In April 2016, the Santee Alley Association and the LA Fashion District BID hired MJB Consulting (MJB), a Berkeley, CA-based national retail planning and real estate consultancy, to undertake an analysis and strategy of Santee Alley, specifically focused on the following questions:

- Why does the market for retail space in Santee Alley appear to be weakening? And why is Santee Alley seemingly not enjoying the same sort of revival as other nearby sub-districts, like the Broadway corridor and the Arts District?

- Which sorts of customers should Santee Alley merchants (and by extension, property owners) be targeting? And which action items does that imply?

In light of expectations among certain stakeholders, it is important to clarify from the outset that the purpose of such work was *not* to create a blueprint for *marketing* Santee Alley, but rather, an approach to retail *positioning* and *tenanting*.

In order to arrive at such a strategy, MJB embarked on the following scope-of-work:

* Start-up meeting with the Santee Alley Association
* Familiarization with the study area and its surroundings
* Assessment of districts/centers that compete for customers and prospective tenants
* Interviews with property owners, leasing professionals and other key stakeholders
* Review and interpretation of pedestrian-intercept survey data
* Study of relevant background materials as well as extensive online research

Also, in the process of completing these tasks, MJB's Principal, Michael J. Berne, "immersed" himself in the immediate study area and broader context for a total of roughly eleven days spread across threee separate visits.

The following "executive-summary" memorandum first provides the highlights of the analysis and strategy, then delves into greater detail on each.

Analysis and Strategy: Highlights

* Santee Alley's fundamentals appear to give little cause for worry, although the trend-lines suggest that it has lost some ground since its 1990's heyday.

* Not only have certain submarkets disappeared, but also, newer competition has robbed Santee Alley of its uniqueness and weakened in particular its appeal among Latinos to the east and southeast.

* Its insufficiently diversified merchandise mix has left it overexposed to these changing competitive dynamics and poorly positioned to lure other sub-markets that could help to backstop such losses.

* Meanwhile, its property owners are not accustomed to wooing prospective tenants and do not inspire confidence among more sophisticated merchants.

Proposed action items are as follows, with the responsible stakeholder underlined. Of course some would incur costs that exceed the existing resources of the BID, and would therefore need to be considered in the future budget planning of the BID and the Association.

* <u>Landlords</u>: Assume full responsibility for and take "ownership" of the leasing decisions that you make and the impact which they have on Santee Alley as a whole.

* <u>Landlords</u>: Focus your merchandising efforts on the largest submarket that Santee Alley currently attracts -- the blue-collar Latino family – and consider niches in which this consumer remains underserved.

* <u>Landlords</u>: Consider relaxing rents and offering T.I. allowances for "loss leaders" in at least two or three of your respective spaces, and/or creating larger floor-plates through consolidation.

* <u>BID / Landlords</u>: Coordinate improvements that serve to extend dwell time, including, on a most basic level, the provision of clean and free bathrooms.

* <u>BID</u>: Program and market the pedestrianized 11th Street, with shaded seating, food truck pods as well as various other attractions that appeal to the primary submarket.

* <u>BID</u>: Establish and nurture relationships with grass-roots media in the blue-collar Latino communities to the east and southeast so as to generate word-of-mouth.

* <u>BID</u>: Soften the Santee Alley tourist experience with new directional signage and a more robust "ambassador" function, and work with private-lot operators to provide greater transparency on parking rates.

Analysis

– Looking at Santee Alley as a snapshot in time, the fundamentals give little cause for worry. Vacancies are few, with one of the larger property owners even reporting that it is about to achieve full occupancy for the first time in five years. Meanwhile, average per-square-foot rents remain the highest in Downtown Los Angeles and even exceed the Westside (see table below).[1]

[1] Most Santee Alley leases quote gross rents, that is, they include "pass-through" costs such as taxes, insurance and maintenance, whereas the averages for other sub-districts assume triple-net leases, not including any of those add-on's. At the same time, Santee Alley landlords generally do *not* offer any tenant-improvement allowances (or "TI"), which are often expected by the most highly coveted tenants.

	Average Rents	Source
Santee Alley	$10 to 11 per sq ft gross	Quantum Associates (2016)
Broadway and side streets	$4 to $5 per sq ft (asking)	Quantum Associates (2016);
Downtown L.A.	$2.85 per sq ft; $5 to $7 for new projects	CBRE (1Q 2016); Avison Young (2016)
Westside L.A.	$7.69 per sq ft	CBRE (1Q 2016)
Mid-Wilshire	$3.43 per sq ft	CBRE (1Q 2016)
Los Angeles County	$2.39 per sq ft (asking)	Marcus & Millichap (2016)

Also, according to intercept surveys conducted as part of this study effort, the overwhelming majority of respondents – 50 of 56, or 89% -- reported having bought something at Santee Alley, a far higher percentage than the 48% of shoppers who make at least one "discretionary" purchase while visiting a regional or superregional mall.[2]

Looking instead at the trend-lines, however, Santee Alley appears to have lost some ground since its 1990's heyday. The above per-square-foot rents are comparatively lower, and property owners are rarely able to command "key money", both of which suggest a weakening in the demand for retail space.

- Santee Alley, it is true, has lost some major sub-markets in recent years. The well-publicized crackdown in counterfeit merchandise has undoubtedly hurt retail sales as well as removed the primary lure for attracting higher-income shoppers from, say, the Westside and the San Fernando Valley.

The bulk buyers – who would purchase relatively large quantities from Santee Alley merchants for resale in their home countries – have also declined

[2] As reported in a May 19,2016 *International Council of Shopping Centers' (ICSC) Newsroom* brief entitled "Industry Conditions: Where Americans Buy, Socialize, Play and Work". "Discretionary" goods include apparel, footwear, jewelry, electronics, etc., that is, the same sort of merchandise on offer at Santee Alley.

significantly in number, particularly ones from Mexico responding to a strengthened U.S. dollar as well as relaxed duties on Chinese goods there.

Another oft-cited factor is a perceived falloff in consumer spending on comparison goods (i.e. clothing, footwear, accessories, etc.). Yet this does not accord with the facts: according to Statista, U.S. shoppers were buying roughly $180 billion of apparel in 2014, considerably more than the $160 billion in the pre-recession year of 2007.[3]

As for the prevailing narrative that today's "Millennials" do not spend as much, shoppers aged 25 to 34 spent an average of $1,832 on clothing in 2013, according to the U.S. Consumer Expenditure Survey – just 7% more than the $1,960 for those aged 35 to 44 and the same as the $1,826 for the 45 to 54 set.[4]

Of course, the online channel has continued to gain market share at the expense of brick-and-mortar stores. According to a new report by *Internet Retailer*, e-commerce accounted for roughly 18% of total apparel sales in 2015, compared to 15% just one year earlier.[5]

However, Santee Alley's merchandise mix is concentrated in discount/value-oriented comparison goods[6], in which brick-and-mortar retailing continues to thrive. Indeed, for many of the highest-profile chains in this space, the online channel represents a very small if not nonexistent percentage of overall sales. One ought not, then, to overestimate its impact in this case.

Rather, it is the spread of such brick-and-mortar competition that has hurt Santee Alley the most. "Fast fashion" (e.g. H&M, Forever 21/F21 Red)[7], off-price (e.g. Ross Dress For Less/dd's discounts, TJ Maxx/Marshalls) and the outlet channel (e.g. Gap Factory Store, Skechers Outlet) have all been

[3] According to Statista 2016. Includes establishments that primarily sell new clothing.

[4] According to the Consumer Expenditure Survey, as analyzed by Ann C. Foster in her December 10, 2015 *Bureau of Labor Statistics* piece entitled "Consumer expenditures vary by age".

[5] Based on a report published by *Internet Retailer* in June 2016, entitled "Behind the Online Apparel Boom".

[6] Comparison goods are defined as those goods for which consumers generally prefer to "comparison-shop" on the basis of style, quality and/or price. Examples including apparel, footwear, jewelry and accessories.

[7] This does not even include Primark, an Irish fast-fashion chain that has been incredibly successful in Western Europe and is now expanding in the Northeast U.S., undoubtedly with plans to reach California in the not-too-distant future.

expanding rapidly in recent years, while full-price department and specialty stores continue to offer aggressive promotions as a means of driving foot traffic.

Downtown's Broadway corridor, for example, now boasts a Ross Dress For Less (opened 2013) and a Gap Factory Store (2014), while Whittier Boulevard, in East Los Angeles, can claim a 19,000 square foot Nike "Community Store" (2015) – effectively an outlet store -- and will soon welcome both Ross and dd's discounts at its Commerce Center strip mall.

Meanwhile, Primestor, a developer specializing in Latino markets, has built two power centers in southeast L.A. County: first, Walnut Park's 240,000 square foot La Alameda (2008), which features Ross, Marshalls, Fallas Paredes and Famous Footwear, among others; and Southgate's 380,000 square foot Azalea (2014), which includes Wal-Mart Supercenter, Ross, Marshalls, F21 Red[8], Ulta Beauty and Skechers Outlet.

All of this is in addition to longtime rivals like the 600-vendor Santa Fe Springs Swap Meet (1963), the 431,000 square foot Citadel Outlets (1990), and to a somewhat lesser extent, the once-weekly overstock sales at the San Pedro Wholesale Mart on Saturday mornings (1994).

The proliferation of competitors has effectively robbed Santee Alley of its distinctiveness, removing one of the primary reasons why Los Angelenos would shop there (and tolerate its inconveniences and unpleasantries). As evidence of this shift, just 1 of the 26 survey respondents from the city or county hail from Southeast L.A. County[9], even though those communities are filled with its core customer.

This is not the whole story, though. As will be discussed in greater detail below, Santee Alley's struggles can also be attributed to an insufficiently diversified merchandise mix that has relied too heavily on the trendy teen or

[8] F21 Red is a new concept from Forever 21 that primarily sells clothing basics, at even lower prices.

[9] It is important to note that pedestrian-intercept surveys can never truly approximate a representative sample. For example, the demographics and biases of the surveyers will always influence who is willing to respond and who they are likely to approach. In this case, the composition of respondents does not match the anecdotal observations of those who are in Santee Alley on a regular basis, with the results likely undercounting the number of Latino and female shoppers. That said, this particular finding – that just 1 of the 26 hailed from Southeast L.A. County – seems so extreme that it is most likely true at least to some (more limited) extent.

20-something female consumer, leaving it overexposed to the changing competitive dynamics in that space and poorly positioned to lure other sub-markets that could help to backstop such losses.

- Just as shoppers have a number of choices about where to spend their money, sophisticated merchants usually have their pick of where to locate, with property owners having to vie with each other for their attention and tenancy. In addition to its challenges in drawing consumers, Santee Alley does not fare especially well in this competition either.

On a practical level, its property owners are accustomed to having all of the leverage in their dealings with prospective tenants. They demand among the highest per-square-foot rents in the region and they typically do *not* offer tenant-improvement allowances. If unwilling to woo, they can be easily outflanked by other landlords with more motivation to do so.

But it is more than just that. Retailers want to know on a more general level that someone is "minding the store" and tending to the basics. And regardless of who might be at fault, the built environment in and around Santee Alley reads as an inability and/or unwillingness to enforce minimum standards of upkeep and appearance, let alone invest in "curb appeal".

Retailers are also easily deterred by the presence of multiple property owners with a reputation for *not* working together. They fear, for example, that an adjacent landlord will fill an available space with a direct rival or a pot dispensary, or will refuse to take care of its building. In a shopping center managed by a single, well-established entity, they can have confidence that their interests will be protected.

Some have suggested that Santee Alley refashion itself as an outlet mall. A major brand, however, is unlikely to risk its reputation – which it has spent so much to establish and safeguard – in a setting where there is so little evidence of care and stewardship, and such unpredictability in its surroundings. Most will gravitate instead to a outlet "center" – like Citadel Outlets -- owned or developed by an outfit with a proven track record.

ANALYSIS: KEY TAKEAWAYS

* Santee Alley's fundamentals appear to give little cause for worry, although the trend-lines suggest that it has lost some ground since its 1990's heyday.

* Not only have certain submarkets disappeared, but also, newer competition has robbed Santee Alley of its uniqueness and weakened in particular its appeal among Latinos to the east and southeast.

* Its insufficiently diversified merchandise mix has left it overexposed to these changing competitive dynamics and poorly positioned to lure other sub-markets that could help to backstop such losses.

* Meanwhile, its property owners are not accustomed to wooing prospective tenants and do not inspire confidence among more sophisticated merchants.

<u>Strategy: Santee Alley</u>

These challenges notwithstanding, conditions in Santee Alley do not yet warrant a major overhaul. After all, the vacancy rate remains extremely low, and rent levels are still quite high in relative terms. Consumer culture is no doubt changing, but it is *always* changing – change is retail's one constant – and will continue to do so, in ways that are subject to many variables and that can be very difficult to predict.

It is no doubt tempting to look at the latest "it" districts and strive to emulate them, but such an approach can also be quite risky. One could expend a tremendous amount of energy and resources on large-scale transformation, only to find upon achieving it that the model no longer applies. In fact, retail could even evolve in the coming years in ways that play to Santee Alley's advantages.

The more prudent course of action, then, is an incremental one, building on what already works today in Santee Alley while also planning for (and hedging against) what, with the current trajectory, the future is likely to hold.

- Take, for instance, the question of who represents Santee Alley's core customer.

Some property owners appear to be assessing Santee Alley on the basis of its ability – or, in more recent years, its inability – to draw customers from the region's more affluent pockets, like the Westside and the San Fernando Valley. This submarket, however, would only tolerate its inconveniences and unpleasantries if there were still the opportunity to unearth counterfeit versions of highly-coveted designer brands.

Others, meanwhile, wonder why Santee Alley seems unable to attract the kinds of well-educated, upwardly-mobile creative professionals (or "neo-hipsters"[10]) who have been driving the revitalization of nearby Downtown sub-districts like Broadway and the Arts District, and whose numbers in the Fashion District itself are likely to grow in the coming years with new residential projects that have been recently announced.

The kinds of businesses which appeal primarily to this submarket, however, usually mean much lower returns for landlords.

Referencing the above table, property owners in Santee Alley are accustomed to gross rents averaging $10 to $11 per square foot, whereas ones on Broadway and side streets are asking just $4 to $5 per square foot (triple-net) and providing tenant-improvement allowances as well – and there is considerable debate among Downtown brokers about whether such lease rates are even sustainable.[11]

Furthermore, such deals are typically harder to consummate and require a much longer lead time. As lawyers are often involved, it can take a period of say, six to eight months before the lease is finalized, and even after that, the tenant might have another six to eight months of free rent (versus the two

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10 "Neo-hipster" is a term coined by MJB Consulting, referring to a specific *psychographic* segment. In contrast to demographics, which characterizes customers largely in quantitative terms (e.g. household income, home value, etc.), psychographics considers them qualitatively as well, based on their lifestyles, their sensibilities and their aspirations. A classic example is the perceived difference between those who shop at Wal-Mart and those who prefer Target (or "Tar-zhay"). The major data-mining outfits, like Claritas and ESRI, have developed frameworks for delineating different psychographic segments – PRIZM and Tapestry, respectively -- but MJB Consulting, feeling that those schemes do not adequately reflect the nuances of urban consumers, has devised its own for such markets, in which the "neo-hipster" figures prominently.

11 See Eddie Kim's August 22, 2016 *Los Angeles Downtown News* article entitled "As Downtown's Retail Scene Booms, Some Worry About the Future". (http://www.ladowntownnews.com/news/as-downtown-s-retail-scene-booms-some-worry-about-the/article_886b1794-6658-11e6-aa56-4bdd0864f050.html)

weeks to one month in today's Santee Alley) before the landlord receives any income.

The Fashion District no doubt occupies a fortuitous location relative to the current trajectory of neo-hipster growth, but the impact is at this point more likely to be felt on its edges, where, among other variables, the market for retail space is considerably weaker and landlords would not be foregoing so much in rent, or, as will be discussed later, in the form of incremental sales growth for Santee Alley merchants.

- The submarket which Santee Alley property owners should continue to foster is the one already there: blue-collar Latino families.

Often arriving at Santee Alley together, these large households typically contain several children, and their overall buying habits reflect as much, manifesting demand for kids' clothing and furniture as well as fast food and family restaurants.

Due to their high unemployment, modest incomes and large families, they tend to be laser-focused on bargains, though there is also a consciousness of and preference for the latest trends and fashions, in apparel, personal care, etc.

And while roughly half of these consumers were born in the U.S., their households remain connected to the their native culture, in their choice of media, their forms of recreation, etc.

Some Santee Alley property owners have suggested that energies and resources be focused on trying to attract other submarkets, like the aforementioned neo-hipsters. However, such efforts can backfire.

J.C. Penney learned this the hard way. The iconic but stagnant department store chain decided in 2011 to hire Ron Johnson as its new CEO. Johnson, who had spearheaded Apple's hugely successful move into retail, proceeded with a radical overhaul that eliminated discounting and promotions and that refashioned the sales floor as a series of boutiques featuring hip designers like Jonathan Adler and Michael Graves.

The problem was that while new shoppers failed to materialize, J.C. Penney's frugal "Middle American" core customer deserted the retailer en masse, resulting in unprecedented sales declines of roughly 35% in the ensuing months and ultimately leading to Johnson's ouster in 2013. His predecessor was reinstalled as interim CEO, the earlier model was reinstituted, and revenue began to stabilize almost immediately.

Bargain pricing is a critical piece of Santee Alley's identity, as are the bacon-wrapped hot dogs. Within this context, the addition, say, of even just a few gourmet food trucks selling $10 grilled cheese sandwiches and $20 lobster rolls incurs the real risk of confusing and alienating the submarket that accounts for much of the foot traffic there today, just like J.C. Penney did.

As a general rule of marketing and retailing, it is easier – and less risky – to increase and recapture expenditure from one's existing customers than to create entirely new ones from scratch. Again, incremental attempts to expand and diversify Santee Alley's appeal might be worthwhile and even advisable, but also potentially dangerous if they jeopardize the current draw and dynamic.

- The most important question is, then, how can Santee Alley encourage this core customer – the blue-collar Latino family -- to visit and/or spend more?

Part of the answer lies in <u>diversifying the merchandise mix</u>. The selection of women's apparel, for instance, focuses on the kinds of trendy mall styles (e.g. off-the-shoulder tops, blanket capes, jeggings, tops with emoji patches) and "going-out" wear (e.g. tight-fitting one pieces, tops with lace-up V-Necks, crop tops) that appeal to a teen or 20-something shopper. Such pieces tend to be cheaply produced, with very thin or rough material.

In both style and quality, then, they resemble the "cheap chic" offerings that one normally finds at a Forever 21 or a Charlotte Russe, purchased at a low price and worn only a few times before falling apart or becoming dated. And with the proliferation of fast-fashion retailers like Forever 21, H&M and Zara, this market position is one that no longer differentiates Santee Alley as a shopping destination.

The sheer number of vendors selling this same merchandise, at the same price, further subdivides what is already a shrinking pie. This is in stark contrast to a regional mall, which, even within one category of goods, offers a range of choices that vary in style, quality and price, thereby resulting in a broader overall draw. In theory, Santee Alley is large enough to accommodate such a diversified mix, but instead it doubles down.

Except for toys, for example, there is not all that much for the young Latino families who comprise the bulk of the foot traffic. There also appears to be an undersupply of plus-size clothiers, given the popularity of the two vendors who currently specialize in that niche. And aside for jeans, there are precious few merchants selling basic necessities, like crewneck t-shirts, chinos or other kinds of work-appropriate wear.

For many consumers, then, Santee Alley has become more of an experiential destination, where the goods on offer might (or might not) be purchased on impulse. This can be contrasted with some of its competitors – like Citadel Outlets, for instance -- where there is less repetition and a wider range of styles, resulting in not just a greater diversity of ages and races but also, a larger number of purpose-driven shoppers.

- While merchants are the ones deciding which goods to sell, the merchandise mix is ultimately in the hands of its property owners, who make the final call on leasing decisions, who can specify and regulate the kinds of products that can and cannot be sold, who can refuse to allow or insist on approving subleasees, and who can *even* agree and commit to working together on the development and implementation of an overall tenanting plan.

The first step in Santee Alley, then, is for landlords to "own" these decisions. Put simply, if they wish to refine or overhaul the tenant mix, it is completely within their power to do so. Yes, becoming more selective might require rent reductions and/or T.I. allowances in some cases, and it will almost certainly necessitate a more proactive approach to sourcing prospects. But if they resolve upon such a course, there is quite literally nothing to stop them.

Indeed, the insistence on maximizing rents on every possible square inch of real estate is partly to blame for Santee Alley's merchandising redundancy.

According to research by University of Toronto's Laura Doering[12], undercapitalized entrepreneurs in high-cost space will typically default to what already sells, as they have not the reserves nor the margin-for-error to experiment with something different; the problem, of course, is that all of them will revert to the same, weakening the appeal of the whole.

Of course, landlords cannot be expected to lower rents for every one of their respective spaces, but a willingness to do so for two or three of them – to accommodate "loss leaders" – can help to re-energize the merchandise mix and ultimately, drive higher pricing on nearby units. Indeed, this is how shopping centers have always been developed, with anchors offered sweetheart deals that are then recouped through in-line leases.

In the same vein, the Santee Alley property owner might consider consolidating two or more of its adjacent spaces into a larger floor-plate that could appeal to say, one of the small subset of brands that have shown a willingness to open outlet stores in freestanding locations, separate from larger agglomerations like Citadel Outlets. While the overall return on such a deal might be less, the right tenant could have a broader catalytic effect.

Similarly, the escalating rents along nearby corridors that are in transition, such as Broadway, will likely continue to displace retailers that would then have an interest in securing "refugee" space somewhere in the vicinity, where they feel that they would still be able to reach their core customer.

Finally, while it might be unrealistic at this point to expect Santee Alley property owners to jointly develop and execute an overall tenanting plan, more consideration might be given to avoiding cannibalization of existing merchants, even ones that occupy spaces controlled by *other* landlords. In the long run, shrinking pies and constant turnover do not help anyone.

- Sophisticated retail developers have long understood the critical importance of <u>extending "dwell time"</u>. The theory is that the longer a given shopper stays at the center, the more she is likely to spend, and that once she departs, she

[12] As discussed in Phyllis Korkki's March 12, 2016 *New York Times* piece entitled "Attacking Poverty to Foster Creativity in Entrepreneurs".

is unlikely to return. It is therefore incumbent upon the property owner to give her reasons to linger and remove any possible motive for her to leave.

Such thinking led to the creation of food courts in the 1970's, the addition of multiplexes in the 1980's and the inclusion of sit-down restaurants in the 1990's. It also informs other peculiarities and idiosyncracies of the modern enclosed mall, like the near-absence of clocks and windows, which, as in a casino, serves to distance the consumer from the outside world, resulting in an extended stay.

Larger shopping centers also know to offer the consumer several opportunities to sit, rest and recharge, with seating areas placed along the concourses and in the food court – both shaded if outside. They provide free and clean bathrooms, often with changing stations and nursing lounges for young parents. Some even include electrical outlets for charging mobile devices.

Compare this to Santee Alley, where the food offerings lack variety and seating, there is no place to rest and little protection from the sun, and one must pay for the privilege of using an often dirty and unpleasant restroom. Any one of these would be reason to leave – especially when kids are in tow – and once the shopper has done so, she is unlikely to return.

Even the most poorly capitalized of Santee Alley's competitors, the swap meets, seem to understand this concept. The weather-protected central area at Santa Fe Springs sells food and alcohol, provides televisions and live entertainment, contains ample seating and supplies free, regularly-cleaned bathrooms. In addition, various children's rides and activities – bouncy castles, train rides, etc. -- are scattered throughout.

- The food and fun component is especially critical. Yesterday's consumers were drawn to Santee Alley by the promise of hard-to-find bargains and/or counterfeit merchandise. And while it has become something of a cliché to say that today's consumers crave *experience*, the reality is that other uses aside from shopping are now needed to drive foot traffic, which might then be enticed to browse and buy.

In Santee Alley, there *is* nothing else, except for the unique (or for immigrants, perhaps familiar) bazaar-like experience. For instance, it can point to just one sit-down restaurant – the hard-to-find Baby Lobster Seafood & Grill. Indeed, "better food and sit-down restaurants" was the type of business that would induce the highest number of survey respondents to visit more frequently.

Such tenants might not be realistic for Santee Alley itself, given the considerable expense involved in building kitchens and associated infrastructure, but a wider variety of food offerings – still affordably priced for and reasonably familiar to the core customer – would be possible as part of a food truck "pod" parked along the once-weekly pedestrianized 11th Street that has been proposed.

A closed-off 11th street could also provide room for other attractions that resonate with blue-collar Latino families, such as children's rides, arcade games, soccer promotions, flat-screen TV's (tuned to live sports matches), dance floors, etc. as well as basic amenities like shade-protected tables and chairs.

- Certain property owners have been looking to revamp Santee Alley's marketing efforts, focusing in particular on its website. Survey results suggest, however, that word-of-mouth is a far more effective driver of foot traffic than online presence. When asked how they had heard about Santee Alley, 24 of the 69 respondents (35%) replied with "friends", "family" or "co-worker", while only 5 answered "online" or "website".

The reliance on word-of-mouth reinforces the critical importance of adding the kinds of draws and amenities which would improve the overall experience, as that is what would compel someone to recommend it to others. Indeed, today's consumer is far more likely to pay attention to "high-integrity" sources – that is, people and publications they know and trust – than one that has clearly been designed as a sales pitch.

Funds to create and maintain a new website, then, are probably better spent elsewhere, on say, the provision of clean and free bathrooms, the programming of the pedestrianized 11th Street, the installation of new directional signage (see below), etc. At the same time, relationships should be established and nurtured with grass-roots media in the blue-collar Latino communities to the east and southeast.

– Santee Alley also receives its fair share of out-of-town visitors. While the majority of survey respondents hailed from the city or county, 24 of the 68 (or 35%) live elsewhere in the U.S. (18) or beyond (6), with New York City (5) as the most common place of origin.[13]

Perhaps counterintuitively, the most effective means of reaching this submarket is to focus on the existing customer. Not only are 19% of the tourists (4 of 21) themselves Hispanic, but also, 39% (9 of 23) first heard about Santee Alley from friends, family or co-workers, that is, by word-of-mouth.

It is worth noting as well that a growing number of "cultural tourists" are drawn to attractions like Santee Alley precisely because they are -- or promise to be -- authentic reflection(s) of the city's fabric and identity, and thus offer opportunities for immersing oneself therein.

Indeed, cultural tourism is increasingly popular among the sorts of neo-hipsters who have been or will be populating renovated and newly-built residential complexes across and in the neighborhoods surrounding Downtown Los Angeles, including projects that already exist in the Fashion District or have been recently proposed.

In light of this trend, aspects of Santee Alley that showcase its colorful history and its unique form of "Latino Urbanism" should be highlighted. At the same time, the experience itself can be quite intimidating to the uninitiated and would need to be "softened" somewhat.

Indeed, some of the aforementioned "dwell-time" improvements (e.g. clean and free bathrooms, opportunities to sit and recharge, etc.) would also make Santee Alley more accessible to such visitors, as would the erection of new directional signage (so that they can actually *find* Santee Alley) as well as

[13] It is worth reiterating here the caveat from the earlier footnote that the composition of respondents does not match the anecdotal observations of those who are in Santee Alley on a regular basis, with the results likely overcounting the number of out-of-town visitors. That said, the Alley has long been a tourist destination and undoubtedly continues to draw a considerable number.

greater transparency on parking rates (which would require cooperation from the owner/operators of the private lots).

Finally, members of the Fashion District BID's Clean & Safe team could position and identify themselves more clearly as ambassadors, stationing themselves at the Olympic Boulevard entrance, proactively looking for tourists who appear lost or overwhelmed, amassing and conveying knowledge about Santee Alley, etc.

<u>Action Plan</u>

The following action items are implicit in the above analysis and strategy, with the responsible stakeholder underlined. Of course some would incur costs that exceed the existing resources of the BID, and would therefore need to be considered in the future budget planning of the BID and the Association.

* <u>Landlords</u>: Assume full responsibility for and take "ownership" of the leasing decisions that you make and the impact which they have on Santee Alley as a whole.

* <u>Landlords</u>: Focus your merchandising efforts on the largest submarket that Santee Alley currently attracts -- the blue-collar Latino family – and consider niches in which this consumer remains underserved.

* <u>Landlords</u>: Consider relaxing rents and offering T.I. allowances for "loss leaders" in at least two or three of your respective spaces, and/or creating larger floor-plates through consolidation.

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* <u>BID</u>: Program and market the pedestrianized 11th Street, with shaded seating, food truck pods as well as various other attractions that appeal to the primary submarket.

* BID: Establish and nurture relationships with grass-roots media in the blue-collar Latino communities to the east and southeast so as to generate word-of-mouth.

* BID: Soften the Santee Alley tourist experience with new directional signage and a more robust "ambassador" function, and work with private-lot operators to provide greater transparency on parking rates.

Fashion District : Addendum

In April 2016, the Santee Alley Association and the LA Fashion District BID hired MJB Consulting (MJB), a Berkeley, CA-based national retail planning and real estate consultancy, to undertake an analysis and strategy of Santee Alley.

While Santee Alley was the primary focus on this effort, MJB was also asked to comment more generally on the current trajectory and retail potential of the Fashion District, both in relation to Santee Alley as well as within the broader context of Downtown's ongoing evolution.

The following addendum to the executive-summary memo for Santee Alley provides the highlights of this cursory assessment.

KEY TAKEAWAYS

* Ground-floor spaces across the street from Santee Alley offer opportunities for prospective tenants that want to tap the Alley's foot traffic but are unlikely to be accommodated there.

* Landlords on corridors further afield might be more willing to incubate less proven concepts, though such entrepreneurs would probably need to be capable of generating their own foot traffic.

* The Fashion District could well become the next frontier for "neo-hipsters", though their antecedents, the "hipsters", are more likely in the near term.

* Los Angeles Street is the corridor best positioned to take advantage of this evolutionary process, with restaurants, cafes, bars and other entertainment venues as the uses that typically act as catalyst(s).

* Such "neo-hipsterfication" is not inevitable, however. It could be undermined by hype-driven speculation and/or growing anti-gentrification sentiment.

* Given this sociopolitical context, property owners would be wise to consider tenancies with a true "cross-over" appeal, with food, generally speaking, as the category best able to achieve a diverse draw.

Assessment

- The relationship between Santee Alley and the blocks surrounding it is a symbiotic one. The former generates a large stream of foot traffic that "spills over" its edges and can supplement consumer demand for nearby businesses. At the same time, the latter can more easily accommodate many of the aforementioned uses that would enhance the competitiveness of the Alley itself.

Take, as an example of the latter, the need for additional food offerings, ideally with seating areas -- important ingredients for extending dwell time. Due to the tenant demand for and prevailing rents of Santee Alley's retail units as well as costs associated with building kitchen infrastructure from scratch, landlords there are unlikely to give serious consideration to such uses.

By the same token, they would probably consider consolidating adjacent spaces only in limited instances if at all, whereas property owners on nearby streets would seem to be more willing to create – or can already offer -- the kinds of larger floor-plates (and more generous concessions) often needed to accommodate higher-profile brands and additional anchors.

Obviously the ideal blocks for such tenancies would be the ones that front on and enjoy visibility from Santee Alley itself, although this will ultimately depend on the interests of the property owners there and will likely turn on their perceptions of the current market for their respective space(s). In other words, storefronts along, say, the north side of Olympic Boulevard would be more realistic candidates than those on the east side of Maple, where pedestrian volumes appear much greater.

- This symbiotic relationship weakens on those blocks or alleys that lack direct visibility from Santee Alley. Distance is not the most important variable, as even Fashion Alley, effectively an offshoot of Santee Alley, appears to struggle with less foot traffic and more vacancies. Yet the challenges no doubt become even greater as one moves further away, say, to parallel north-south streets like Santee Street or Wall Street.

These corridors often have their own niches, like prom dresses on Santee Street, but to the extent that those sub-categories have become saturated or started to migrate elsewhere, landlords there might express a greater willingness to incubate less proven concepts that can – or have the potential to -- attract their target customer(s) independent of location, through, say, word-of-mouth, social media, online sales, etc.

Take, for example, The Life Apparel, which opened in 2013 at 1121 Santee Street. It is the flagship store for the streetwear line designed and marketed by Krayzie Bone, a member of a hip-hop group called *Bone Thugs-N-Harmony* that has been popular since the 1990's. Bone, the world's highest-paid rapper in 2016[14], has himself been known to make in-store appearances there.

- Another noteworthy submarket consists of the cash-poor fashionistas in their 20's and early 30's who work in the Fashion District's small cluster of showroom buildings. While not necessarily affluent, these consumers will spend on fashion-forward looks that have been discounted (e.g. off-price, fast fashion, sample sales) as well as apparel, food and drink that reflects a healthy, active lifestyle (e.g. athleisure, salads, juices, etc).

Of course their overall number is relatively modest: the California Market Center (CMC) has struggled with high vacancy since the 1980's, and its current landlord, Jamison Properties, is trying to reposition the complex as a hub for creative offices (read: neo-hipsters). Also, it might be unrealistic to expect this overwhelmingly white and female demographic to venture deep into the heart of Santee Alley.

That said, such consumers might be more willing to visit shops along, say, 9th Street or Los Angeles Street. An example of one that would merit their attention is Perverse Sunglasses, on Los Angeles Street just south of 11th Street. The new yet already popular brand, started by NYX Cosmetics founder Toni Ko, targets stylish Millennials with affordably-priced designer shades.

Such fashionistas could also add incrementally to the consumer demand along Main Street, where Jamison is focusing on the potential of existing and new retail space within its CMC footprint to capture expenditures from the residents, visitors and shoppers on Lower Broadway who will continue to grow in number

[14] According to *People With Money's* annual list of the 100 highest-paid rappers in the world

as a result of the ongoing development there (e.g. Broadway Palace, boutique hotels, etc.).

One possibility, a potential game-changer, is Century 21. The off-price designer department store enjoys a cult following in New York City and has been expanding beyond there in recent years, with new locations in Philadelphia (Center City) and Fort Lauderdale. Its summer pop-up in Santa Monica suggests a possible interest in Southern California, and its concept would seem to be a natural fit for the Fashion District.

- Yet another relevant submarket consists of "neo-hipster(s)"[15], the well-educated, upwardly-mobile creative professionals who have been the primary drivers in the revitalization of nearby Downtown sub-districts like Lower Broadway and the Arts District, and whose numbers can be expected to grow in the Fashion District itself in the coming years.

They will arrive in the form of residents, filling new apartment complexes that have recently been announced, as well as consumers, gravitating to new neo-hipster businesses that were forced to shift their search for space eastward in response to the escalating retail rents along Lower Broadway and intersecting side streets.

Indeed, one can already spot a great many of them in Verve Coffee's Main Street location on a daily basis. And they are also sure to gravitate to the new City Market South development *east* of Santee Alley, with San Francisco's famed The Slanted Door as well as other buzzworthy food and beverage concepts.

- Of course the City Market site -- effectively a ten-acre blank slate with a single owner -- is an exception: otherwise, the Fashion District must seem

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15 "Neo-hipster" is a term coined by MJB Consulting, referring to a specific *psychographic* segment. In contrast to demographics, which characterizes customers largely in quantitative terms (e.g. household income, home value, etc.), psychographics considers them qualitatively as well, based on their lifestyles, their sensibilities and their aspirations. A classic example is the perceived difference between those who shop at Wal-Mart and those who prefer Target (or "Tar-zhay"). The major data-mining outfits, like Claritas and ESRI, have developed frameworks for delineating different psychographic segments – PRIZM and Tapestry, respectively -- but MJB Consulting, feeling that those schemes do not adequately reflect the nuances of urban consumers, has devised its own for such markets, in which the "neo-hipster" figures prominently.

impenetrable to many neo-hipster entrepreneurs, and its transformation likely to take a lot longer. For this reason, it is more likely to attract interest in the near term from so-called "hipster(s)" who typically arrive at an earlier stage in the evolutionary process.

Like neo-hipsters, hipsters are creatively-inclined and alternatively-minded, but they tend *not* to be upwardly mobile nor have as much discretionary income. The stereotypical "starving artists", they are drawn to the underground -- because it is a better fit for their thin wallets and their edgy sensibilities – and they are usually the ones who pioneer new trends, nightspots and neighborhoods.

Once hipsters have trail-blazed a new part of town, they are then followed by neo-hipsters, and the retail mix, while retaining a vaguely anti-establishment air, becomes a bit more sanitized and often a lot more expensive. Take, for example, present-day Abbot Kinney Boulevard, in the once-countercultural Venice Beach, or, for that matter, the apparent trajectory of the Arts District.

This sort of evolution appears to be in progress on the western edges of the Fashion District, along the two-block stretch of Los Angeles Street between 7th Street and 9th Street, where one finds hipster-oriented businesses such as Blends, a local chain-let for "sneakerheads" and Pop Obscure Records, a shop specializing in vinyl records, as well as The Park, a co-working space (which arguably skews in a neo-hipster direction).

- Los Angeles Street seems like the one best positioned to take advantage of Downtown's renewed energy. Not only is it effectively sitting on the eastern edge of the resurgent core, but also, moving east from Broadway, it is the first north-south corridor with a largely continuous retail fabric at ground level. And in addition to its existing trees, the City is about to commence with a round of streetscape improvements.

Even more importantly, property owners on Los Angeles Street, unlike those in Santee Alley, would probably not have to drop their rents much if at all in order to catalyze change in the retail mix. Ground-floor space there is currently priced in the range of $2.00 to $3.00 per square foot (net), in line with what neo-hipster businesses are able to absorb.

Some of the higher-profile landlords on Los Angeles Street have also expressed a willingness to "partner" with their leasees, which could include, for instance, the "T.I." allowances that such entrepreneurs typically need. They say that they are prepared to wait for the "right" sorts of tenant(s), and seem open to working together towards a common vision.

Typically, food, fun and socializing – that is, restaurants, cafes, bars and other entertainment venues – acts as the catalyst for urban transformation. Property owners should realize, however, that the kinds of concepts most likely to generate buzz very often involve undercapitalized entrepreneurs who will need help with build-out costs, particularly if they have to build a new kitchen from scratch.

Finally, and perhaps counterintuitively, the corridor's (and district's) evolution is more likely to proceed in a linear fashion and without mass dislocation if it stays *below* the radar: while the instinct might be to publicize and promote, the resulting attention can backfire, with the hype leading to speculation, and ultimately, to rents well beyond what interested tenants can afford or sustain. Indeed, some contend that this is already happening in the Arts District.

- While Downtown's continuing "neo-hipsterfication" has been imbued with an aura of inevitability, there are also signs that this transformation could face rising opposition in the years ahead, perhaps slowing if not stopping its eastward march through the Fashion District.

Partly this is a reflection of anxieties at the national level about widening inequality, but also, Los Angeles has emerged as a flashpoint of sorts for the anti-gentrification movement, with the aggressive pushback in Boyle Heights, the lawsuits filed by former Grand Central Market vendors, the protests in Downtown Santa Ana, etc.

And if the example of other cities is any guide, there will also be – if there is not already – considerable resistance to the idea of rezoning industrial/wholesale quarters like the Fashion District so as to allow for more residential uses, even if that is the direction in which the market appears to be headed.

It would be wise, then, to consider tenanting efforts within this sociopolitical context. For example, while the dramatic increase in well-heeled Downtown residents, coupled with the more reasonable rents in the Fashion District, might suggest an opportunity in the upmarket home-furnishings space, this could play directly into the hands of such opposition.

The same holds for restaurants, cafes, bars and other entertainment venues. While Bottega Louie and Bestia deserve much credit for catalyzing, respectively, the Downtown core and the Arts District, both are concepts that, in their menus, pricing and vibe, appeal to a relatively narrow slice of the market and can reinforce anxieties about neighborhood change.

They also fail to take advantage of food's unique ability to appeal across cultural and socioeconomic lines. In order to tap the full range of available submarkets as well as preempt possible resistance, Fashion District property owners should consider restaurateurs with a demonstrated interest in and track record of drawing from a wide variety of diners, including, most importantly, neo-hipsters *and* blue-collar Latinos.

In conclusion, it bears reiterating that these findings represent the results of a cursory assessment and not a full-fledged analysis. Obviously, the Fashion District is a very large and incredibly complex study area, with other imperatives and dynamics that do not necessarily relate to Santee Alley or to other parts of Downtown. So, while MJB has hopefully provided a useful starting point here, an even more extensive study effort might still yet be indicated.