

MEMO

To: Jennifer Hiramoto and Darlene Sanchez

Cc: City of Glendale Economic Development Division

From: Estolano Advisors and The Maxima Group

Date: April 23, 2020

Subject: Recommendations for City-Owned Commercial Space at 117-131 Artsakh Avenue

I. Executive Summary

In August 2018, the Glendale City Council engaged a consultant to provide technical design services to reimagine two blocks of Artsakh Avenue into an anchor for the Art and Entertainment District (A&E District). The consultant, Studio One Eleven, proposed a one-way shared street design and technical component for the Artsakh corridor between Wilson Avenue and Harvard Street. The concept features one traffic lane with extended sidewalk areas for a more pedestrian-oriented environment. The Glendale City Council approved the design in December 2019 and authorized the Construction Documents/Permits phase of the project.

The City of Glendale (City) owns eight approximately 1,000 square foot commercial units within the Artsakh corridor located at 117-131 Artsakh Avenue (Project Site). Currently, tenants occupy only three of the eight units. The City of Glendale Economic Development Division (Economic Development) is interested in exploring the potential uses of these units with the goal of identifying opportunities that will: (1) exemplify a vibrant and thriving Art and Entertainment District, and (2) provide a source of revenue for the City.

Estolano Advisors (EA) and The Maxima Group (Maxima) have conducted an analysis of the Project Site in order to identify potential uses that activate the space and enhance the surrounding Art and Entertainment District.

STUDY APPROACH

Our study approach consisted of the following activities:

- Survey surrounding uses, cultural anchors, and the retail environment;
- Identify examples of curated retail within larger mixed-use developments or Arts Districts;
- Analyze the opportunities and limitations of the Project Site, as well as the planned improvements to Artsakh Avenue based on Studio 111's work;
- Develop screening criteria to evaluate potential Artsakh tenants;
- Identify a preferred leasing strategy, including estimated economic performance and asset management strategies for future success.

MEMO CONTENTS

This memo includes the following:

1. A summary of the City of Glendale's vision for the Project Site based on the technical redesign plans for Artsakh Avenue;
2. An analysis of the Project Site's current and potential uses;
3. A set of recommendations for Project Site uses that will contribute to the potential for local vibrancy and economic growth.

The memo is organized as follows:

- I. Executive Summary
- II. Background
- III. Site Vision and Objectives
- IV. Potential Uses
- V. Market and Economic Assumptions
- VI. Key Considerations
- VII. Recommendations and Next Steps

Summary of recommendations:

EA and Maxima recognize that with the current impact of COVID-19, recommendations and expected timelines may be altered due to unforeseen circumstances into the future. With that in mind, we present the following recommendations for the Project Site considering a full or near-full return to pre-COVID activity:

1. Keep individual units intact to create six to eight rental units.
2. Prioritize a mix of food-related tenants, with an emphasis on activating the space throughout the day.
3. Develop and implement retail pop-up program in the interim as an economic development strategy.
4. Document the as-is condition of the space, assess the code requirements for the proposed uses, undertake an assessment of physical feasibility, and estimate implementation costs.
5. Prepare an overall asset management plan that includes a leasing plan, an operations plan, and asset management metrics to track performance. Assign responsibility and supplement resources as required.
6. Coordinate implementation with Artsakh Avenue improvements.

II. Background

ART AND ENTERTAINMENT DISTRICT

The City of Glendale (City) boasts a thriving downtown with premiere retail, dining, entertainment, and housing established through infrastructure and redevelopment investments. The Glendale Economic Development Division's efforts to cultivate and promote an "18-hour City" have led to economic growth and increased vibrancy downtown.¹

Figure 1. Downtown Art and Entertainment District Context



Just a block east from the robust retail and dining activity along Brand Boulevard, the heart of the Art and Entertainment District (A&E District) envisions a clustering of creative venues, shops, and restaurants and bars that promotes a mixed-use, mixed-income environment. Artsakh Avenue – a two-block section of what was formerly Maryland Avenue – is centrally located within the proposed A&E District, anchored by the Alex Theater to the north and the Glendale Central Library to the south.

PROJECT SITE PROFILE

Elements of the Project Site

Along Artsakh Avenue, the City owns 9,031 square feet of multi-tenant retail located at 117-131 Artsakh Avenue (Project Site). The City of Glendale

¹ An 18-hour City is generally known as a second-tier city that has 1) above-average urban development and/or population growth, 2) comparable services, amenities, and jobs of a 24-hour City like New York or Los Angeles, but 3) a lower cost of doing business and of living than 24-hour cities. Examples of 18-hour cities include Charlotte, North Carolina; Austin, Texas; and Portland, Oregon. (Urban Land Institute, JLL)

purchased the Project Site for \$1.5 million in December 2018. Because the space is still owned by the City, its highest and best use can be defined both by strategic as well as economic performance.

At acquisition, there were three tenants occupying 3,457 square feet of space and generating \$4,260 per month (about \$15 per square foot, including operating expense reimbursement). Rental payments from the three existing tenants are irregular, and a handful of other vacant units are used for storage of City supplies and public window display activations. Several potential tenants have expressed interest in leasing space, but City staff have put all decisions on hold until they receive strategic direction from the City Council.

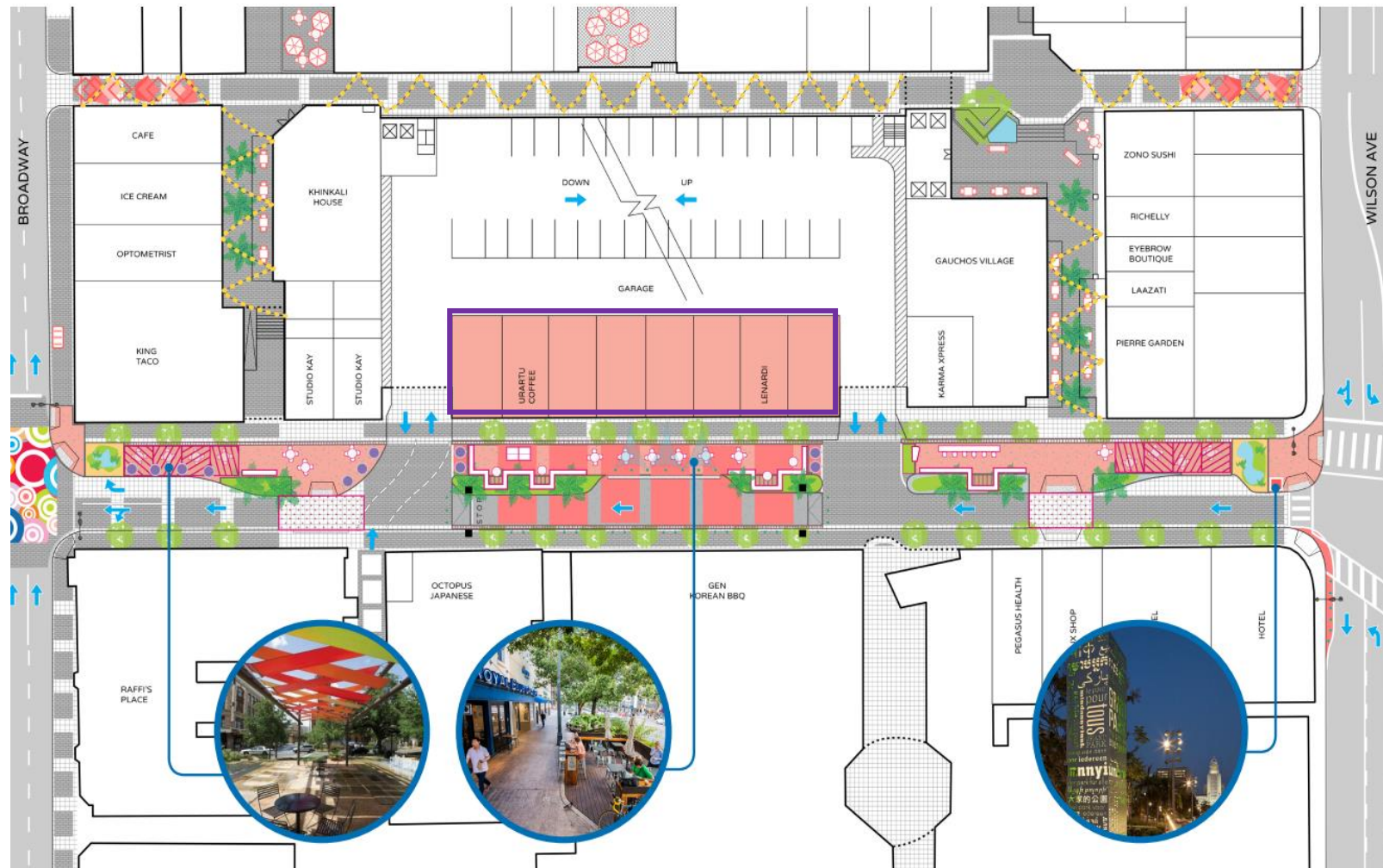


Figure 2. View of Project Site looking south on Artsakh Avenue

The Project Site faces east and is located on the ground floor of the Exchange Parking Garage (see Figure 3, p. 5). It is made up of eight units of approximately 1,000 square feet each. These units currently enjoy frontage along a pedestrian zone of Artsakh, which will be reconstructed into a one-way shared street based on Studio One Eleven's approved design (Figure 3). Should the City approve the widened pedestrian facilities envisioned, the Project Site will provide an opportunity for commercial uses to extend out onto the sidewalk.

The Project Site also has functional limitations. Units are not furnished for tenancy, and multiple units suffer from some deferred maintenance. Each unit also lacks any rear access, which could be a limitation for both business loading needs and code-required exiting. In turn, this may mean that retaining a smaller unit size is more favorable in this scenario.

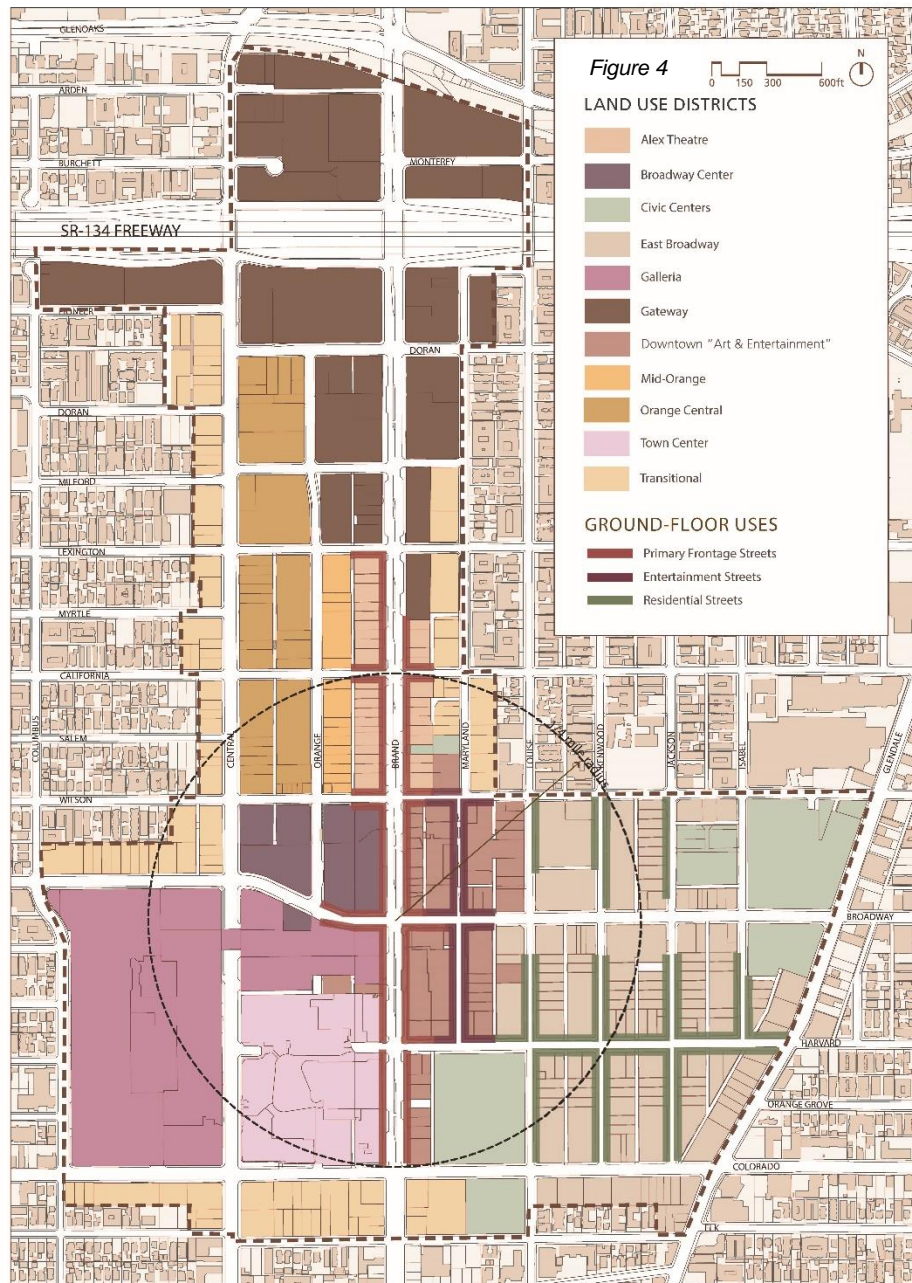
Figure 3. Artsakh North Proposed One-Way Shared Street



Zoning and Land Use

The A&E District is a part of the larger Downtown Specific Plan (Figure 4). The A&E District designates Entertainment Streets for ground-floor uses, “established to promote and encourage the concentration of arts, cultural, and entertainment venues such as museums, galleries, theaters, and nightclubs. Supportive retail and restaurants are also allowed on these streets” (Glendale Downtown Specific Plan). The Downtown Specific Plan has also eased permitting requirements for the establishment of businesses selling alcoholic beverages.

Figure 4. Downtown Specific Plan Land Use Map



Located within the A&E District, the Project Site is surrounded by a wide variety of arts- and dining-related uses. The Artsakh corridor is anchored by the Alex Theatre to the north and the Glendale Central Library to the south. Uses across the street from the Project Site include two restaurants, Gen Korean BBQ House and Octopus Japanese, the Studio Movie Grill movie theater, and a specialty foods store, Terra d'Oliva. Additional restaurants, shops, and theaters line adjacent streets, especially nearby along Brand Boulevard at the Glendale Galleria and the Americana. One block east from the Project Site on Louise Street is the East Broadway District, a district that includes residential and commercial zoning that can provide foot traffic to the A&E District as it grows.

Demographic Profile

Six (6) census tracts (3018.01, 3018.02, 3019, 3020.02, 3022.01, 3023.01) envelop the Downtown Glendale Districts. According to the 2018 American Community Survey data, there is an estimated population of 29,420 and approximately 11,895 households within these six tracts. Race and other demographics generally share similarities with Glendale as a whole. However, the median age of Downtown residents is slightly higher, and the median household income is slightly lower than Glendale in general.

III. Project Site Vision

Studio One Eleven's work envisions Artsakh Avenue as a pedestrian-friendly destination at the heart of the Downtown Glendale Art and Entertainment District. Strategies to achieve this feel include redesigning the streetscape, enhancing alleyways, and incorporating public art into design elements. As a part of this study, EA and Maxima built on the work completed by Studio One Eleven in order to identify potential uses that would complement nearby existing and planned uses.

ENHANCE A&E DISTRICT

Studio One Eleven completed the urban design and placemaking effort for the Artsakh corridor in December 2019. The subject property is shown as Artsakh Avenue North, which will be enriched with a complete pedestrian environment that includes a play zone, flexible seating and dining, overhead shade elements, and the potential for bar top and lounge seating. In addition to the amenities, the outdoor space can be programmed for events, such as yoga classes, pop-up performances, games, and more. Part of the existing roadway will be leveled with the existing median to create dedicated space for pedestrian activities and dining. Estimated costs for proposed physical improvements, art elements, and first year programming and operations are \$8.3 million.

The uses proposed for the Project Site should complement and enhance the current, future, and temporary activations within the corridor. Businesses will likely gain foot traffic from nearby theaters and cinemas. The improved and widened pedestrian streetscape could potentially offer outdoor space for tenant use.

PRIORITIZE ACTIVATION

In order to enhance and complement the existing restaurant, theater, and retail uses, our research focused on determining destination tenants rather than traffic-dependent tenants. The concepts that EA and Maxima identified fit into smaller-sized spaces and can adapt to the limitations of the units as described. These uses encourage all-day activation and can support a focus on smaller, local businesses rather than national brands. Small space uses also generally require less capital-intensive tenant improvements.

IV. Potential Uses

CASE STUDIES

Destination Pedestrian-Oriented Districts

Artsakh and the larger A&E District have the potential to become a coveted pedestrian-oriented district. The implementation of the proposed street improvements and the required tenant improvements will take two or more years to complete. We have assumed that social distancing requirements will be greatly reduced or eliminated within this timeframe. The following districts, both domestic and international, as examples of pedestrian-focused retail destination districts.

1. *Camden Market, London* –

Camden Market is a warehouse space formerly used to house goods transported through the Camden Lock. It is home to a collection of small shops, with a full range of small-scale casual dining options and bars to activate the space from morning to night. The space is relatively unfinished, and the authentic character is part of the appeal of the location. It is designed to be an active, social space.



2. *Rue Montorgueil, Paris* –

Rue Montorgueil is a multi-block pedestrian zone within Paris. Tenants in the corridor include food merchants, casual restaurants, and bars. The tenant spaces are small and fit on the ground floor of older buildings. There is an emphasis on outdoor dining with awnings in order to protect visitors from the sun and rain. The corridor is surrounded by relatively high density residential.



3. *Paseo Arts District, Oklahoma City* – The Paseo is an “18-hour city” arts and culture destination in Oklahoma City. The Paseo itself is only 2 blocks, the same length as Artsakh, and the District is roughly the same size as the Glendale A&E District. Galleries are intermixed with restaurants, art schools, boutique shops, and other goods and services in the Paseo. While still car-centric, the Paseo encompasses an intimate, local feel.
4. *Orange Street Alley, Redlands* – As part of its efforts to revitalize its downtown, the City of Redlands, California, installed umbrellas above Orange Street Alley, a narrow passageway with local restaurants and patios, near small shops, civic buildings, and event spaces. This public art installation in an area similar to Glendale’s A&E District has turned this alley into an Instagram sensation.



Yokocho Concept

Yokochos are common throughout the world as intimate, small scale environments that feature a variety of experiences and encourage exploration. In Japanese, yokocho literally means “alleyways off to the side of a main street.” But it can also refer to the small pubs and bars that are often adjoined in rows along these narrow lanes.



These spaces are small individual units with limited indoor seating and storefronts completely open to the street or alley for casual dining or to-go orders. Each unit tends to focus on a specialty, with relatively limited offerings. Common area design is intended to encourage exploration and lingering.

Curated wisely, the Project Site uses can complement each other, or even utilize shared space, in order to drive traffic in the yokocho style. The concept builds on

the existing uses in the alleyways between Artsakh and Brand Blvd which currently includes some local dining destinations.

CURATED RETAIL STRATEGIES AND POTENTIAL TENANTS

Guiding Principles of Artsakh Tenant Curation

1. Enhance and complement restaurant, theater, and retail uses
2. Focus on destination tenants rather than traffic-dependent tenants²
3. Concept must fit into small space and adapt to the limitations of the units
4. Encourage all-day activation
5. Focus on smaller, locally based businesses rather than national brands
6. Preference for less capital-intensive tenant finish requirements

Potential Tenant Examples

Below are strategic tenancy options that enhance the A&E District vision. EA and Maxima have listed a variety of choices with an emphasis on complementary small-scale food and artisanal uses rather than general retail.

1. *Food and related uses*
 - Cafes, bars, distilleries, breweries, pubs
 - Game or themed cafes
 - Coffee and juice bars
 - Specialty foods: confectionary, ice cream, frozen yogurt
2. *Artisanal uses*
 - Specialty food retail
 - Local makers cooperative
 - Curated gift shop
3. *Arts-focused uses*
 - Education-based: dance studios, music studios/lessons, acting workshops, bookstores
 - Performance-based: comedy club, nightclub, spoken word performance space, art gallery
 - Creation-based: maker space, commercial food kitchen/incubator, photo studio

Table 1 provides a visualization of these categories of uses and their ability to meet each guiding principle.

² “Destination tenants” include businesses that customers choose to go to because they are seeking something specific, like an outdoor dining experience or specialty offerings. Destination tenants are less reliant on the visibility of the location. “Traffic-dependent tenants” rely on customers who are seek a convenient purchasing experience (e.g. fast food chains, mobile phone stores, etc.).

Table 1. Potential Arts and Entertainment District Uses and Guiding Principles

	Complement Existing Uses	Potential Destination Tenant	Works at Artsakh Scale	Daytime Activation	Nighttime Activation	Small Local Business Focus	Low Capital Requirement
FOOD USES							
Bar/Distillery/Pub							
Café/Themed Cafés							
Coffee/Tea/Juice							
Specialty Foods							
ARTISANAL USES							
Specialty Food Retail							
Local Makers Co-op							
Curated Gifts/Goods							
ARTS USES							
Acting Workshop							
Art Gallery							
Bookstore							
Comedy Club							
Commercial Kitchen							
Dance Studio							
Makerspace							
Music Studio							
Nightclub							
Performance Space							
Photo Studio							

Public Pop-Up Programs

Prior to the completion of the physical improvements on Artsakh, EA and Maxima suggest a temporary, pop-up activation of the current Project Site units.

Temporary use strategies offer an affordable way to bring new life to vacant spaces and engage a variety of audiences. Pop-up programs can lessen the risk for both entrepreneurs and the city as a building owner. Entrepreneurs can test their business for a short period of time before signing a permanent lease.

Building owners can ensure the viability of a potential tenant by testing in a pop-up format, allowing for both location and product testing. These pop-ups can also develop social infrastructure by creating spaces for community connection.

There are several examples of publicly supported pop-up programs from across the country within the past decade. REVOLVE Detroit was a program of the Detroit Economic Growth Corporation and focused on activating vacant storefronts to foster the growth of Detroit's local neighborhood businesses. The Pittsburgh Downtown Partnership and City of Pittsburgh developed a pop-up program that created incentives for small business to enter the downtown market and take over vacant spaces. On the private side, food trucks and online retailers have successfully made transitions from pop-ups to brick-and-mortar retailers in the Los Angeles region and other urban markets.

RECOMMENDED FOCUS

Focused food and supporting retail offerings are an obvious fit within the A&E District and allow: 1) a fine-tuned curation process; 2) the mix of uses to be balanced between daytime and nighttime activation; and 3) serve both visitors and the surrounding (and growing) residential population. A mix of ready-made or quick-serve foods can create a balance with existing local sit-down dining options.

Coffee, tea, and juice bars are generally daytime uses, while cafes and restaurants cover midday and evening. Bars, pubs, and distilleries or breweries cover evening to late-night activation. The smaller units of the Project Site and more informal space offer a wide variety of experiences without competing directly against existing nearby full-service restaurants. The limited interior space can be supplemented by utilizing the extended outdoor space for dining. Smaller units may also limit the risk for both the tenant and the City. A food retail concept may also complement the A&E District depending on its focus and its potential to participate in corridor events. Any specialty tenants should occur in clusters.

The units can accommodate a variety of pop-up retail uses until full deployment in order to test the most successful uses of the space. The City could choose to use some or all of the units to promote local food and creative entrepreneurs. The smaller units could also provide support for tenants in a variety of economic conditions – whether new businesses or concepts, or recovering tenants who need a new space to occupy.

While there is still not a full return to public life at the time of this memo due to COVID-19, we are optimistic about the opportunity for the Project Site. Our conclusions assume public life operating at near or at pre-pandemic levels. The City timeline for full concept readiness is also approximately two years, in line with Artsakh's physical improvements, giving time for adjustment.

V. Market Economics and Asset Management

MARKET AND ECONOMIC ASSUMPTIONS

Glendale enjoys a thriving and diverse retail environment, with comparable rents ranging from \$30 to \$43 per rentable square foot, net of operating expenses. The Project Site's location off the main thoroughfare of Brand Blvd and the lack of rear loading means that the market rate for the Artsakh space will be at the low end of the range of retail rents (estimated at \$30 per square foot per year, net of operating expenses). There may be the potential to charge additional rent for outdoor dining space, which is not included in this analysis.

Required building and tenant improvements costs are not yet known. This study assumed \$100 per square foot as a placeholder and included leasing commissions for the entire space. The valuation assumes a 6% capitalization rate based on recent retail sales comparables. This asset is somewhat unique, so the market value may differ.

Lease terms for food-related retail can range from three to five years, but shorter terms may be considered depending on the user. The City may decide to subsidize some of the space as an economic development tool.

Potential Economic Results

Artsakh Avenue

Estimated NOI and Value

Rentable Area (SF) (1)		9,031
Estimated Rent (NNN)		\$30.00
Total Potential Rent		\$270,930
Less Vacancy @	10%	<u>(27,093)</u>
Net Operating Income		\$243,837
Capitalized @	6%	\$4,063,950
Initial investment @	\$100 per square foot	\$903,100
Leasing commission @	6% 3 year term	<u>48,767</u>
		\$951,867

(1) Does not include potential revenue for outdoor seating.

LEASING, PROPERTY AND ASSET MANAGEMENT CONSIDERATIONS**Leasing**

Identifying the appropriate mix of initial tenants is critical to the overall success of the Artsakh Avenue concept. The first step in this process is to identify the outside leasing resources most likely to have the right contacts to populate the units with a lively, engaging, and complementary mix of uses. Once established and in place, the leasing agent should continually maintain a list of potential tenants in order to keep the spaces active and engaging beyond initial lease up.

The leasing agent should report regularly to City staff to discuss not only leasing prospects, but also lease rates, required tenant improvements, and the general state of the retail market. This information will be helpful in establishing and modifying City expectations about Artsakh economic performance.

Property Management

Property management requirements will intensify with the re-tenanting of the Artsakh units. Supervision of infrastructure upgrades and tenant improvements will be the critical first challenges. Collecting rent, managing tenant requirements, following through on repairs and maintenance, and paying operating expenses will be more challenging when the property is fully occupied.

Artsakh presents an additional challenge which may be addressed by property management: programming uses for the outdoor space will be a critical part of the success and engagement for this asset. Often events programming is done by the local business improvement district, but it may also be undertaken by property management depending on the area to be programmed. The City will need to clearly define the responsibilities of the property manager, including whether they will be responsible for event programming.

Asset Management

Asset management is the task that seeks to maximize overall value of a real estate asset. In the case of properties owned by public agencies, the definition of “value” may reach beyond economics to include economic development and other social goals. The City should establish metrics for both investment in, and performance of, the Artsakh property. The initial tenancy will require capital investment for tenant improvements, but periodic capital re-investment will also be required. Asset management should also address whether to hold, sell, or recapitalize the asset. Performance metrics (quantitative and qualitative) are the key to effective asset management.

VI. Key Considerations

Based on our analysis, the following considerations are central for the City in determining the right mix of tenants.

KEY CONSIDERATIONS

1. **Limited Size:** Project Site is only 9,031 square feet and takes up less than one block of the A&E District.
2. **Best Uses:** Food-related uses with a complementary mix of other curated creative tenants can activate the space from morning to late evening.
3. **Design considerations:**
 - Connection to the outdoors is critical, which may require modification to the existing storefronts.
 - Interior space can be “raw and authentic,” which can also help save on tenant improvement costs.
 - Shared resources and infrastructure between units helps efficiency (e.g. shared restrooms, flexible outdoor seating policy)
4. **Management considerations:**
 - Activating the space with events is critical to success
 - Many tenants will require more intensive property management.
 - There is an option to make some of the space available to encourage local business development

VII. Recommendations and Next Steps

RECOMMENDATIONS

Based on our analysis, EA and The Maxima Group recommend the following recommendations for the eight units located at 117-131 Artsakh Avenue:

1. Keep individual units intact to create six to eight rental units.
2. Prioritize a mix of food-related tenants, with an emphasis on activating the space throughout the day.
3. Develop and implement retail pop-up program in the interim as an economic development strategy.
4. Document the as-is condition of the space, assess the code requirements for the proposed uses, undertake an assessment of physical feasibility, and estimate implementation costs.
5. Prepare an overall asset management plan that includes a leasing plan, an operations plan, and asset management metrics to track performance. Assign responsibility and supplement resources as required.
6. Coordinate implementation with Artsakh Avenue improvements.

NEXT STEPS

Should the City pursue this concept, we recommend the following next steps:

1. Design review and preliminary feasibility
 - Review code requirements for the concept to identify potential concerns.
 - Inspect as-is condition to better understand building systems and finishes.
 - Conceptual design of a modular space, including connection to outdoors.
 - ROM cost estimate for improvements.
2. Tenant identification and requirement analysis
 - Engage brokerage professionals to identify potential tenants
 - Gather input from potential tenants regarding design and other necessary requirements
 - Establish scope, budget, and schedule for building improvements, preferably in conjunction with Artsakh Avenue improvements