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## If Business Is Booming, Why Is Main Street America Still Full of Empty Storefronts?

Whether or not you have a retail store, you've seen the problem: Storefronts are shuttered on streets nationwide. And when one store closes, others will follow. How do we fix it?

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The sun was still out on Wednesday, June 26, 2013, as Kymberli Brady snipped the ribbon officially marking her store's grand opening in downtown San Jose, Calif. Hundreds of people -- including the mayor and vice mayor, she remembers -- gathered outside on South 1st Street for an evening of food, drink, gifts, and performance. Brady's sheer, unadulterated love for the city had led her to this moment. Having lost her job at the Chamber of Commerce in the fall of 2009, in part due to the financial crisis, she'd seen an opportunity in the city's new plastic-bag ban and sunk her last \$5,000 into creating totes covered with her photos of San Jose. Brady's "city bags" were so profitable that she'd been able to lease a former Verizon Wireless storefront for \$2,700 a month and expand her "fiercely local" idea. She called her store Discover San Jose (DSJ to regulars) and laid it out like an outdoor market, complete with street signs -- eventually, it became a hub for more than 80 local artists, photographers, authors, and musicians and sold everything from crystal wind chimes to tech-centric jewelry and historical books. Close to restaurants, a movie theater, and the light-rail stop for San Jose State University, DSJ even held events like steampunk costume nights for San Jose authors, community painting exhibits, and monthly hangouts for musicians.

The night of the ribbon-cutting, as the Silicon Valley Roller Girls skated past balloons, Brady, flanked by the fully costumed mascots of the San Jose Sharks and Earthquakes, gave a speech that was met with cheers and the collective snap of smartphone cameras. Things seemed to be looking up for downtown retail -- and for Brady. Customers came immediately, bringing DSJ more than \$20,000 in revenue its first December, she said.

But that wouldn't last.

During Brady's second holiday season, sales dropped to \$7,000. Part of the problem, she realized, wasn't DSJ, but the other stores around her that were going vacant. When she'd opened -- helped by a city pilot program that waived permit fees for entrepreneurs -- she remembers her block was fully rented. But by early 2015, it "had five to six empty storefronts; within a three-square-block radius, [there were] maybe 12 or more," she said. The vacancy issue was so bad, a Bay Area NBC reporter interviewed her about it. Brady watched herself on the evening news with her dog, Kenya, and remembers seeing a young man who worked near DSJ telling the reporter, "You can't really hang out downtown." Brady thought: *He's absolutely right*. No wonder customers were staying away.

"It just became so disheartening to see all these shuttered retail storefronts," she said. After funneling most of her retirement savings to keep DSJ afloat, on February 15, 2015 -- less than two years after opening -- she closed its doors with a final message in the window: THANK YOU, SJ. IT'S BEEN FUN!

But Brady wasn't saying goodbye. In fact, she was just getting started. Though the issue of retail vacancies had helped snuff out her business, she was still an entrepreneur at heart. She knew she had to try something to fix it.

**As a hub of Silicon Valley**, San Jose boasts one of the priciest real estate markets in the country. If retail vacancy is an issue there, it stands to reason it would also pervade the rest of the U.S. And it has: In recent years, the problem has infected streetscapes just about everywhere -- from north to south, from sea to sea, from urban centers to small towns. In many ways, the problem is a cancer; experts disagree on the cause, and no one can pinpoint a definitive cure. And if it is, in fact, spreading, it's difficult to nail down how much or how quickly.

The first problem: There's no national data. Real estate firms like CBRE and Reis track shopping centers and malls, but they have no data on private ground-floor storefronts (think: the pharmacy below your office or the taco shop underneath your apartment). But local surveys do show a measurable rise in for lease signs. In San Jose, city memorandums show as much as a 3 percent rise in empty storefronts downtown since 2015, some of them boarded up on highly visible street corners. "It creates an unsafe, very unfriendly environment for pedestrians," said David Tran, a senior council aide for San Jose's District 3, where DSJ was located. About two hours away in San Francisco's North Beach neighborhood, the situation appears even grimmer. A joint survey by three neighborhood organizations revealed the area's retail vacancy rate to be 10.25 percent, more than double that of 2015. In Lawrence, Kan., a report by commercial real estate firm Colliers International found that by the end of 2017, the city's retail vacancy had climbed more than 2 percent compared to the year before, signaling Lawrence's highest retail vacancy rate in the past decade. And New York saw a 3 percent increase in ground-floor retail vacancies in two years, according to data from commercial real estate firm Douglas Elliman, leaving up to 4 percent of the city's total spaces empty in 2018.

One thing business owners agree on is that empty spaces nearby can have a concrete impact on sales. "If you're the one or two stores on a block of mostly vacancies, that can be real hell," said David Hutchison, co-owner of The Book Tavern, in Augusta, Ga. "When you reach a certain threshold of vacancy, it doesn't just make those stores look like they're gone -- it makes

*everything* look like it's gone ... so people [are] less inclined to stop." Angie Chua, owner of Bobo Design Studio in San Jose, said that even when the unleased storefronts are a couple of blocks away, "it's hard to get good foot traffic. Locations that sit empty for a while actually draw in more of the transient community because it's a safe place for them to sleep at night."

What's driving the onslaught of vacancies? It depends on whom you ask. City government officials, commercial real estate firms, brokers, developers, small-business owners, and landlords all have different takes. In part, that's because every city, town and even neighborhood has its own quirky mix of politics, economics and bureaucracy at play. Surprisingly, what the vacancy issue does *not* boil down to is Amazon. Online shopping accounts for only about 10 percent of all retail purchases, leaving some 90 percent to brick-and-mortars, according to the U.S. Census Bureau's most recent estimates. Certainly the ratio varies by category, as people tend to purchase more toys and fewer groceries online. Still, it's fair to say that e-commerce isn't the root cause of the issue.

Among the few top reasons that do emerge, the most obvious is that property owners are holding out for top-dollar clients. Retail leases average five years nationwide, according to the CBRE, and around 10 years in New York City. "[So] landlords would much rather leave a storefront vacant for a few years to have someone get in with a higher rate than [rent it out at a] lower rent and take the loss," said Kurt Koegl, a partner at Marcum LLP, a nationwide independent public accounting firm. A big-name retailer on the ground floor locked into a long-term lease also raises the value of the building, should a landlord decide to sell.

Call it greed or simply the real estate business; the truth is that in many cases, the owners don't have a choice. Their lenders, often big banks, can stipulate certain kinds of strongly backed tenants (a Macy's or CVS Pharmacy, for example) in the financing deal. On the other side of the coin, larger property owners don't lose much by waiting, thanks to federal tax laws. Whether or not a storefront is rented, the deductions (depreciation, utilities, security, real estate taxes) are essentially the same, according to Koegl. "And if you have vacancies that are resulting in losses on a property, it certainly offsets income from other properties, and you end up paying less tax accordingly. So if you had an opportunity to put a tenant in at \$2,000, and you wanted \$3,000 a month, you have somewhat of a disincentive to accept that lower rent immediately -- as opposed to just holding it vacant and hoping for [higher] rent, because you may be getting a tax benefit from that."

Large property holders also contribute to vacant signs. These so-called mega-landlords often buy up a substantial collection of buildings, owning so much property that rental profits on a ground-floor retail space are essentially negligible when it comes down to the bottom line. "They're divorced from the streetscape," said Justin Levinson, a freelance developer and creator of Vacant New York, an interactive map of empty storefronts in Manhattan. "It's not [necessarily] malicious ... It's a line item on a spreadsheet, and no one is paying that much attention to it." The same thing can be said for foreign investors and landlords who don't live in the area. Of course, property owners are quick to defend themselves. "There's a basic fallacy out there that somehow landlords want this space vacant," said Jordan Barowitz, vice president of public affairs at the Durst Organization, a large New York City real estate company. "Landlords don't like vacant space. And you're going to try your best to get a good tenant. Some tenants might

have a [store] use you don't want, or the tenant isn't high enough credit and that's why you turn them down, or the rent isn't close to something that will cover your expenses."

Those turned-down tenants -- mostly smaller businesses -- are left with few options. In reality, said Gregg Bishop, commissioner of the NYC Department of Small Business, "a really great mom-and-pop with a product or service the neighborhood wants would've been a better tenant." In San Jose, Sarah Lim, cofounder of downtown plant shop Fractal Flora, said, "It leaves no room for small businesses to thrive here."

**Brady didn't know** any of this. All she knew was that as an entrepreneur, something seemed stacked against her. But she had an inkling of an idea. To address the vacancies, why not require landlords to illuminate their empty stores and fill the windows with a display, something like an art piece or a poster announcing a local theater show or museum exhibit? At some point she decided to reach out to city council member Raul Peralez. She mentioned her idea and told him, "We need to do something. This is the beginning of what I think will be an exodus of businesses from downtown if we don't."

Peralez doesn't remember her exact words, but he saw an opportunity. This seemed to be the kind of local-friendly, pro-business idea that would be politically popular. Within months of the conversation with Brady, Peralez invited her to participate in a mini task force of downtown stakeholders who felt that vacant storefronts were hurting local businesses' revenue. Along with Brady, the group included the executive director of the Hispanic Chamber of Commerce of Silicon Valley and the co-owner of SP2, a restaurant with sleek wooden tables and Edison bulb lighting where they regularly met. At a table near the bar, the group got to work on Peralez's assignment: Come up with a proposal to fix downtown's enduring battle with vacant storefronts.

Over the next three months, the task force fleshed out Brady's idea and added others. To help fill the spaces, they came up with a tiered-rent structure for first-time entrepreneurs, under which the monthly amount would increase as their retail locations became more successful. To hold landlords accountable, they added a penalty: If landlords couldn't fill their vacancy -- and they didn't turn on the lights and use empty windows to promote local art or businesses -- they would be on the hook for a serious monthly fine. "Let's just be literal here," Brady told the group. "Fill it up, light it up or pay up!" That phrase became the title of their proposal.

The task force's last meeting took place on the 18th floor of city hall. In front of a window with views stretching all the way to South Bay, the group officially presented the idea to Peralez. He was sold. "Fill it up, light it up or pay up" was going all the way to the city council.

**Over the next six months**, Brady would gain some insight into why no city across the country had seemed able to stop this problem.

The first step was to get "Fill it up, light it up or pay up" on the city council's priority list. But Peralez's attempt at the June 16, 2015, biannual meeting failed. This was his first initiative as a council member, and he came away realizing he would need to dedicate much more research in order to get members to vote for the proposal at the next meeting. He handed the project to his aide, David Tran, who was new to government policy.

At first Brady consulted with Tran, but their contact tapered off as he spent week after week digging into the proposal. One thing Tran was able to show, after cross-referencing police reports with addresses, was that the vacancies were associated with public safety issues. From May to October 2015, in a downtown area around Fountain Alley, approximately 35 percent of police department calls for service were located at empty storefronts. The data helped build support for “Fill it up, light it up or pay up.” But on other fronts, Tran ran into roadblocks.

The first was with “Pay up.” Legally, it was not possible to impose a substantial vacancy fine (colloquially known as a vacant storefront tax) through a city council proposal. The only way to do that was to get the initiative on the public ballot -- a much more arduous process that Peralez said can cost hundreds of thousands of dollars, which they didn’t have. Later, developers would challenge the “Fill it up” stipulation via First Amendment protections, saying officials couldn’t mandate what landlords put in their windows.

When all was said and done, the revised initiative looked like this: Landlords would have to register a storefront as vacant within 30 days. Once on the registry, they’d be responsible for a “monitoring fee” of \$202 per quarter, which would pay for code officers to regularly check for blight like broken glass, boarded-up windows, graffiti, or trash. For owners found in violation of the code, the rate would balloon to \$606 or more for every quarter they didn’t clean up. But there were built-in loopholes. All a landlord had to do to get off the registry was to offer proof of actively trying to fill the space, which could mean as little as keeping a for lease sign in the window. Another workaround was any proof of making improvements to the space.

When Peralez asked Brady to speak at the next city council meeting, she was unaware that the task force’s proposal had been substantially watered down -- or that their catchy name had been traded for one that would look better on a city council list: the Downtown Active Storefronts Initiative.

**At city hall** on December 15, 2015, Brady and Peralez both took their seats in the council chambers for the second priority-setting meeting. This was it: Either the vacant storefronts proposal would make the list, or they’d have to go back to the drawing board.

After the mayor opened up the items on the agenda, Brady was called to the podium. Having swapped her typical bohemian look for a subdued black cowlneck sweater -- and excited that her idea would finally see the light of day -- she spoke in her capacity as president of the Downtown Residents Association. “As a former downtown retail store owner myself, it’s very hard to get foot traffic into your store when you’re the only game in town,” she told the council members. “This is a fair way to give storefront owners the option to fill up, light up, or pay up.”

It was only later in the meeting that she saw the actual proposal. And when she did, she was aghast. *Oh, hell, no*, she thought. *This is not what we pitched*. It was bittersweet when, at the close of the session, the proposal was voted onto the priority list.

**That’s government** -- slow, defanged, and at best, taking nibbles at the problem. No major American city has stepped up in a significantly more meaningful way. So in the big-picture

sense, solving the retail vacancy problem may just come down to entrepreneurs with disruptive ideas.

Ross Bailey, a 26-year-old from England, is one founder stepping up to the plate. In 2012, as a result of his own experience running a pop-up store, he started thinking, *Why aren't retail leases flexible and short-term?* That question led him to found Appear Here -- essentially the Airbnb of commercial real estate. Bailey signs up landlords with vacancies to offer rental options by the day, week or month, and the company helps tenants book the spaces through a streamlined contract and payment system that he said takes only three to six days. (The company turns a profit from transaction fees.) "Nothing should be hard to understand; that's our view," he said. "We try to remove, in many ways, all the bullshit."

After Bailey first had the idea, he worked on it out of a broom cupboard at his advertising school -- the cleaning supplies were removed to make room for his desk. Landlords told him it didn't make sense, he said. Tech companies told him that real estate transactions don't happen online. And colleagues laughed, incredulous, saying his venture was never going to happen.

But the joke's on them. In the past 18 months, Appear Here has launched 7,000 stores with clients including Gwyneth Paltrow, Kanye West, Chanel, Marc Jacobs, Google, and Apple. So far, the listings are only in London, Paris, and New York, but Bailey is gunning to expand further in the U.S. And the pop-up concept overall is gaining traction. It's "more than a trend," said Don Givens, VP of client services at PopUp Republic, a marketing support company for temporary shops. "It is definitely part of the new retail paradigm."

Other thought leaders are coming at the problem through prevention. Foursquare helps large-scale companies use rich location data analytics based on consumer habits to figure out the best place to set up shop, and CEO Jeff Glueck hopes to one day extend that service to small businesses. If, say, you're looking to open a bar or a lounge aimed at millennials, you could feasibly use data to pinpoint exactly which streets your target customers are wandering at night. The idea is that more informed decisions about where to open a business could mean fewer closings -- and fewer empty storefronts on each block.

Meanwhile, some e-commerce companies -- the likes of Warby Parker, Glossier, and Peloton -- have been championing a new way to succeed in retail: Start online, gain a following, then open up physical shops. Online retailers plan to open 850 stores in the next five years, according to a new report by JLL, an investment management company specializing in real estate. "We had no idea what we were doing -- we were an e-commerce brand," said Chris Riccobono, cofounder of menswear brand Untuckit, which launched its first brick-and-mortar location in 2015 in Manhattan's SoHo neighborhood. But based on its success, the company opened 27 stores in 2018 -- and next year plans to add 50 more. "Our view is you need brick-and-mortar because 70 percent of men won't buy without touching and feeling the product," Riccobono said.

Sales are continuing online, as well. A new study by the International Council of Shopping Centers found that when a brand opens a new store, it increases its web traffic by an average of 37 percent, and more traffic means more sales.

Entrepreneurs can also continue to try working toward a solution with their local governments -- just as Kymberli Brady plans to. Her watered-down initiative did pass and took effect July 1 of this year. After the vote, Brady remembers Peralez telling her, "I know you're disappointed, but this was what we had to do to get it passed." In some ways, he was disheartened, too. It was not, he allows, "the big hammer" they had envisioned. Still, he said, "property owners [know] we are now watching. Even if the fee isn't enough to kick someone into action, the money will fund a code enforcement officer who will continue to bug [them]."

If a 2016 bylaw in Arlington, Mass., is any indication, Peralez may be right. When that city started charging landlords \$400 a year for each vacant storefront, it saw its retail vacancies drop from 17 to five.

Small changes, big disruption. With a problem this complex, we need it all. And Brady is determined to see results. "I am more than willing to come down there and start dressing up the windows on the weekends," she said. "I'm not giving up on it."