Balancing neighborhood retail, part 1: The 25% rule

RETAILBy David Alpert (Founder) April 29, 2009

Fostering a diverse range of retail in a neighborhood commercial area is a difficult balancing act. DC has tried several techniques for managing this balance, including limiting the frontage devoted to restaurants, limiting liquor licenses, and offering bonuses to new development that contains certain uses.

Restaurants, especially those allowed to serve alcohol, can afford higher rents than neighborhood-serving businesses, like grocery stores, hardware stores, pharmacies and dry cleaners. As bars and restaurants become successful, an area draws more foot traffic, attracting more of those businesses. Landlords can charge higher rent, which pushes out the local businesses. This is basically an economic game theory problem: the most natural equilibrium states are a mostly-vacant corridor on the one hand, and nothing but bars on the other.

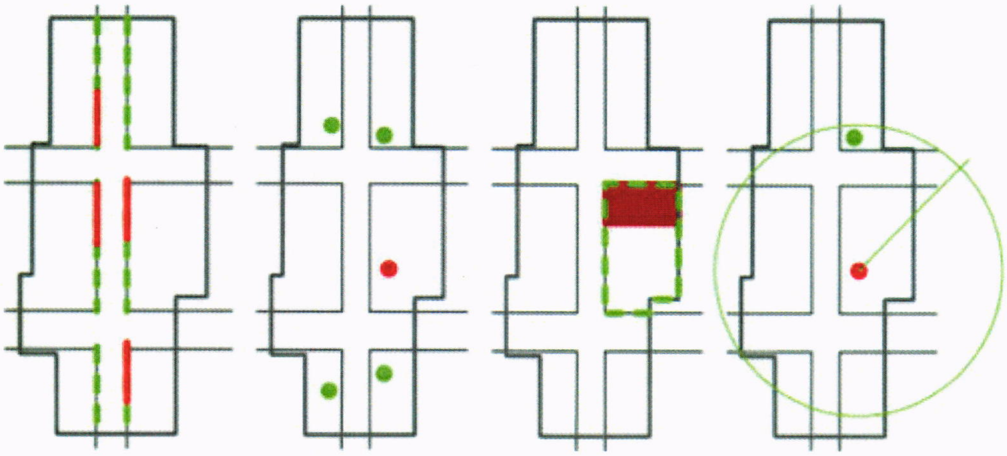
Can zoning or other regulations help keep corridors in more of a balance? Is that desirable? One options is to allow market forces to determine the retail mix. But many residents are concerned about their neighborhoods becoming "another Adams Morgan." At the same time, regulation also hampers business, leading to more vacant storefronts. Is there a way to strike a balance, encouraging free enterprise while also maintaining some diversity of store types?

At last week's Commercial Corridors/Areas working group meeting, participants discussed the current 25% limitation on restaurants. This restriction allows at most 25% of the "linear frontage" within the district to be used for bar and restaurant uses. It applies to many of the city's neighborhood commercial areas, including the 14th and U "ARTS Overlay," Cleveland Park, H Street, and lower Georgia Avenue.

The ARTS overlay is nearing its 25%, though there is some ambiguity about which establishments count. Cleveland Park residents disagree about their 25% limitation, a debate which recently resurfaced when Starbucks announced it would close its location near the Cleveland Park Metro.

The workgroup meeting focused not on whether such restrictions are appropriate, but how best to implement them. Is measuring the linear frontage of restaurants the best way, or something else? The Office of Planning presented five options:

1. **Linear frontage:** This is the existing approach. Measure the frontage of bars and restaurants and compute the percentage of the total frontage in the district. This allows multiple restaurants close to each other, as long as some other uses offset them elsewhere. However, it requires administration to keep the measurement up to date as businesses open and close.
2. **Total occupancy limit:** Allow a certain maximum number of bar and restaurant uses in the district. Berkeley, CA uses this for restaurants. This is very easy to administer, but since it treats a small restaurant the same as a large one, would probably create a disincentive for small establishments.
3. **Building area limit:** Allow bars and restaurants to occupy at most a percentage of the ground floor of each block or building. DC uses this downtown to limit banks and ground floor office uses. This is also easy to measure, but is trickier in small blocks and small buildings.
4. **Distance separation requirement:** Prohibit a new establishment within a certain distance of an existing one. Oakland uses this for liquor and restaurant licenses. This is very simple to administer but prevents small clusters of restaurants, and it can be difficult to define and measure the distance if the nearest other establishment is through a building.
5. **Average concentration per capita:** Allow a certain number of locations per capita in each Census district. As an area grows in population, more bars and restaurants could open. California uses this for liquor and restaurant licenses. This probably isn't right for DC, because the supply of available retail spaces doesn't necessarily change as population does.



Illustrations of options for use limits. From left to right: linear frontage, total occupancy limit, building area limit, and distance separation requirement. Images from the Office of Planning.

The current linear frontage system has one additional advantage: it creates an incentive for buildings to fill the sidewalk with a greater number of doors to more businesses. Drugstores, bars, and many other establishments can easily locate most of their square footage underground or in the back of the building, occupying a smaller amount of street frontage.

If we stick with a linear frontage rule, we also should consider breaking up the larger zones. The ARTS overlay, for example, is very large. Should a restaurant at 7th and Florida really affect whether one can open at 15th and P? We could divide these zones into blocks of ¼ mile, and compute frontage only within each zone.

Today, though, a zone has either hit the limit or it hasn't. If it's not at the limit, there's no incentive for a new building to restrict frontage, whereas if it's at the limit, there's no opportunity to add a restaurant at all. Ideally, a market could set a value on restaurant frontage in all zones, whether they have 10% restaurants or 50% restaurants, and allow establishments to buy and sell credits, something like a cap-and-trade system.

A developer building a new building could make some extra money by designing the structure to put more establishments into the limited frontage, with more of the square footage behind. This could even apply to banks, drugstores, and office building lobbies.

Finally, 25% is probably too low. Maintaining some number of other stores doesn't require devoting 75% of the commercial district to those establishments. 17th Street in Dupont Circle, for example, has a very wide range of neighborhood-serving stores, but far more than 25% restaurants. We could still protect a balance if a restaurant restriction allowed 50% instead of 25% linear feet, for example.