the City and work with other business organizations to clarify their roles.
- Identify beneficial retail categories and streamline permit process.
- Provide easy permits for temporary Pop-Up users.
- Facilitate infill housing or live/work space in back of vacant buildings along State Street.
- Incentivize a blend of residential, office, and hotel reuse of vacant commercial buildings.
- Expand community outreach efforts to get broad feedback on land use issues.
- Consider Specific Plan for zoning strategy/higher density on targeted sites.
- Facilitate development of new workforce housing, including micro units, between Chapala St. and Anacapa St. and utilize surplus parking spaces in City parking structures to meet onsite requirement and reduce development costs
- Encourage more creative office uses along State Street (e.g. Impact Hub, The Sandbox, and co-work zones).
- Work with MTD to expand evening bus services for State Street workers and visitors.
- Encourage window displays to avoid dead zones with 100 feet of frosted glass.
- Encourage UCSB to open a satellite campus downtown.
- Establish an Adaptive Reuse Zone with less restrictive building permit rules.

- Facilitate outdoor dining permits to yield major increase in restaurant sales.
- Encourage rooftop public dining areas along State Street.
- Provide process to allow for live music/amplified sound after 10 PM to attract customers in evenings.

*Infrastructure Investment*

- Provide free waterfront shuttle service on State Street.
- Improve image through public infrastructure improvements.
- Consider creation of pedestrian mall for 2-3 blocks on State Street, requiring closure of portion of State Street to vehicular traffic.

*Marketing and Outreach*

- Increase special events – facilitate and standardize the event permit process.
- Educate residents, City Council, and jurisdictional bodies on importance of State Street’s economic health to generate revenue for critical public services – +5 years of declining sales can cause a snowball effect, creating blight throughout the entire State Street corridor.
- Educate landlords/businesses and City on experiential, destination, and omni-channel retail trends and blended use so City can resolve “anti-business” reputation and image through marketing/branding and implementation.
- Increase local Santa Barbara resident patronage through special events and promotions.
- Consider concept of monthly or more frequent community events in Downtown (Consider using De la Guerra Plaza and other public spaces to host arts and music events).
- Create more experiences for shoppers (e.g. “Pop Ups”, entertainment, breweries, etc.).

The full report is available for review on the City’s website at: [SantaBarbaraCA.gov/Downtown](http://SantaBarbaraCA.gov/Downtown)

**ATTACHMENT:** Recommendations for Downtown Revitalization, Prepared by Kosmont Companies, July 25, 2019

**PREPARED BY:** Nina Johnson, Senior Assistant to the City Administrator

**SUBMITTED BY:** Paul Casey, City Administrator

**APPROVED BY:** City Administrator’s Office