

LOOKING BEYOND THE CONVENTIONAL MIXED-USE DEVELOPMENT  
MODEL:  
ANALYZING THE POTENTIAL FOR START-UP BUSINESSES TO SUPPLEMENT  
TRADITIONAL RETAIL

by

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A THESIS

Presented to the Department of Architecture  
and the Graduate School of the University of Oregon  
in partial fulfillment of the requirements  
for the degree of  
Master of Architecture

December 2011

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Title: Looking Beyond the Conventional Mixed-Use Development Model: Analyzing the Potential for Start-Up Businesses to Supplement Traditional Retail

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Degree awarded December 2011

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## THESIS ABSTRACT

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December 2011

Title: Looking Beyond the Conventional Mixed-Use Development Model: Analyzing the Potential for Start-Up Businesses to Supplement Traditional Retail

Our current focus on the city core includes reintroducing the mixed-use building. This typology is not without challenges, and arguably none is more pressing than full retail occupancy. This analysis investigates the potential for start-up companies to supplement traditional retail on an interim basis.

By documenting the needs and expectations of the start-up and development communities (from multiple perspectives), this study assesses the potential connection between mixed-use and the start-up company.

Using a methodology informed by literature and augmented by personal accounts, this analysis reveals that the inclusion of start-up companies in mixed-use projects can present both short- and long-term benefits to ongoing retail difficulties: mixed-use buildings can be an ideal location for start-up firms, including start-up tenants can be economically feasible if certain measures are in place, and a new development model is not needed to connect an emerging business with an existing project.

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## ACKNOWLEDGMENTS

There are many people that have helped me shape and develop this study. I am blessed to have the ongoing support and encouragement of a tremendous family and wonderful group of friends and peers, a thesis committee that both challenged and inspired me, a group of trusted mentors who offered me fresh perspectives, and amazing individuals I was lucky enough to meet with and interview. Without the honesty, enthusiasm, and cooperation of these people this study would surely fall short. I would also like to specially thank my adviser, Professor Howard Davis. Howard, thanks for keeping me focused, letting me explore things in my own quirky way, and always finding the time to listen!

Below is a list of some of the people who helped me develop this study - I hope the findings can lead to more exciting discussions in the future!

Thanks to David Block, Christina Bollo, Jim Elliot, Michael Fifield, Mark Johnson, Peter Keyes, Stephen Knowles, Alison Kwok, Nico Larco, Mark Longworth, Amy Miller-Dowell, Brook Muller, Michael Pyatok, John Rowell, Michael Russo, Gerardo Sandoval, Marc Schlossberg, John Schneider, and Jenny Young. I'd also like to thank all of the wonderful start-ups, developers, planners, architects, city officials, and business people that I had the opportunity to interview!

To Ryan.

Thanks for reminding me that, "oh yeah... that's totally doable."



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## CHAPTER I

### HOW TO USE THIS STUDY

This study focuses on mixed-use buildings. It is specifically an examination of the potential for start-up businesses to supplement traditional retail in these buildings. The individuals and projects referenced in this effort are based in Eugene, Oregon. However, additional regional resources were engaged to place ideas within a larger context. The information for this study is organized into five main chapters that review the greater trends, uncover specific conditions, and supplement generalized data with narrative insight. Please reference Figure 1 for a diagram of the major thrust of this investigation.

For the busy reader, the study is threaded with diagrams capturing the big ideas and findings, allowing one to get a quick understanding of the core issues. The reader with only a few minutes to spare may use the diagrams to walk through the research and focus on the final chapter entitled *Conclusions*. The reader trying to understand the basics behind mixed-use and our economic frameworks may read the study in order from beginning to end. The more advanced reader may pick and choose the sections to delve into - each section is detailed below. For example, if you are looking for more information regarding start-up business needs you may want to begin with Chapter IV, continuing onward to Chapter V to see those findings in a greater context. Enjoy!

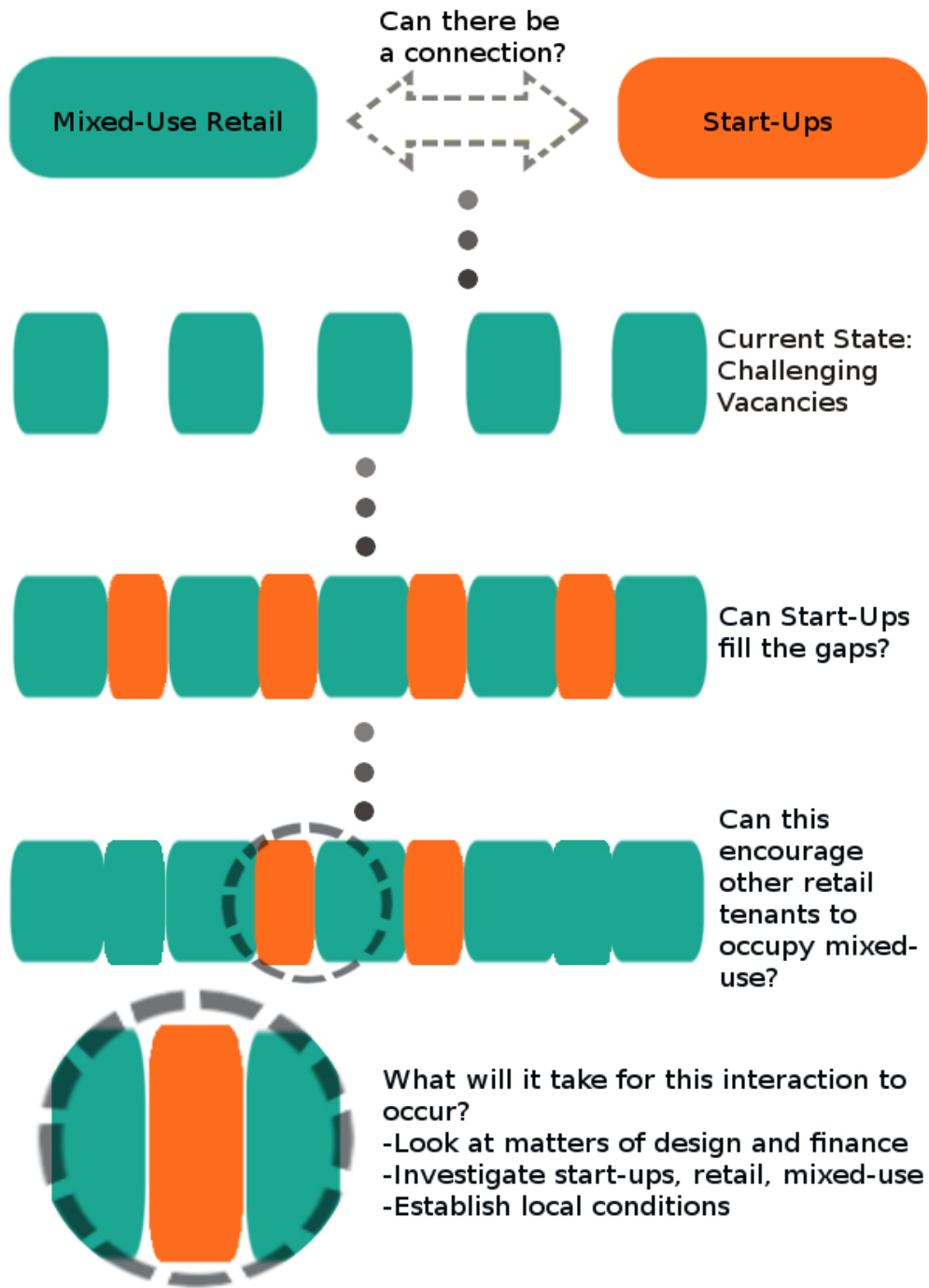


Figure 1. Diagram of research focus



## **Chapter II: Defining the Problem**

This section introduces the history of mixed-use, the impacts economic decisions have made on small businesses and mixed-use developments, and speculates on the effects our current and future settings may have on the larger forces influencing this study's focus.

## **Chapter III: Description of the Materials and Methods**

This section walks through the study's key components, detailing how the research was structured and why.

## **Chapter IV: Literature Findings**

This section relays information gleaned from a variety of literary sources and can be a resource for readers interested in investigating the categories affecting start-ups and mixed-use projects: social, design, economic, and development. The final chapter of this section includes a list of helpful online resources.

## **Chapter V: Results**

This section contains the major findings from the interviews and focus group session. Provided here is a listing of common interview feedback, profession-specific considerations, and a preliminary action plan for incorporating start-ups into mixed-use vacancies.

## **Chapter VI: Conclusions**

Beyond synthesizing the findings, this last section emphasizes the big ideas to take away from this research. Intended to be as much as springboard for further efforts as it is a conclusion for this study, this section will speak to issues that arose during the investigation, challenges faced, and thoughts on how to apply these findings to a context other than Eugene, Oregon.

## CHAPTER II

### DEFINITION OF THE PROBLEM

#### **Preface: A Little Conversation Goes a Long Way**

Being a responsible designer requires just as much investigation as it does optimism. Developing a design for a building can be similar to developing a researchable question: what clues does the site offer you, what patterns develop as you meet with the people affected by the project, and what does your designer's intuition tell you as you weave these ideas together? As I began my graduate work, I let these same processes guide me. I asked myself the big questions: What did I want to study? What did I feel passionately about? What granted me optimism, but also lent itself to investigation? I narrowed my focus to mixed-use buildings - a typology that is widely praised from both within and beyond the architectural community, but one with challenges. Once I had defined my charge, I needed to establish my direction. For this task, as with design development, I employed the wisdom of others - the people that directly impact, and are impacted by, mixed-use projects.

I met with the prominent stakeholders in the Eugene, Oregon mixed-use design community: the architects, the planners, and the developers. After some informal conversations, a few interesting patterns emerged: all three groups were united in the vision of the importance of mixed-use buildings (their ability to enliven neighborhoods and create dynamic, pedestrian environments), all three groups had a similar definition for the qualifiers of a project's success (full occupancy of retail and residential; communication and education among developers, planners, and architects; flexibility in

regulations and vision; developers' leadership of public participation; and site characteristics), and all three groups felt that the biggest obstacle facing their projects' success was the under-performance of the ground floor, retail space.

The most significant lessons from this exercise are: mixed-use is a typology everyone is passionately supporting, it is a typology that different people have conceived of similarly, and yet it is a typology that has one small, yet significant, chink in its armor - poorly occupied retail. One of the things designers are taught in school is to solve problems in an innovative fashion. With that spirit influencing me, I investigated how other people were addressing this obstacle of vacant, ground floor retail space in mixed-use buildings. What I noticed, and what I will elaborate on in the *Literature Review* chapter, is that the range of solutions attempted is limitless, and "outside-of-the-box" efforts are being embraced. Specifically, more recent pursuits include allowing small businesses to occupy vacant space on a short term basis at a reduced rate. Portland, Oregon, for example, has applied this approach with remarkable success (including a business moving from low to market rental rates, a sizable revenue stream, media support, and generating community excitement). This technique directly inspired my research focus: investigating the potential for start-up firms to supplement traditional retail on an interim basis.

Connecting a low-income tenant, like a start-up, to an existing project with pressing financial restraints is not an obvious match. Yet, it can offer some valuable insights.

The scope of this study speaks to things that aren't immediately understood: what are the challenges of mixed-use projects in smaller cities without an inherent "critical mass" of people, what are the locational and aesthetic needs of start-ups, what are the effects of vacancies on residential and retail tenants, how far can an economic structural model/development model be successfully altered, and how can design be equipped to react to changes?

This study looks to a start-up business approach and asks the following:

- Is the mixed-use typology an ideal environment for start-up firms and therefore able to contribute to the mix of possible ground-floor or second-floor uses?
- Can the incorporation of start-up businesses, currently outside of standard development practice, be a viable solution - creating a dynamic environment while being economically feasible?
- Will a new development model be needed to realize this vision?

What follows is the information gleaned from this analysis - I hope you find it to be the balance of optimism and investigation that I aimed to capture.

## **Historical Background**

### ***Mixed-Use Through the Ages: A Brief Tour***

Mixed-use buildings started out of necessity; density and clustering wasn't just the trendy thing to do - it was the *only* solution for our developing cities. As modern city dwellers we may be quick to point out the various social and ecological advantages of mixing uses and encouraging diversity, but it is important to remember that the origins of mixed-use are not fresh, but come from a time when efficiency of land use and security

were paramount. What some people are rediscovering as a positive approach, others have considered to be a dangerous urban technique. Perhaps the genesis of this attitude is best reflected in past developmental patterns, specifically "unchecked" sprawl in all its forms (automobile-dependent areas, zoning regulations that forced the separation of uses, and the popularity of the single-family, detached house - to name a few). Today we are seeing some of these trends reversing, and now the making of thoughtful, connected urban places is very marketable. So, is this re-embracing of mixed-use (creating purposeful mixed-use buildings) simply a case of history repeating itself? It is not that simple; purposeful mixed-use developments are being borne out of new philosophies, but influenced by those past developmental patterns noted above. I believe a review of the specific history of mixed-use is required for the positive advancement of this typology. To borrow a quote from Mark Twain, "history doesn't repeat itself, but it does rhyme."

When looking to the typology's history, an important place to start is by illuminating what distinguishes our modern conception of mixed-use from its ancient predecessor and what unites them. The distinctions include the utilization of modern building forms (high rises, parking ramps, transit stations, etc.); the incorporation of public spaces and amenities; and the fact that the development is not formed organically over time, but rather is a planned insertion. While the differences are distinct, the typology's success relies on age-old factors: integrating a variety of uses, pedestrian activity, capitalizing on density while attracting people from beyond the immediate area, fostering a dynamic and resilient environment, and being able to produce income/being

economically viable (Schwanke et al. 4-6). With that broader understanding in mind, we can look at the history in a finer grain.

Possibly the earliest and best example of mixed-use remains the medieval town, characterized by its small, compact core.<sup>1</sup> For major city centers of the Renaissance, the city form became more open (driven by increases in traffic and the need for open spaces to carry out an increasing number of economic and social activities). Security remained key, however, and both density and mixed-use were the sensible responses. Over time, mixing uses became less grounded in necessity, moving beyond the secure walls of antiquity, and being driven more by idyllic philosophies. Mixed-use projects in the early twentieth century were closely tied to the Garden City movement, which sought to create self-sufficient urban spaces surrounded by greenbelts and connected to other cities via public transportation. In a sense, this can be seen as early nodal development and has a direct link to the mixed-use neighborhoods/hubs that many modern cities are pursuing today. Lake Forest, Illinois is one of the premier examples from this time period. (Please



Figure 2. Market Square at Lake Forest  
Source: Wikipedia

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<sup>1</sup> I relied heavily on the Second Edition of the ULI *Mixed-Use Development Handbook* for the history of this typology. It was the clearest and most inclusive telling of the movement's history.

see Figure 2.) While its organization suggests the recapturing of an older form, it's important to note that it represents a key ideological shift from the town-center as a multifaceted core (religious, commerce, and civic functions) to a town-center devoted primarily to retail. This emphasis on consumerism has guided and will continue to guide mixed-use developments through all their evolutions. As the value of land increased, it brought with it more intensive building and property uses. As a response, mixed-use projects in early downtowns began to take on a new scale in terms of height and density. When that need for a greater scale could be accommodated by advancements in building technology, monumental mixed-use projects took shape. The most prominent of which is Rockefeller Center in New York City (Figure 3). Its inspiring architecture aside, it offers many influences to our modern mixed-use projects: the consideration for/accommodation of pedestrian *and* vehicular traffic; the idea for a self-sufficient development, the inclusion of a wide range of tenant services; the planning for the project's transformation over time; and the use of a property management approach that catered directly and passionately to tenants' needs. Both Lake Forest and Rockefeller Center continue to be powerful learning tools for mixed-use, yet the political climate of more recent years has also greatly influenced this typology's advancement.

Two of the most influential and prolific periods in the modern mixed-use movement arrived during the 1960s and 1970s. While the mixed-use projects from the 1960s were predominantly driven by commerce, residential-oriented buildings (such as Marina City in Chicago – Figure 4) were gaining traction. In addition to the housing focus, the 1960s also saw the building of the first major mixed-use towers, the emphasis



on dramatic interior spaces (such as atria and gallerias), and an expansion of uses that were allowed in the mix, such as the resort sub-type. Despite the articulation of grand, interior public spaces the projects from this time period still reacted to and incorporated the street level experience.



Figure 3.  
Rockefeller Center  
Source: Wikipedia



Figure 4. Marina City  
Source: Wikipedia

Conversely, mixed-use projects from the 1970s placed less emphasis on the surrounding areas or the inclusion of a pedestrian-friendly approach, and focused on the internal configuration of the building. This architectural shift may be a result of the popular interiors created in the previous decade, but it can also be attributed to the prevalence of the enclosed shopping mall and the political turmoil in city centers. It is important to note that competition with the shopping mall had two distinct influences on mixed-use projects: the centralization of property management and the use of the now common development pattern of the mall as the hub, surrounded by peripheral uses, with parking as the infill. As the mixed-use movement gained support, this decade saw the construction of the three, largest mixed-use projects to date (the World Trade Center in

New York City, Illinois Center in Chicago, and the Embarcadero Center in San Francisco); encouraged the specific mix of office, retail, and hotel; and helped the movement catch on.

Since the 1970s, the mixed-use movement has continued to evolve. The following decade saw mixed-use move beyond downtown and go to the suburbs; re-embrace urban design concepts (especially a consideration for the spaces between the buildings); and create wider mixed-use districts that didn't operate at a mega structure scale. These ideas were furthered in the 1990s and early 2000s, with the urban-village and town-center philosophies taking hold once again. Two of the most influential projects from this time period are the Reston Town Center and Mizner Park (Figure 5).



Figure 5. Mizner Park  
Source: Wikipedia

Reston Town Center's mission was to create a blend of all the positives from urban and suburban living: streets at a human scale, a variety of amenities, landscaped open spaces, and easy vehicular access and parking. Many of the methodologies involved looking at the finer grain: making the sidewalks wider on the sunny side of the street,

creating unique retail storefronts, planning a different street grid at the core to distinguish it from Reston itself, and placing a fountain plaza at the heart of the development. In contrast, Mizner Park's approach is more heavily focused on residential rather than retail. Additionally, the open spaces were utilized as the central organizing element - an approach that has been taken by its successors. In fact, the central park space serves a key role in creating constant activity in the development, by bordering it with restaurants and retail the neighborhood stays vibrant at all hours. While these are American examples, they spurred substantial international interest and projects. The movement today is standing atop the shoulders of decades past: the design community collectively desires a connection to older city forms, influenced by transit-oriented-developments, growing environmental concerns, and the need for unique places in faceless suburbia. Again, we see mixed-use developments as a way to not just build structures, but make places. As we've seen, the mixed-use we see before us today relies heavily on the ratio of housing to commerce. With housing asserting itself as the profit leader for many current developments, it raises some interesting questions about the future of the ground-floor spaces. Yet the challenge remains: what kind of places do we wish to make? What will the legacy of modern mixed-use be - how can the decisions we make now guide our future?

### *Entrepreneurship and Start-Ups: A Complicated System*

While the history of mixed-use is well rooted in medieval city form and can be tracked decade by decade and linked to philosophical movements, architectural trends, and social changes, the history of the entrepreneur and his or her start-up company is not as well-defined. In fact, the general academic consensus is that it is undefined, classified only by its diversity and ambiguous behavior.

The best guess for the beginning of the entrepreneur and the various business pursuits that followed is during the century spanning from 1540 to 1640. This hundred year period brought with it the Dissolution of the Monasteries and the Great Rebellion, which ushered in an expansion of trade and industry, as well as developments requiring capital investments, served with a healthy side of risk (Gough 13). Scholars believe that these expansions created the need for the entrepreneur and cemented his place in our collective economic history. It is important to note that despite this thought, even the Oxford English dictionary did not have a term for this risk-loving business person until 1897 and didn't fully acknowledge its role in the business realm until 1933 (Gough 9). Other terms have tried to capture the essence of the modern entrepreneur: undertaker, adventurer, initiator, director, and others. It's difficult to author a comprehensive history of a movement when the terms and definitions are in a constant state of motion and when the entrepreneur group itself comes from a wide diversity of backgrounds - having a limitless set of interests, motivations, and levels of experience.

Even now, decades after the term entrepreneur has become the agreed upon standard, people elect their own interpretations of the definition. When consulting the

Third Edition of the *American Heritage Dictionary*, we find entrepreneur defined as follows: "a person who organizes, operates, and assumes the risk for a business venture." Under start-up we find: "a business or undertaking that has recently begun operation." These definitions remain vague; although they provide us with a good foundation they fail to address the most critical piece: the characteristics of the people who are entrepreneurs and the qualities that define their businesses. Admittedly, to try to include these qualities would make the definition unmanageable, as Table 1 illustrates - the entrepreneurs' characteristics and roles have changed over time.

The entrepreneur is the person who assumes the risk associated with uncertainty (e.g., <i>Cantillon, Thiinen, Mill, Hawley, Knight, Mises, Cole, Shakle</i> ).	The entrepreneur is the person who supplies financial capital (e.g., <i>Smith, Turgot, Böhm-Barwerk, Pigou, Mises</i> ).
The entrepreneur is an innovator (e.g., <i>Baudeau, Bentham, Thiinen, Schmoller, Sombart, Weber, Schumpeter</i> ).	The entrepreneur is a decision maker (e.g., <i>Cantillon, Menger, Marschall, Wieser, Amasa Walker, Francis Walker, Keynes, Mises, Shakle, Cole, Schultz</i> ).
The entrepreneur is an industrial leader (e.g. <i>Say, Sain-Simon, Amasa Walker, Francis Walker, Marshall, Wieser, Sombart, Weber, Schumpeter</i> ).	The entrepreneur is a manager or super-intendent (e.g., <i>Say, Mill, Marshall, Menger</i> ).
The entrepreneur is an organizer and coordinator of economic resources (e.g., <i>Say, Walras, Wieser, Schmoller, Sombart, Weber, Clark, Davenport, Schumpeter, Coase</i> ).	The entrepreneur is the owner of an enterprise (e.g., <i>Quesnay, Wieser, Pigou, Hawley</i> ).
The entrepreneur is an employer of factors of production (e.g., <i>Amasa Walker, Francis Walker, Wieser, Keynes</i> ).	The entrepreneur is a contractor (e.g., <i>Bentham</i> ).
The entrepreneur is an arbitrageur (e.g., <i>Cantillon, Walras, Kirzner</i> ).	The entrepreneur is an allocator of resources among alternative uses (e.g., <i>Cantillon, Kirzner, Schultz</i> ).

Table 1. Entrepreneurial Roles

Source: Ripsas, Sven. "Towards an Interdisciplinary Theory of Entrepreneurship." *Small Business Economics* 10 (1998): 103-15. Print.

Regarding start-ups, this expanded definition springs from conversations with the Chamber of Commerce, EDEV (Entrepreneurial Development Services), the literature review, and observations. In broad terms, a start-up begins from the moment the idea is

conceived/launched and transitions into another form at the moment it breaks even. Once the break-even point has been reached, the business must transition out of start-up phase and into a small business model (Winkler-Rios, Shawn. Personal interview. 1 August 2011). While the types of businesses are limitless they share these common restrictions: infrastructure (technology, working space, etc.), access to capital (bank loans, credit lines, etc.), cash flow, business education, and marketing (recruiting and maintaining clients). As these businesses are entrepreneurial in nature, they are accompanied by high risk and varying success rates. A start-up business differs from a small business in one fundamental aspect: its economic restrictions and infrastructure dependency are much greater. Often, start-ups may operate without a formal company name. The Chamber of Commerce may have summed it up best: start-ups are young, floundering, and in need of assistance.

During the course of my conversations, I have found that there are really two major classifications for start-ups: ones that are self-funded (sometimes referred to as "bootstrap entrepreneurs") and those that are venture-backed (supported by investors). The bootstrap entrepreneurs are restricted solely by capital, while the venture-backed entrepreneurs are required to responsibly utilize funds (and for most of their backers, spatial needs may not be considered the most responsible use of resources) (Gerhart, Don and Chuck Williams. Personal interview. 27 July 2011).

When we take these various definitions in hand, we do start to see some patterns in important entrepreneur qualities: passionate, forward-thinking, not frightened by risk,

not solely motivated by profit, visionary, driven, and willing to define the market rather than being defined by it. Their businesses range in typology, but have evolved over time.

During the dawn of the industrialized era, entrepreneurs mainly saw opportunities in natural resources or labor and used their vision to connect this to the marketplace (Sobel and Sicilia 2-7). Presently, those opportunities have embraced modern technology making start-ups lighter weight and more flexible. Now that information is a major commodity - one that moves faster than goods or people but is hard to define in terms of value, start-ups play a more dynamic role in our modern economy (Sobel and Sicilia 226). Additionally, it is important to note that while in the past successful entrepreneurs were bred from the aristocracy, present-day entrepreneurial activities permeate every level of social class. Some academics argue that start-ups are even more prominent in developing countries, playing a major economic role in the life of new immigrants as well as their native and new-found country.<sup>2</sup>

If we try to connect this rogue concept of the entrepreneur and their start-up to a more established economic history, an interesting theory (which may speak to the barriers facing start-ups in mixed-use developments) emerges. It has been suggested that society's embracing of the neoclassical economic model has buried the entrepreneur's rightful role in economics (Ripsas 105). Neoclassical economics is defined by three major precepts: that people act rationally when considering items or actions associated with value, individuals seek to maximize utility while firms seek to maximize profits, and people act independently and per information received. This model was introduced in the late 19th

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<sup>2</sup> The role of start-ups/microeconomics in developing countries and immigration is a common thread among Latino Urbanism, Transnationalism, and Globalism. These issues are also discussed in books ranging from *Arrival City* to *The World is Flat*.

century and has had some modifications since then. However, things were not always understood in this fashion.

There was a time when a certain lack of predictability had a rightful place in academic thought. Classical economics focused on the concept of value as a way to investigate economic shifts. The relationship that guided these investigations was between market and natural prices (or values). While this dynamic stressed the importance of trade, the definitions for market and natural prices remained fuzzy. Perhaps now that we are more sophisticated, more connected, and maybe even more demanding that has changed. But let's reintroduce the entrepreneur: an individual with motives more complex than profit alone (personal motives as unique as their ambitions), a person that may make both the demand as well as the supply in their quest for new markets, and someone who uses intuition to guide their actions - not just a balance sheet. It is easy to see how start-ups don't fit within this model and it is even more evident to see how that is playing out today. In the Eugene Chamber of Commerce alone, there are dedicated efforts being made to fold start-ups into the established business scene. That support ranges from educational initiatives, to providing space, and even to financing micro loans.

What we are left with is an intersection: the "irrational" (in terms of neoclassical economics) behavior of developers, architects, and planners who are sticking with mixed-use despite its struggles to be fully successful and a financing system rooted in neoclassical constructs. While incorporating start-ups into these developments does not represent a full solution to this disconnect, I suggest that it warrants some thought.



Especially in light of the following: economic trends are reversing due to micro-financing, angel investing, and accelerator programs; large companies are breaking down into small, entrepreneurial groups; and government agencies are tracking the rather impressive economic impact of start-ups. One thing is for certain: social climate remains an important driver for the entrepreneur and our larger economy. The only uncertainty is: are we in a climate that is ready for change?

While the history of the entrepreneur and their efforts remains largely unwritten, that may soon change. Academics are realizing that a more holistic and "outside-of-the-box" approach is required to understand entrepreneurs and their investments (Ripsas 109-113). That includes looking beyond basic economics to matters of sociology, psychology, etc. Much like the present state of mixed-use, people are striving to find creative solutions not just to real estate dilemmas, but to the mysterious economic foundations of the entrepreneur. While the scope of this analysis cannot (nor should not) respond to where this can take us, it is an interesting point to ponder as we continue on with this investigation.

## **The More You Know**

### ***Some Notes on Financing***

Issues of finance are always a challenge, especially when we consider the current economic climate. Yet the challenges for mixed-use developments and start-up businesses are even more pronounced: their funding pools are more limited due to their "risky" (non-traditional) natures. The available funding resources can be divided into

three, large categories: micro-financing (for start-ups), subsidies, and alternative solutions.

Micro-financing is a relatively young industry, but in recent years it has become more sophisticated - even attempting to integrate into the traditional financial sector.<sup>3</sup> On a local scale, Eugene's Entrepreneurial Development Services organization (EDEV) is offering two micro-loan programs. This organization was established in 1998, incorporated as a non-profit in 2003 (the program, once state-funded, is now grant-based). It offers both funding and educational resources (in the form of approximately 60 workshops). These two offerings share a common philosophy: focus on building longer relationships with start-up clients - providing them with customized solutions throughout their transitions; focus on entrepreneurial learning - helping them develop strategies for using capital.

EDEV's approach to micro-lending does not look to traditional return on investment, rather it focuses on getting start-ups access to credit so they can become self-sustaining. Currently the application process is similar to other micro-loan programs: assessing credit, collateral, and business history. In the future, however, they wish to incorporate business performance/potential into the selection process. Once a start-up is selected, they face some restrictions on how the capital can be used. The restriction that is most relevant to our research is the real estate restriction. Micro-loan money cannot be used for rent, real estate/property purchases, or build outs.

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<sup>3</sup> A March 2010 article entitled "Financial services to the poor: An introduction to the special issue on microfinance," published in *The Developing Economies* provides a concise history of the movement, tracking its key paradigm shifts.

Subsidization is a common tool used for both start-ups and mixed-use developments. Government or angel investors offer a critical resource for these two entities that, for reasons discussed previously, are not supported by our current market.

Angel investors have proven to be an invaluable resource for entrepreneurs. By definition, an angel investor is an affluent person who provides funding for a business start-up. (Typically their investment is provided in exchange for an ownership stake in the company.) More recently, angel investors have partnered up and created networks; through these networks they are able to leverage more resources and reach out to more individuals. In Oregon alone there are five different statewide angel conferences and a variety of fund groups, such as the Oregon Angel Fund, Angel Oregon, Portland Angel Network, and Venture Northwest.

Since angel investing typically focuses on company creation/innovative ideas rather than development projects, mixed-use developers often find themselves engaging in public-private partnerships to help fund their endeavors. The terms of these relationships vary, but they typically include government-funded land assembly, property tax abatement, or infrastructure improvements. Some cities may offer additional grant options for transit-oriented-developments or high density housing. On the federal level, popular programs include: Community Development Block Grants (CDBG), Rehabilitation (Historic) Tax Credits, Urban Renewal Funds, New Market Tax Credits, and Business Energy Tax Credits. After speaking with individuals with different perspectives on this issue, they echoed a consensus: establishing a district for

improvement is key to successfully funded projects, yet they warned that federal funding offers many restrictions and may impede the development's vision.

When one combines the complications of subsidy packages with the current economic recession, many are looking to alternative financing solutions. This need has resulted in a growth of "special situation" lenders, who often find themselves working on mixed-use projects. While their offerings may vary, they typically align with these three non-traditional debt solutions: high-yield bridge loans, mezzanine financing, and preferred equity structures.

High yield bridge loans help "bridge the gap" and allow developers to have more time to reposition their property (this is very critical in times of high vacancy rates and low rental rates). Mezzanine financing is popular with developers who wish to purchase the current unpopular property types (such as hotels, vacant office buildings, or retail venues without an anchor) and convert them to mixed-use (Herrick 113). Preferred equity structures give the property owners/developers an opportunity to access some of the development's value that may not be accessible in this market (Mann). It allows equity holders to get an ownership interest in the project and receive a preferred return; often this structure can be mutually beneficial and a variation of this can be seen in some public-private partnerships.

Currently the funding landscape for mixed-use projects and start-ups exists separately from the traditional sector. But this may soon be changing, as recent discourse is pondering if bad times may in fact be good times for smart growth and entrepreneurship. It's too early to tell where this discussion will lead and how factors like

the micro-financing industry's growth may affect the traditional view point. Yet it is encouraging for our research to note that more people are investigating the merits and credibility of investing in smart growth initiatives.<sup>4</sup>

### ***The Case for Start-Up Businesses in Mixed-Use Projects as a Supplement for Traditional Retail***

Figure 6 represents a collection of the trends revealed during the literature review. While each aspect will be explained in more detail in the *Literature Review* chapter, this illustration gives us the "zoomed out" view, allowing us to see these greater forces converging upon mixed-use buildings and start-up companies. Each element is loosely categorized into either the social, design, development, or economic field. It is important to note that this categorization is not rigid; as with most things in life, it's not black and white - trends may fit more than one grouping. Indeed, it is their inter-connectivity that is most intriguing.

### ***And Now, A Word from Our Future***

The evolution of American cities has taught us some powerful lessons - whether those be the complexities of urban renewal or the consequences of sprawl. As we approach the next stage in city planning we are entering a new era of transit-oriented-developments, now largely endorsed by both the design community<sup>5</sup> and the government (Altshuler and Luberoff, 217-218). This return to a multifaceted, accessible city core

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<sup>4</sup> The Funders' Network is a valuable resource for topics central to smart growth. Two articles are of particular interest, "Investing in a better future: The fiscal and competitive advantages of smarter growth development patterns" (published in March 2004) and "From Wall Street to your street: New solutions for smart growth finance" (published in 2005).

<sup>5</sup> For the purposes of this document, "design community" references the larger group responsible for the design of the built environment: developers who define the vision, planners who weigh the vision through the lens of public good, and architects who translate the vision into reality

seems to inspire municipalities nationwide and has reintroduced the mixed-use building as a key measure to achieving urban rebirth.

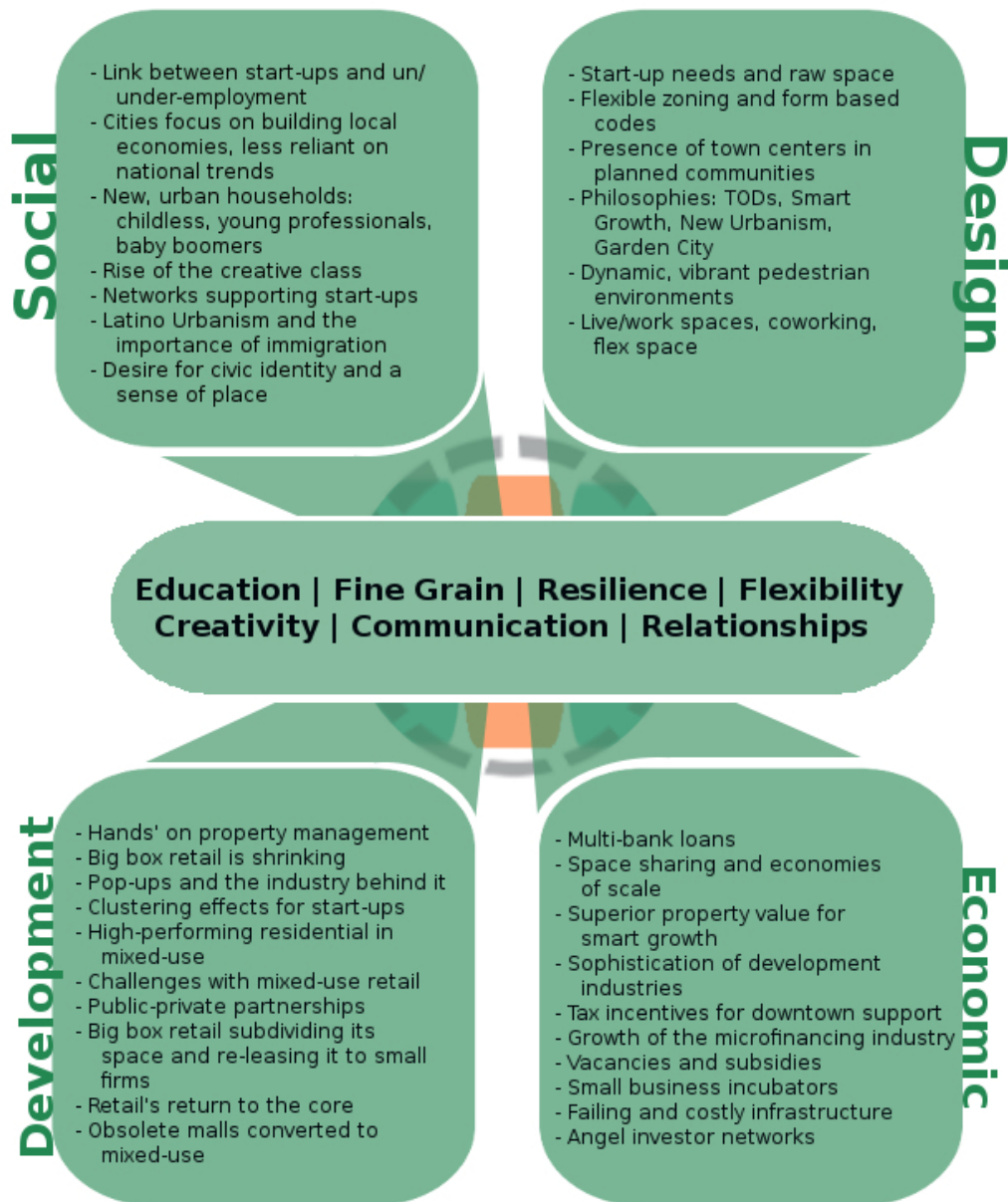


Figure 6. Overarching trends

As Allan Jacobs and Donald Appleyard stated in their essay "Toward an Urban Design Manifesto," originally published in the *American Planning Association Journal* of 1987:

The best urban places have some mixtures of uses. The mixture responds to the values of publicness and diversity that encourage local community identity. Excitement, spirit, sense, stimulation, and exchange are more likely when there is a mixture of activities than when there is not. There are many examples that we all know. It is the mix, not just the density of people and uses, that brings life to an area, the life of people going about a full range of normal activities without having to get into an automobile.

While the collective design community momentum behind mixed-use buildings influenced me to delve deeper into the origins of its success, its timeliness inspires me to continue this study. Every day we are bombarded with new indications that the habits of yesterday must change. This can be attributed to more global factors, the two most relevant being: larger economic and environmental forces that encourage closer living/working arrangements and the greater shift toward a creative economy.<sup>6</sup> I believe the strength of these broader trends makes the creation of outstanding mixed-use buildings even more critical. As we are encouraged to live closer we must provide spaces that not only work for this proximity, but support the redefinition of our social and economic environments. I believe successful mixed-use buildings can serve a vital role in this capacity.

Considering that mixed-use projects are currently subsidized in public-private partnerships and that unstructured individual rent subsidies are being practiced, it is

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<sup>6</sup> The statement regarding the trend toward a creative economy stems from recent business and political opinion. Analysts argue that America must become a place for idea creation if it is to reemerge as a global economic force. I believe one result of this philosophical shift may be the influx in small, start-up companies (which can locate to the ground level of mixed-use buildings and help shape the urban fabric). For more information about creative economy, reference the 2008 Creative Economy Report authored by the United Nations.

interesting to note that putting government support services into unused retail space has become a popular approach. Their support of the public good and the importance of their presence are not questioned by this study. However, with the pattern of subsidization before us, it seems fitting to support something that could not only contribute to the public good (diverse and resilient neighborhoods), but also has the potential to be profitable and move beyond the subsidy. It is my belief that start-up businesses are well-suited to capitalize on this relationship and strengthen the mixed-use vision that inspires us all.

This research centers around these key questions: is the presence of start-up companies in mixed-use buildings beneficial to the design community (providing a solution for full retail occupancy), the start-up community (complementing their own business goals), and the greater community (contributing to the shared vision for a diverse and resilient neighborhood)? If so, how can it be achieved? It is expected to be revealed that supplementing traditional retail with start-up companies is a worthwhile possibility and that encouraging their presence through various economic incentives and design approaches is a powerful way to achieve this goal.



## CHAPTER III

### DESCRIPTION OF MATERIALS AND METHODS

#### **Introduction: Every Piece Builds off the Last**

The core methodological approach used interviews and the analysis of those narratives to drive the research and produce the findings. The research questions were established based on preliminary discussions with key stakeholders. Upon determining the exact research focus, a literature review was performed to understand the greater context surrounding the issues and inspire the preliminary interview questions. Interviewees were selected based on their relationship to a mixed-use project or the start-up community. Throughout this process, interviewees suggested additional people to talk with and the pool of resources grew based on those recommendations. Upon completion of the first round of interviews, the findings were analyzed to determine a set of discussion points/questions for the focus group. Participants for the focus group were either previous interviewees or individuals recommended by key stakeholders. The findings from this session formed the responses to the research questions. Any additional thoughts were addressed in the form of follow-up interviews. Please refer to Figure 7 for a model of the methodology.

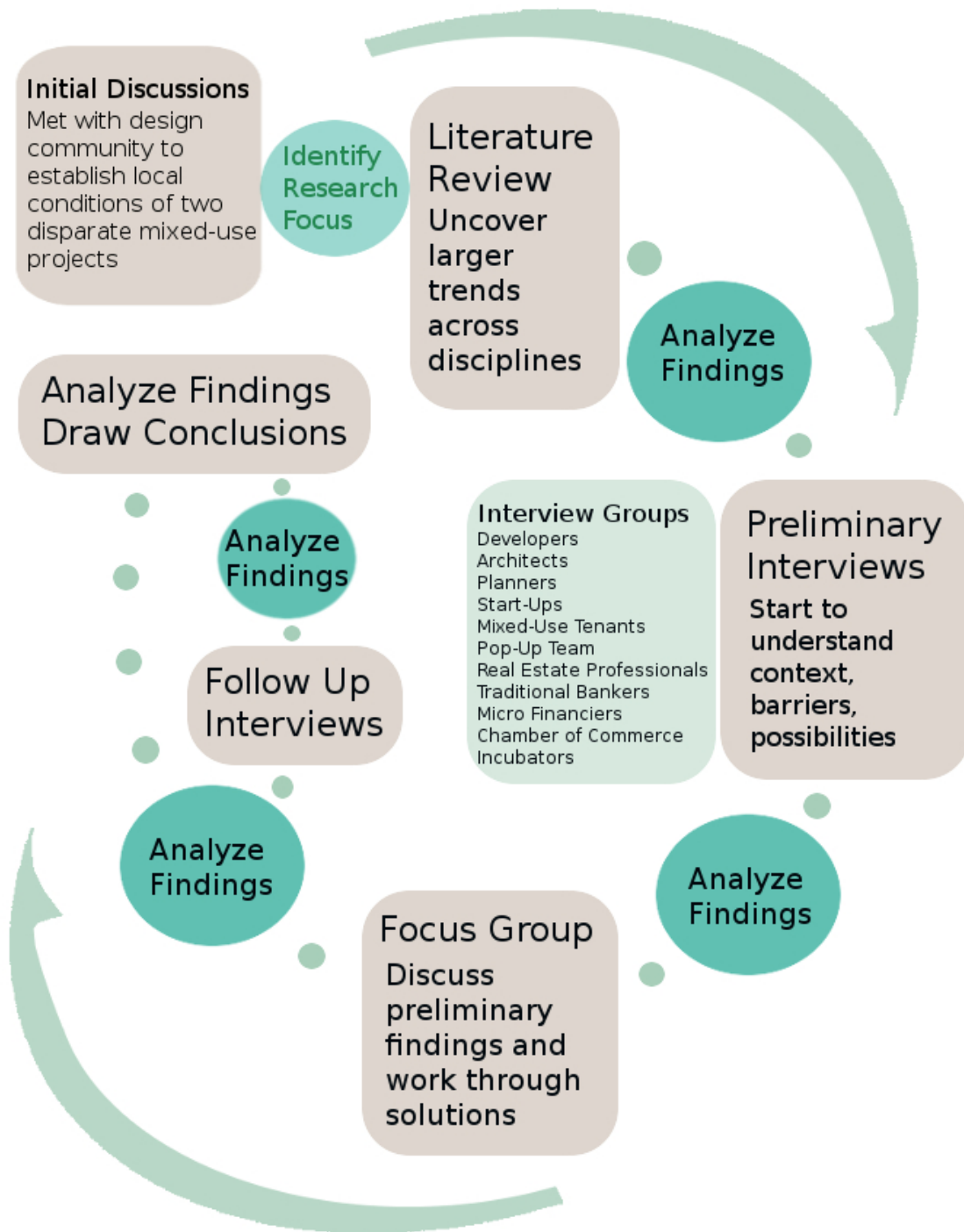


Figure 7. Methodological approach

## **Scope**

### ***Introduction***

The research methodology focused on two specific mixed-use projects in Eugene, Oregon. These developments were selected based on location, age, and funding control. As the *Results* section will show, although these projects exist at opposite ends of the spectrum, the challenge of vacant spaces remains strong for both. A profile for both buildings as well as for the City of Eugene itself follows.

### ***Eugene: A Narrative and Statistical Profile***

Eugene is a town of 156,185<sup>7</sup> located in Lane County, nestled in Oregon's Willamette Valley. It is home to several educational institutions including the University of Oregon (student population: 20,376), New Hope Christian College, and Lane Community College (LCC). Its roots lie in the timber and agricultural industry, yet potential new industries include a burgeoning technology base and food production hub. It is adjacent to Springfield, Oregon, with a population of 59,403. The development patterns of the city are predominantly sprawl-oriented, but recent planning initiatives are trying to recapture the city core. This is being done by encouraging mixed-use developments, leveraging land assemblies in the downtown to emphasize certain districts, and visioning studies to create walkable neighborhoods. Current initiatives are aimed at highlighting downtown's unique entertainment features, a retail strategy is underway, and large-scale catalyst projects are under construction (including an LCC campus downtown and a project offering flex space for office uses). While Eugene is home to a few mixed-

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<sup>7</sup> All city population figures come from the 2010 Census Bureau. The population for University of Oregon comes from the Admissions Office website:  
[http://admissions.uoregon.edu/parents/FAQ/Atmosphere/#\\_atmosphere2](http://admissions.uoregon.edu/parents/FAQ/Atmosphere/#_atmosphere2)

use projects, the overall trend remains single-use. The city strives to be supportive of local businesses. Although this is ingrained culturally (in such venues as a successful farmers' market or the 5th Street Market building), it is also supported by the Chamber of Commerce. Eugene's Chamber is unique in its proactive approach to business assistance (including start-ups). These efforts are yielding tangible results; Eugene is being recognized by national publications such as *Wired*, and was voted 2010's number one city to start a business in by *Entrepreneur Magazine*. One of the Chamber's missions is to serve as the first contact for start-ups funding needs. The Chamber noted that the plethora of economic development agencies and initiatives can prove overwhelming to business owners. The University of Oregon echoes this commitment to small business with the creation of the Lundquist Center for Entrepreneurship, the Law School's Center for Law and Entrepreneurship, and the Technology Transfer Department.

Downtown has undergone a couple, recent transformations. The property owner group was formerly concentrated in two families, but now their interests have been sold and the ownership stake is more diversified. In the 1960s it was a retail hub, but now is a hub for office space (second only to Portland). Downtown receives significant attention from call centers due to the highly educated work force that is willing to work for a lower pay rate. (One of the long-standing developers cited a publishing firm that has since left downtown. They hired University journalism students and chose Eugene due to its lower property costs.)

There are many interesting side notes that help form a more complete picture of Eugene. Recent transit improvements have been hotly debated among the citizens and the

local government, resulting in a negative ad campaign funded by some of the property owners. While supporters of the initiative see this as a way for the city to re-connect its far-stretching fabric, proponents are concerned over more technical aspects: cost and negative affect on business during the construction. The passion behind this debate shows how divided this community can be on issues of planning. A lack of baseline data may serve to compound this strain. During discussions with various stakeholders, it appears no one is calculating the retail square foot per person ratio (a figure that many credit as an invaluable tool in assessing development goals). Additionally, it was uncovered that each civic entity utilizes a different team for marketing, so it appears that there isn't a streamlined, clear format for downtown marketing. While the educational/research resources of the University of Oregon are being leveraged by the University to create start-up businesses, the city has yet to fully engage this resource. (The growing portfolio of the University start-ups has brought approximately \$32 million in revenue into the community over the last decade and has employed about 250 people). The central business district has faced many challenges drawing in large, retail anchors. Most recently, Whole Foods decided not to locate in Eugene's downtown and public opinion is still divided on this issue. At the focus group session, the participants spoke to the conservative nature of the town, noting that most people remain leery of change. While in their opinion this has meant a loss of significant development cycles, it has afforded them the opportunity to learn from other city's development missteps. When the federally funded Main Street Program was discussed, both the individuals interviewed and the focus group participants expressed concerns about pursuing this approach in Eugene.

These hesitations are rooted in the thought that the stakeholders-at-large are not ready to participate in city-focused initiatives. The City is currently researching ways to create small business/ start-up incubators, using Portland as its template.

***Two Disparate Mixed-Use Projects: Different Locations and Arrangements, Same Problems***

*Development A*

- Located in the central business district, this development is approximately a decade old and has faced multiple ground floor occupancy setbacks.
- Its scope includes 170 dwelling units with 14,000 SF of commercial space below, sited on approximately 2.5 acres. (Please refer to Figures 8-11.)
- The funding control was a public/private partnership.

This project was developed by an experienced team, heavily invested in the success of the downtown area. This team was highly educated on other regional approaches as well as aware of specific site sensitivities. Whether due to experience or due to the age of the property, this group is very willing to work with start-up companies (in the form of rent reductions, looser leasing arrangements, or tenant improvements). Historically the property has housed many start-up or small businesses. Recently, its strongest anchor tenant (an independent grocery store) vacated the site.

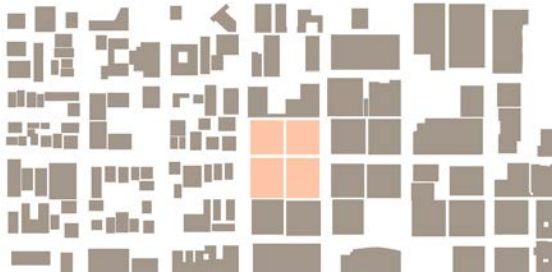


Figure 8. Figure ground: Central business district development



Figure 9. General elevations: Central business district development



Figure 10. Typical ground floor elevation: Central business district development



Figure 11. Pedestrian zone: Central business district development

While there is a sense that business expertise was a strong factor, this has not deterred the team from continuing to work with first-time business owners. Their continued policy is to seek out passionate business owners. It is interesting to note that the developers originally turned down national chains. The ground-floor component was designed to the minimum code requirements and has had a tough time securing "Class A" tenants due to matters of public safety. Despite these ground floor challenges, the residences above have remained very popular and are high-performing.

### *Development B*

- Located in a suburban context, this development is approximately four years old and has faced some ground floor occupancy setbacks.
- The mixed-use components of the site fit into a larger master plan, whose scope includes 102 apartments (in the mixed-use buildings specifically), 4 row houses (with an additional 20 planned) and 63,820 SF of commercial space, sited on approximately 10 acres. The developer has control over 40 total acres for their master plan. (Please refer to Figures 12-15.)
- The funding control was strictly private.

This development team focused a lot of energy educating themselves on the "urban-village" concept - becoming familiar with its nuances and possibilities prior to development. The team was well-versed in many different approaches and techniques. Their vision was a highly collaborative process between the designers (both architectural and planning) and the developers. In fact, many team members list this type of working arrangement being responsible for the project's success. Currently the project is facing some challenges as their current tenants, nervous about the fact that the master plan pieces have not developed, are reconsidering their presence on the site. While the developers have focused their tenant selection on local or regional retailers, they are apprehensive to accommodate start-up businesses. (They remain firm in the length of their lease terms and are reluctant to make nontraditional tenant improvement arrangements).





Figure 12. Figure ground: Suburban development



Figure 13. General elevations: Suburban development



Figure 14. Typical ground floor elevation: Suburban development



Figure 15. Pedestrian zone: Suburban development

Yet some members of the development team have started to speak with emerging businesses. One of the start-ups I spoke with has actively been pursued by a member of the team to relocate to the development. This start-up did not feel comfortable with the terms as well as the general remoteness of the site. Like the other project, the developer originally turned down national chains. This team feels one of their largest assets is the lack of street crime, when compared to areas closer to the central business district.

### **Preliminary Interview Approach: Using Resources Wisely**

When I began the research I identified some key groups to interview, expecting to speak with about 15 people. But everyone I met with led me to at least one additional person or entity connected with issues of mixed-use projects or start-ups. Thanks to this snowball effect, my final tally of interviewees had more than doubled. This not only allowed me to get more perspective on similar topics, but also helped me develop more sophisticated questions, elevating the study's level of investigation.

The groups I met with included: developers (both traditional and pioneering subtypes), traditional financial institutions (appraisers and credit analysts - those who determine investment potential), a micro-lending institution, the Chamber of Commerce (including those who focus on regional economic development and those focused on local entrepreneurs), small business incubators (those funded by government programs as well as those backed by educational institutions), architects (both local and regional), a development commission that has implemented a successful pop-up<sup>8</sup> program, planners (ranging from local to regional planners who have pioneered mixed-use neighborhoods), the real estate professionals who manage mixed-use projects, and start-ups (at all stages between business launch and the "break-even" point).

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<sup>8</sup> A pop-up lease is defined by two characteristics: a short time frame (occupancy may range from a single day to several months) and different rental rates (typically reduced from the market rate). They are usually linked to seasonal events such as Christmas or Halloween. For business owners who want to try a new neighborhood or who are unable to finance a particular location, pop-ups give them a chance to enter new markets at a minimal risk. For property owners facing vacancies, pop-ups give them a chance to showcase their space in an engaging way and create buzz around the building.

The interviews began by having people identify a successful mixed-use project and describe why it was successful in their eyes. The questions worked from general to specific; the categories of questions for each group are outlined in Appendix A.

### **Focus Group Structure: Together We Are Smarter**

The focus group was held following the conclusion of the preliminary interviews. The general intention for this session was to get a group of Eugene's key stakeholders in one room, engaged in conversation. Additional goals included gauging the reactions of this group as each idea was presented, discussing any potential barriers or possibilities they saw with the concepts, and collecting personal accounts related to the discussion topics. To accomplish this, the participants were selected from a variety of fields and experience levels. Also, to aid in the conversation a path of discussion-based topics was chosen (a few key points were selected, allowing the participants to contribute in a less structured way than in a pure questioning route).

The session was scheduled for 90 minutes and structured as follows: a ten minute introduction - reviewing the major focus of the investigation, the research questions, and the preliminary findings; a "kick-off" question that allowed everyone to introduce themselves and get the group comfortable with each other (the question was: what is one of your favorite buildings and why - bonus points for mixed-use); and the discussion topics. The topics were both proforma-based and more general in focus, with an emphasis on the more "non-traditional" proforma approaches as well as the items that were reoccurring themes during the preliminary interviews.

Selected topics:

- Proforma-related ideas (10 minutes per topic)
  - demand for basic space and its relationship to tenant improvements
  - lease arrangements - modified gross lease or structured (graduated) leases
  - separation of retail and residential proformas - air rights
- Action plan ideas (15 minutes per topic)
  - Creation of extended relationships working together, simultaneously to understand the economic impact of start-ups University of Oregon, Chamber of Commerce, City of Eugene, and EDEV
  - Demand for start-up hubs seems to focus on independent retailers and technology-based firms
    - Need for streamlined marketing to create buzz for retail
    - Need to have proper support infrastructure for technology-based firms
    - Components for success: curating, simultaneous education (especially for property owners)

Due to the short time frame for the discussion, each participant was given a packet of information upon arrival. This included: the session schedule, a series of diagrams that walked through the investigation journey (Figures 1, 6, and 7), a sheet outlining the key research questions, and finally a page listing the discussion topics - along with their related time frames. This packet gave the participants a chance to familiarize themselves with the topics before they were introduced and make notations.

The group of participants included:

- An experienced planner for the City of Eugene, who is also connected with the economic development of the city. This person is in a leadership role within their department and is instrumental in forming new partnerships and initiatives.
- An experienced developer who has an intimate knowledge of Eugene, its development history, its context, and its key stakeholders. While their focus is local, they're comfortable with trying new ideas and approaches.
- An experienced developer who has worked both in Eugene and in Seattle. This individual is not only knowledgeable regarding Eugene's particular context and barriers, but is also able to apply different ideas to see new possibilities.
- Two University of Oregon officials who are working to form new expanded relationships with the City. Their experiences are focused on start-up companies (particularly technology-based and idea-based firms), their needs, and providing them with work space.
- A leader within the Chamber of Commerce, devoted to the link between economic development and city planning. While their focus is on the city scale, they remain familiar with the particulars of city neighborhoods and entrepreneurial companies.
- An experienced architect who has worked with developers interested in mixed-use as well as start-up companies and building owners trying to make existing spaces work for their needs.

## CHAPTER IV

### LITERATURE REVIEW

#### **Introduction: How This Review Is Organized**

This review follows the format of Figure 7 found in the *Definition of the Problem* chapter. Each major category will be examined: social, design, development, and economic. This review finishes with an explanation of the conclusions found and a listing of helpful online resources. The landscape for mixed-use projects and start-up companies is continually evolving - this literature review provides a good baseline, but monitoring online resources will be critical for any ongoing analysis.

#### **Social Issues: Change Is the Only Constant**

The American Dream of a single-family, detached house in suburbia is changing. While the federal government has supported this dream through various channels such as the 1956 Federal Highway Act, actions by the Federal Housing Administration, and exclusionary zoning practices; the market is shifting. This shift is bringing with it powerful changes that go beyond the real estate and development arenas, impacting our social organizations as well as our definitions of urban living. Households are not just getting smaller, but they are also getting older. The proportion of our population that is over 65 is projected to go from 12.4% in 2000 to 19.6% in 2030 (Tregoning 39). These numbers cannot be ignored; what do these people, on a whole, look for in their living environments - what do they prefer? "Baby boomers will live longer than any previous generation as empty nesters. And they do not want to get old like their parents did - they want to delay the inevitable as long as possible by pursuing healthy lifestyles, living in

vibrant, walkable communities, and enjoying all of the cultural and mental stimulation they can" (Tregoning 40). A recent AARP survey echoed this sentiment, finding that more and more retirees are opting for high-amenity areas versus isolated retirement communities (Burayidi i).

While the baby boomer generation composes a large segment of the population, walkable and vibrant communities are not favored by this age group alone. Young professionals are also drawn to more active neighborhoods. As author and researcher Richard Florida has noted, the rise of the creative class has brought with it an increased demand for spaces and places with character and connectivity.<sup>9</sup> Florida perhaps sums it up best in a July 7, 2011 article.

In my travels across the country, I've heard from people who are in the process of resetting their lives. Young people just out of college tell me that they don't want their parents' suburban lifestyle; they'd prefer to find an affordable rental apartment in a city they love where economic opportunities are better. They don't want to go into hock buying a big house and a big car, just so they can endure a long commute. Young parents tell me they've had to defer their dream of buying a bigger house with a backyard, either because they can't afford it or don't qualify for a mortgage. Instead, they've decided to stay put and renovate their city apartment or fix up their small house in an older, closer-in suburb. Empty nesters tell me they've decided to sell the big house, sometimes for a lot less than they could have gotten for it a few years ago, and buy a smaller condo or house closer to their kids in the city. These shifts, brought on by economic exigencies, are already adding up to a gradual but enduring change in the way we live – one that will prove every bit as consequential as the move towards suburban living was in the 1950s and 1960s.

It may be easy to look at philosophies such as New Urbanism and Smart Growth as a return to the core, but it can be seen in a broader context, as a return to character.

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<sup>9</sup> The creative class is defined by their work in "information-age" economic sectors and industries that are driven by creativity and innovation. Additionally, they are not influenced by traditional, economic motives; rather they are concerned about amenities, diversity, and tolerance. It is important to note that most entrepreneurs could find themselves in this classification. The 2008 Creative Economy Report by the United Nations provides more data about this movement.

That character may be formed by density, by architecture, or by industry (to name a few). Yet that sense of identity remains a key issue for residents of small and big cities alike (Schwanke et al. 4). To quote Richard Florida again, in an article titled *One on One: Cities are the Key*, Florida discussed the importance of togetherness. "That sense of community becomes our anchor. I'm very drawn to places that have this distinctive sense of self, a distinctive soul. One of our biggest challenges is how to remake our suburbs, which tend to be generic. How do we create character? How do we make them more livable and purposeful?" Small towns serve a role here as well; character is viable at all scales. "The unique heritage of downtowns, and the opportunities that downtowns offer for walking, biking, and for chance encounters are all appealing assets of small city downtowns" (Burayidi ii). While many are seeing the potential in community identity, some academics are reluctant. Kristin Carney recently studied the residential vacancy rates in walkable neighborhoods and found the occupancy rates were lower than their non-walkable alternatives. While she cites higher housing costs and notes that the data sets require more study, it does emphasize that our reliance/preference on the automobile is deeply entrenched in our collective psyche (Carney).

However, perhaps no demographic understands the importance of, and is empowered by, a sense of community more than immigrants. Since James Rojas' groundbreaking MIT thesis that coined the term Latino Urbanism, many academics have expanded upon his findings. Researchers have found that Latino immigrants naturally form public spaces, work to beautify their surroundings, start micro-economies through start-up enterprises, and live more compactly (Stephens 2008).



Even as many middle class Latinos choose the suburbs, Mendez suggests that Latino urbanism — with its preference for walkability, high densities, and a mixture of uses and incomes — can draw on the popularity and influence of the New Urbanism movement. He even suggested that the combination of the mainstream trends with Latinos' growing numbers may hold the key to a wholesale revival of inner cities. Latinos may even inspire Anglo America to get back in touch with its past and undo some of the neglect caused by the 20th-century rush to the suburbs (Stephens).

Doug Saunders, reporter and author, noticed this trend during his research on arrival cities (the gateway cities where new immigrants gather and establish transnational networks (Saunders 47)). The following quote from Mike Davis, a Los Angeles historian, echoes what previous research has uncovered.

Tired, sad little homes undergo miraculous revivifications: their peeling facades repainted, sagging roofs and porches rebuilt, and yellowing lawns replanted in cacti and azaleas. Cumulatively the sweat equity of 75,000 or so Mexican and Salvadorean homeowners has become an unexcelled constructive force (the opposite of white flight) working to restore debilitated neighborhoods to trim respectability...they also have a genius for transforming dead urban spaces into convivial social spaces (Saunders 83).

City planners are starting to respond to this phenomenon; the more advanced management teams are modifying their strategies to accommodate/incorporate immigration. Michael A. Burayidi, Ph.D. sees immigrants as a key factor in downtown success. He draws a connection between the aspirations and cultural practices of immigrants and the rebirth of urban cores. He also notes that recent immigration trends, which finds people migrating to smaller towns as well as established arrival cities, opens up the opportunities to smaller communities which typically lack critical mass (Burayidi iv).

While immigrants have enlivened an entrepreneurial economy in many cities, the trend toward start-ups is being encouraged by many other factors. Large corporations

often export dollars and employment opportunities; while this trend is nothing new, some cities are taking novel approaches. The Evergreen Cooperative Initiative focuses on creating community-owned businesses that provide goods and services to the larger anchor businesses (the enterprises that typically export a lot of dollars). This initiative allows community members to earn an ownership stake in the companies, which are focused around sustainability. The funding for this project comes from a foundation, but also from using old resources in new ways (Segal). While many other cities are starting programs modified from this approach, the message remains the same: cities are looking to nurture local economies, systems that are not as connected to national trends.

This appreciation for the local economy can perhaps best be seen in times of turmoil. Our recent economic recession provides a prime climate for this activity.<sup>10</sup> In Europe, the connection between entrepreneur and unemployment has been studied for quite some time. In a recent report looking specifically at Germany, the authors found two particularly interesting trends: when start-ups are supported by the government the survival rates (at the 2.5 year-mark) are higher and that people are influenced by both push and pull motivations (Caliendo and Kritikos 71). Similar findings were mirrored in a study of Turkey's emerging economy (Ozar et al. 357-359). Locally this can be supported by an April 2011 Kauffman Foundation of Entrepreneurship report, which finds that the national business start-up rate is at a 15-year high. Although most experts feel this is due

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<sup>10</sup> The 2007 Kauffman Index of Entrepreneurial Activity reports that the United States remains a healthy environment for start-up businesses with a consistent average of 465,000 businesses started per month. What does that mean during these more challenging economic times? While this is difficult to project, many authors contend these challenging conditions may produce even more small businesses. (Note the August 9, 2009 article by Jeffrey M. Jones published in *The Washington Times* entitled "Solutions: Revitalizing American Entrepreneurship" as well as Richard Florida's Creative Class philosophy).

to push rather than pull motivations (McDonald A6). Regardless of the inspiration, ensuring support for these start-ups remains critical as they cross the bridge from single-person enterprises to local employers.

Perhaps nowhere is this more apparent than in Eugene, Oregon. In 2010 the city was ranked as the number one city to start a business in by *Entrepreneur Magazine*. From a Chamber of Commerce dedicated to matching resources with start-ups; to organizations like "Smart-Ups" which allow for networking and education; to the University of Oregon's Technology Transfer Department, focused on building start-ups from ideas started in academia - Eugene is one of the many American cities fostering support systems for start-ups. Nationally speaking, organizations like SCORE, the National Business Incubation Association, and even the Main Street program - all work together to create environments for small business success. As Harold Livesay noted in his article entitled *Entrepreneurial Dominance in Businesses Large and Small, Past and Present*:

Success most often attends small businesses and those large firms that can emulate small business advantages, most especially in the driving force of a dominant, visionary, growth-oriented manager whose will can overcome the weakness of structure and harness its power. Business history long focused on such people until the rise of the giant organization shifted its attention. The new and widespread interest in entrepreneurs and entrepreneurship in fields outside history has provided historians with abundant new materials for study of our time-honored questions. In time the individual will doubtless return to the appropriate place as the cause, not the casualty, of organizations and of those who study them. When that happens, the synergy between individual and organization, so potent a force in business and in the economy, should have an equally dynamic impact on their history.

The trend of big business shifting toward a more entrepreneurial, flexible framework adds more importance to the movement that cities like Eugene are nurturing (Micklethwait and Wooldridge xxii). The role of the entrepreneur is once again taking a

prominent role in our economic engine, downtowns nationwide are working with these small businesses, and large percentages of the population are craving diverse and connected places.

As we've seen, the landscape for downtown development is being influenced by an array of different, social forces. This can range from demographic population shifts (the baby boomers, the young professionals, immigrants), to the types of careers being pursued (the rise of the creative class and the overall shift from a manufacturing economy to a service-based economy (Leinberger and Lockwood)), to the desire for creating memorable places, to the nurturing of local economies and start-ups. How these factors intersect with matters of design will be discussed next.

### **Design Issues: The Key Is in the Connection**

Social movements guide most of our decision making and policies. In the early 20th century, the Garden City movement helped inspire a mixed-use renaissance. The urban renewal movement redefined our neglected city centers (for better or for worse) during the 1960s. The following decade, that attitude reversed - fueled by increased public participation, regulations, and social/environmental awareness. To some academics this approach, reminiscent of the Progressive Era, continues to direct our policy decisions.<sup>11</sup> The movements of today often find themselves enveloped by sustainability: Transit-Oriented-Developments, Smart Growth, and New Urbanism (for example). New Urbanism (sometimes referred to as "neotraditional planning") arrived during the 1990s as the first, real alternative to the suburban development model. The

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<sup>11</sup> The book *Mega Projects: The Changing Politics of Urban Public Investment*, provides a nice summary of political eras and the authors theorize that we still find ourselves in the "Era of Do No Harm."

Smart Growth movement was soon to follow, characterized by its more aggressive attack on zoning obstacles (Peirce xi-xv). Transit-Oriented-Development fits into this mix by focusing on the connection of mass transit to compact living patterns.

These philosophies are grounded in real world concerns: dependence on foreign oil<sup>12</sup>, global warming, failing infrastructure, and the national debt (Peirce xi-xv). More recently, a group known as the Lone Mountain Compact, has produced a counterpoint to these movements. Their perspective looks at the tenets for New Urbanism, Smart Growth, etc. through a different lens - focusing on the results of applying these ideas. Their principles for livable cities are summarized as followings (Orski et al. 166-171):

- Generally, people should be able to live and work where and how they like
- Comprehensive planning interferes with the organic growth of cities
- Densities and land uses should be driven by the market, not by a plan
- Diversity that is supported by the market should be accommodated by planning initiatives
- Local control is more effective than regional authority
- Private property rights are fundamental
- Burdens on lower income groups cannot continue
- Market-oriented transportation strategies should be utilized (such as congestion taxing)
- Rights of present residents should not supersede the rights of future residents

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<sup>12</sup> It is interesting to note that in November 2010, the U.S. Energy Information Administration stated that our dependency on foreign oil will decrease over the next two decades. They attribute this reduction to advances in biofuels and our own crude oil production (specifically in the Gulf of Mexico).

- Planning decisions should be based on researched fact, not perception.

While these points speak to our larger "mixed-use vacancy/start-up incorporation" debate, there is one that sticks out in particular: densities and land uses should be driven by the market, not by a plan. I believe determining land uses requires a finer grained approach, especially for mixed-use. This particular typology is deeply rooted in our collective psyche - in fact it was *the* development pattern for hundreds of years, encouraged by necessity (if you want to call it "the market" you can) and developing organically, rather than as a result of a consciously conceived plan. The issue the design community faces is now that we want to reclaim these roots, planners may find themselves directing the market more forcefully through their initiatives as the market itself remains entrenched in single-use approaches. To apply another tenet: planning decisions should be based on researched fact, not perception. As we've discussed in this literature review, many themes are centering around a return to mixed-use and denser living patterns, yet sizable market obstacles remain (matters of financing restrictions, for example). The key is in finding a thoughtful approach, borne out of research that becomes supported and encouraged by the market system itself.

Communities across the country are focused on this mission right now and regardless of the philosophical leaning, design and planning are finding inspiration in theories like the Lone Mountain Compact and New Urbanism. More and more cities are relaxing zoning regulations (allowing for a mix of uses), applying form based codes (which regulate based on physical qualities aimed at creating a better public realm), and refocusing on dynamic pedestrian environments (Kemp and Ivan). As new communities

are being planned, town- centers focused on mixed-use often emerges a key component of the urban design (Schwanke et al. 4).

The major ideals from the above theories (compact footprint, efficient choices, sustainability, etc.) are not restricted to the city scale, but can be applied at all levels of design. We can see this in buildings from New York City to Eugene, Oregon. In New York, technology-based firms have clustered in the Flatiron District and Chelsea. They are drawn by the lower rent levels, but stay due to the characteristics of the space (the openness, the raw and gritty nature, the industrial loft feeling) and the neighborhood (the energized clustering of fellow start-ups, the views, the amenities). As James Buslik, who has leased many spaces to start-ups, eloquently summarized: "Creative people find creative space" (Vatner). That perspective translates to smaller cities like Eugene, Oregon. When meeting with a developer who has also worked in Portland, he agreed that start-ups gravitate toward basic space and look for flexible environments. The trend toward live/work units, co-working environments, and flex spaces works to support this observation.

It's not just start-ups that prefer a small, flexible footprint. Retailers are realizing the benefits of having more nimble spaces. As we will see in *Issues of Development*, we are entering a new era for large retailers - one which finds them taking note of small business practices and applying them through the use of smaller spaces. What does this mean for mixed-use and start-ups? It's tough to tell as the retail landscape is just as unpredictable as the real estate market, but we do know that retail is being affected by many trends: an aging population, a demand for value and personal services, a desire for

more niche retailers, and urban formats inspired by revitalization - all indicate a path toward smaller, mixed-use spaces (Kiment and Barr 24). Will we start to see a shift in development models as we see a re-valuing of smaller spaces? Large retailers can drive the market, but only time will tell.

### **Issues of Development: Partnership and Patience**

The challenges with mixed-use retail are well documented throughout various industry publications; from real estate to city planning, individuals are seeking solutions. These obstacles present themselves in nearly every urban and suburban setting, making it difficult to pinpoint the exact ingredients needed for commercial success. The second edition of the Mixed-Use Development Handbook walks through the design process from feasibility to construction and notes a critical theme: "each element of the project should be able to stand on its own as a marketable and financially feasible component, and the analysis should not overstate possible synergies or competitive advantages" (47). For retail uses specifically, the authors go on to state that this use is often the most identifiable element for the project and is the most challenging to successfully develop. They state that developers should be aware that retail uses are often over-sized and projects should lean toward smaller footprints (with caution). If spaces are decreased too drastically, it may produce an image of failure at the project-scale. They identify four primary markets that support retail, which require varying amounts of density and accessibility: the site itself (office workers), residents, visitors, and the local area (people walking or driving to the area) (56-64).



Suburban settings often face additional difficulties due to the lack of density and pedestrian traffic that typically defines our urban environments. In a study of three different Canadian suburban mixed-use developments, Grant and Perrot also found an oversupply of retail undermining existing commercial properties. Additionally, they noted that jobs and housing tended to cluster in separate regions, similar to the American model of sprawl, which compounds the issues for suburban developments. The authors for this article, much like the ULI, cautioned the design community to set more realistic expectations and not allow physical determinism to override existing boundaries.

It appears that the real estate and property management industries are heeding this advice. Many projects are now seeking out regional and local tenants instead of national anchors. This approach is being signaled by the larger change in retailing trends, but is also seen as a way to connect more with their residential tenants. The bottom line for real estate professionals remains occupancy; while today that may include rent deferrals, specials, extended leases, etc. - could the future include start-ups?

As we touched on in the *Definition of the Problem* chapter, mixed-use during the 1980s was defined by its office sector, while in the following decades it was defined by its retail/commercial offerings. Today, however, we are seeing another shift with residential becoming the leader. Nationwide, residential occupancy levels are remaining very high, seemingly independent of retail's performance. I have observed this in both mixed-use projects in Eugene and it's also a trend in places as dynamic as New York City (Bernstein). Current articles dictate that in the mix of residential and retail, one element is vastly outperforming the other. Will that threaten the future of mixed-use developments?

That may be tough to determine; while it is poised to alter the evolution of this typology, retail trends remain ripe with inspiration for mixed-use solutions.

A more sophisticated retail clientele has ushered in a return to shopping in an urban context. This pattern is also guided by other key factors, as seen in Table 2.

<p><b>Demographic and Lifestyle Changes</b>          An aging population          More working women          A focus on leisure          A demand for value          Dilution of the traditional family unit          Less discretionary time          More eating away from home          A demand for personal services</p>	<p><b>Concept Changes</b>          Stores that dominate a merchandise category at retail, also known as “category killers”          Wholesale clubs          Niche retailers          Enlarged grocery stores          Changes to the traditional department store</p>
<p><b>Operating Issues</b>          Limited labor availability          Technological changes          Competition          Capital-Intensive requirements          Growth of nonstore shopping modes (Internet, catalogs, TV, telemarketing)</p>	<p><b>New Retailing Formats</b>          Urban revitalization and redevelopment          Airport redevelopment          Entertainment retail formats          TV shopping, infomercials          Catalogs</p>

Table 2. Retail Trends

Source: *Building Type Basics for Retail and Mixed-use Facilities*.

The momentum behind density and walkability has given new life to older developments: obsolete shopping malls are being converted to mixed-use projects and developers are seeing the opportunities in centrally-located, formerly neglected shopping centers (Kliment and Barr, Bodamer). Large retailers are also reacting to the changing consumer. Big box retailers are shrinking their footprints, aligning themselves in an urban setting and adjusting to the growing urbanization of the suburban realm. Two of the nation's largest retailers, Target and Wal-Mart, are not only pursuing city-friendly scales but are also incorporating a mixed-use approach (McMahon). While they are focused on changing their future development patterns, some retailers are going further by reducing their existing impact. Best Buy is subdividing current stores and leasing the leftover

space to smaller, niche retailers. Perhaps the CEO of Best Buy, Brian Dunn, captured it best in a recent *Chain Store Age* article, "We can reduce our overall square footage while actually increasing our presence" ("Best Buy to Shrink").

As more and more professionals are seeing the big impact of small things, a new industry and development model has emerged: the pop-up. A seasonal store, like an outlet selling Halloween costumes or a kiosk at the mall selling calendars, was the inspiration for the current pop-up model. A pop-up is a company's short-term presence in a building. It may serve as a great promotional vehicle (offering a business with more limited resources to be accessible) or it may have a more functional role (allowing a company to quickly clean out inventory with a lower overhead). What is perhaps most interesting about this model is that large retailers, such as Toys-R-Us or Target, look to pop-ups just as much as a start-up would (Fierro). The scalability of this idea has influenced an entire industry to spring up around pop-ups, offering advice, matching properties to companies, and setting standards for leasing arrangements. Perhaps one of the largest challenges with this concept, beyond the financial negotiations, is in property management. It is recommended that the management style is attentive, hands' on, proactive in supplying information systems, and excellent at creating buzz (Odell). If all parties concerned are educated and open to the arrangement, the results are mutually beneficial: the company sees increased revenues and the development gets increased traffic and interest in their site (Fierro, Clack, and Duffy).

While it may be obvious to see how this concept can benefit a start-up company, what remains more elusive is just what makes it successful. How do you create enough

buzz to ensure success when the companies don't have a strong client base? For some cities, clustering is a large part of the equation. In Portland, Oregon, the density of fashion designers has created "Indie Lane" - a successful area that residents seek out. For technology-based start-ups, clustering around a university can offer a stable environment for success (Gerhart, Don and Chuck Williams. Personal interview. 27 July 2011). Indeed, this idea of density inspires business incubators<sup>13</sup> across the country. A study of the effect of clustering on start-ups in Sweden revealed that clustering causes many positive results: more job creation, higher tax payments, higher wages, and better survival rates. However, the authors caution that clustering may not yield these encouraging results across the board - it may operate differently for different types of start-ups (knowledge-based versus capital-intensive companies) (Wennberg and Lindqvist 238). The benefits of clustering do appear, however, to translate successfully to differing populations leading some cities to support a "niche strategy" when revitalizing their downtowns. As David Miller noted in a recent article to *Downtown Idea Exchange*:

Downtown shops in a niche, even one of modest size, can band together in joint advertising and promotional campaigns. Together, they have the resources for campaigns that would be beyond what each could individually afford. And, together, they are able to project a more solid and robust image that instills in the consumer the impression of a broad selection of merchandise.

While the true relationship between clustering and start-ups remains undetermined, the role of the public in revitalization is steadfast. Often times the availability of public financing and support provides the tipping point for a project,

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<sup>13</sup> A business incubator offers not only physical space (and infrastructure) for start-ups, but a connection to valuable, educational resources. Please see the National Business Incubation Association's website, [www.nbia.org](http://www.nbia.org), for more information.

offering the key to its success (Schwanke et al. 394-395). However, as we will see in *Issues of Economics*, that success may be due to increasingly creative partnerships.

### **Issues of Economics: Creative Solutions to Costly Conditions**

Public-private partnerships can take many forms, transferring risk and obligation in a variety of arrangements. Yet, the bottom line is becoming more and more common for cities nationwide: revive the core. This mission has led many municipalities to provide financial incentives for downtown development. Typically, this comes in the form of land assembly, land write-downs, tax incentives, infrastructure improvements, or increased flexibility of regulations (via Planned Unit Development, Traditional Neighborhood Development, conditional rezoning, or green tape permitting). Declaring a region a Business Improvement District or utilizing multi-bank loans offer new funding streams for improvements. Other methods involve making new philanthropic connections: Pennsylvania created a foundation called the Neighborhood Assistance Program, which offers businesses a 75% tax credit and supports long-term projects in areas of need; Kalamazoo, Michigan created a foundation entitled Downtown Tomorrow, Inc. which provides additional funding sources for land assembly (Feehan and Hopkins). While these funding resources are a critical piece to the puzzle for new projects, the needs of existing developments fuel creative solutions and inspire new partnerships.

As we've already established, retail spaces in mixed-use developments are proving difficult to lease. But many cities are finding new ways to combat occupancy issues and while they may borrow principles from traditional approaches, most are outside-of-the-box. Elgin, Illinois is using a three-pronged technique centered around

parking, a pop-up campaign to lease vacant space, and a technology hub (which utilizes co-working and creates an incubation-like environment) (Danahey). In some instances, plans are inspired by a partnership between city, entrepreneur, and property owner. An event in San Diego known as a "retail runway" proved to be the venue for property managers to listen to entrepreneurs (Showley). As one particular article from *The New Rules Project* cites, some cities, like Bozeman, Montana, are looking to prevent future vacancies by requiring an exit strategy, outlining vacancy solutions, from developers. This mandate also requires developers to include flexibility in their design proposals (places for multiple entrances and subdivision of units) ("Preventing Vacant"). The methods in Elgin, San Diego, and Bozeman represent the spectrum of preventative and reactive approaches. Within this array the common thread is in finding alternatives to the current condition. This includes seeking out non-traditional tenants, such as medical or seasonal entities. But could this expand to start-ups? Could a pop-up, involving a low-income tenant, be a viable alternative? A project near St. Louis may provide some inspiration. "Half of this center is getting redeveloped in a few years, but in the interim, about half of the space was vacant. We approached the arts community and were successful in turning that vacant space into an artisan community," said John Bemis, director of leasing for Jones Lang LaSalle Retail. The community, known as ArtSpace, allowed local artisans to rent studio space where they could work (whether that be making, teaching, or performing) and sell their wares. Originally considered a temporary use, it has caught on and is "keeping the mall very vital and interesting" and as a result, might be considered as part of the Crestwood's redevelopment plan (Pardy).

The focus on project-scale and retail-unit financing has revealed many different techniques. Yet, what are the funding sources for the business tenants themselves? For an established business that may be simply answered by bank loans or revenue streams, but for a start-up those answers require some thought. As we discussed in the *Definition of the Problem* chapter, while it may be difficult to categorize start-ups by business pursuit it is relatively easy to classify by support system. Entrepreneurial endeavors are either funded by the entrepreneur (and his/her partners) or by investors. Due to the nature of start-ups, that investor is commonly an "angel investor." Most states, like Oregon, have a network of angel investors all looking to become stakeholders in an innovative idea<sup>14</sup>. While historically start-ups have looked for grant-based or idea-dependent funding, new opportunities may be open to them in the future.

As an industry, micro-financing is undergoing a significant transformation. Its mission of reducing poverty showed the world that small actions do matter. But it impressed the world by showing how much its services are needed. Grameen Bank, for example, has made loans to approximately 7.9 million people. This momentum has led to a redefinition of its own industry, as well as a desire to infiltrate the formal financial sector. Obvious motivational differences present a bumpy road in a union between micro-financing philosophies and neoclassical tendencies, but this serves to provide some hope for start-up companies. It is interesting to ponder what changes could come if micro-loans become a legitimate element in the traditional financial industry. What impact could that have on low-income residents and start-up businesses?

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<sup>14</sup> The Oregon Angel Fund serves as a great resource for understanding this type of investor, the projects that inspire them, and larger network of investment opportunities. Please visit [www.oregonangelfund.com](http://www.oregonangelfund.com) for complete information.

A transformation of the financial industry may be years in the making, but we are already seeing a change in the development industry. As a *Funders' Network* article notes, developers are facing new realities which require long-term thinking: failing infrastructure proves costly to repair, the cost of land is rising, and energy costs are increasing (to name a few) ("Fiscal Advantages"). While the development environment may be changing, the foundational motivation is the same: create greater value. These challenges encourage a look into the economies of sharing resources and the superior property values of smart growth developments support this exploration (Schwanke et al. 29). A 2004 New York Times article entitled *The Benefits of Living Above the Store* details that a return to close living conditions is motivated by finance perhaps just as much as philosophy.

People who understand the financial benefits often find the mixed-use route very compelling. One woman who is a stock market analyst for a Wall Street broker bought a mixed-use building in Prospect Heights, Brooklyn, last year using money that might otherwise have gone into the stocks. "It's no secret," she said, "that a shrewd real estate investment is going to give a greater long-run return than the stock market.

### **Conclusion: Move Forward in Small, Informed Steps**

As Jeff Speck stated in his article *Making Better Places: Ten City Design Resolutions*, "small is beautiful." It's a simple statement, but accurately embodies many of the trends this literature review has uncovered: niche approaches to downtown redevelopment, small business incubators, shrinking big box retailers, and economies based on local industry.

Fruitvale Village, a mixed-use project oriented near mass transit in Oakland, California has experienced many of these trends and can provide us with some



compelling points to consider. Jeff Pace, the COO for the main development stakeholder, has identified five major components affecting the success of the retail component and ultimately to the vitality of the project at large. Beyond these clear directives, Pace stresses the importance of patience and a willingness to experiment. While literature suggests the time is right for creative solutions to vacancies, it remains to be seen if it is a prime environment for start-ups to infiltrate these traditional retail zones.

- Locate the development in a walkable and accessible area, preferably close to the big three, "job centers, transit centers, and dense housing"
- Foster density, whether that be through dense residential districts or a dense employment hub
- "Don't build too much retail too soon"
- Create a mixture of retail and services within the commercial floor(s)
- Work to find quality retail tenants

### **Important Online Resources**

- Chain Store Age: [www.chainstoreage.com](http://www.chainstoreage.com)
- National Real Estate Investor: <http://nreionline.com/>
- New Urban Network: <http://newurbannetwork.com/>
- Planetizen: <http://www.planetizen.com/>
- Urban Land Institute: <http://www.uli.org/>
- Pop-Up Insider: [PopUpInsider.com](http://PopUpInsider.com)
- Funders' Network for Smart Growth and Livable Communities - social objective driven financing: <http://www.fundersnetwork.org/>

- Downtown Research and Development Center: [www.downtowndevelopment.com](http://www.downtowndevelopment.com)
- Retail Traffic: [www.retailtrafficmag.com](http://www.retailtrafficmag.com)
- Smart Growth Online: [www.smartgrowth.org](http://www.smartgrowth.org)
- National Business Incubation Association: <http://nbia.org/>

## CHAPTER V

### RESULTS

#### **Introduction: Organization of the Results**

The *Literature Review* chapter sums up the larger, national trends: the need for educating all parties involved, forming new relationships, assessing things through a finer grain, creating resilient neighborhoods, emphasizing more flexible approaches, opening up new avenues of communication, and pursuing creative solutions.

The preliminary interviews echoed some of the peripheral findings from the literature review: an oversupply of commercial space, mixed-use residential outperforming retail, strong small business and start-up economic presence, residential units (regardless of income level) not supporting the ground floor retail component, the general reluctance of traditional financial institutions to support mixed-use developments, the passion for the smart growth movement, and the success of pop-ups and small business incubators. There are a few areas where the preliminary interviews stray from the literature review findings. While the literature review was inconclusive regarding the effect of vacancy - the preliminary interviews indicate that vacancies are seen as detrimental from a design community stand point. While the effects of clustering remain debated both at the national and the local scale, the Eugene consensus is that clustering is critical to start-up and mixed-use success. While the positive effects of clustering are clear, the process of creating or supporting clusters requires additional research.

The following sub-sections detail the most commonly found results from the interviews. As with any discussion, the conversation wandered at times and different

areas were emphasized based on the individual's focus. Complete notes from each interview can be found in Appendix B. The sub-sections entitled "Professional Notes" presents career-specific findings from the interview sessions.

## **Findings**

### ***Degrees of Separation***

Figures 16-18 document where the major interview groups land on the key issues. The issues were selected for their relevance to the research focus and their prominence during the preliminary interviews. While this exercise does not capture the nuance of the various discussions, it does provide us with a quick look at the overall landscape. The charts show us that the separation of the various members is relatively minor in nature, which provides an encouraging foundation for discussion of new development models.

### ***Key Spatial Requirements***

Figures 19 and 20 relay start-up spatial requirements/conditions in diagram form, adding in a section that shows whether or not their current location suits their needs.

### ***The Present Situation with Mixed-Use***

The mixed-use building typology (as a planned project, rather than something that emerged organically) is a recent phenomenon in Eugene and the building's age seems to correlate to the developer's willingness to try new leasing approaches. Development A is over a decade old and is willing to try new solutions. Development B, conversely, is relatively new and does not have an expressed interest in modifying their standard approach (which is geared toward longer lease terms).



Figure 16. Degrees of separation (A)



Figure 17. Degrees of separation (B)



Figure 18. Degrees of separation (C)

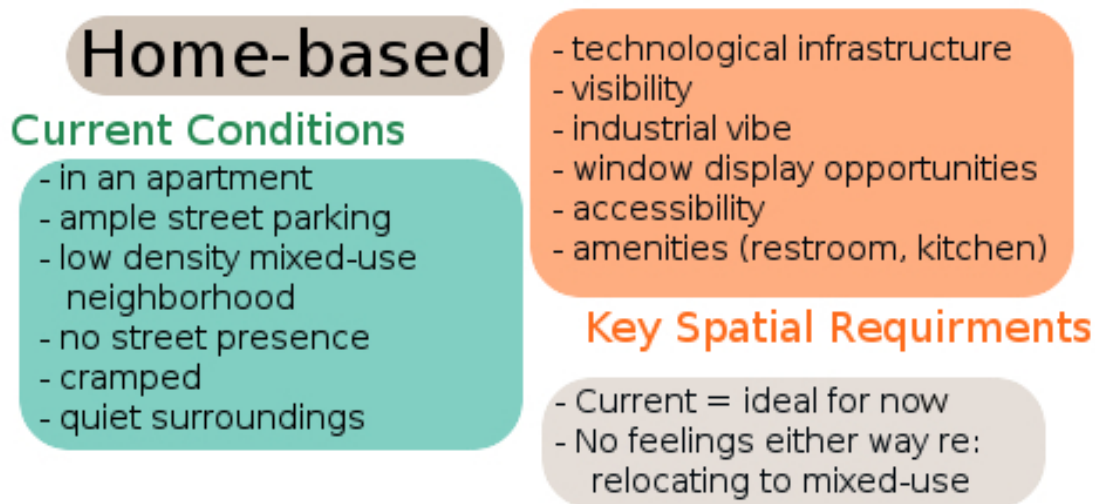


Figure 19. Spatial requirements (A)

While there are other differences between these projects (such as location), it does speak to the continued impact outstanding debt services can have on the flexibility of lease arrangements.

Adding to this discussion of building age, the supply of truly old building stock is very limited in Eugene. It is interesting to note that one of the oldest buildings remaining in Eugene's CBD has recently been renovated into a mixed-use building, utilizing the flex space development model. The developer for this project stated that the age of the building is the reason their particular development plan works, allowing them to have more start-up tenants. Many of the interviewees expressed interest and excitement over this project; they will be looking to it as a model for other development patterns in Eugene.

## Retailer [A]

### Current Conditions

- on the corner
- ample street parking
- low-med. density mixed-use neighborhood
- outer fringe of downtown
- multiple windows, dynamic
- quiet surroundings

- expansive space for inventory
- visibility
- "right" neighborhood vibe
- clean and modern
- good signage
- window display opportunities
- accessibility

### Key Spatial Requirements

- Current = moderately ideal
- Limited to no desire to relocate to mixed-use bldg

## Professional Office

### Current Conditions

- visible complex, private office
- near freeway and bus line
- ample parking
- small suite
- low density, suburban setting

- centrally located
- calm
- "right" tenant mix for client privacy

### Key Spatial Requirements

- Current = ideal
- Much desire to relocate to mixed-use bldg

## Web-Based Research

### Current Conditions

- visible complex, private office
- near freeway and bus line
- ample parking
- small suite
- low density, suburban setting
- cramped

- technological infrastructure
- fun, open vibe
- "right" neighborhood vibe
- expansive space for paperwork and computers

### Key Spatial Requirements

- Current = not ideal
- Much desire to relocate to mixed-use bldg

Figure 20. Spatial requirements (B)



In addition to analyzing this local flex space model, stakeholders are investigating other solutions to ongoing ground floor vacancies. For example, many interviewees want to create a connection between mixed-use ground floor spaces and the University (whether that be leasing out or donating space for student-run businesses or events, or housing start-up companies currently at the University's research park). They see this relationship as a way to create an active pedestrian zone while curating a dynamic tenant mix. The idea of donating space in this fashion creates some opportunities for a University-led pop-up or incubator model. However, tax write-offs for space bring restrictions that make it a challenge for mixed-use buildings. Commonly, the entire space (not just a suite) must be given to a non-profit at below market rates for it to be a write-off. Perhaps partnering with an educational facility alleviates that particular restriction, but it may be a matter of working to remove this restriction in general so mixed-use developments wouldn't have to "give up" all of their ground-floor space for this to be viable.

Beyond this one idea, there are some general undertones that encourage a broader incorporation of start-up businesses into these ground-floor spaces: people like the idea of pop-ups, mixed-use, local businesses, and start-ups; people see the importance of clustering and putting stock in passion and personality; and most interview groups seem more willing to go out on a limb and support start-ups, seeing small as the next "big thing" (for both start-up firms and mixed-use spaces).

These feelings are echoed by the development community members I spoke with. While overall, developers see the potential in start-ups and pop-up leases they stressed

the importance of tenant selection and management capacity. Both pop-up leases and working with emerging businesses requires a hands'-on management approach; not fulfilling this duty can often be the fail point. However, developers are willing to extend the scope of relevant start-ups beyond a retail tenant. While they prefer retail uses in the ground floor, a non-retail use (such as office) is considered viable as long as the street face reads as retail. For developers who have worked with start-ups, they felt having a collective of start-ups in a space can be advantageous. Since the leasing agent or developer typically can't offer the type of individualized support services often needed by start-ups, a collection of start-ups can provide the business owners with a sense of communal support otherwise lacking. However, as developers noted its good points, they also had plenty of examples when these arrangements proved tedious. From their perspective, a general rule of thumb is that collectives can work well if the lease terms are at a one month maximum. This nicely fits into the typical pop-up lease arrangement which is thirty days. For the more experienced developers with a background in start-up tenants, they identified some key factors that help an emerging business find their footing: a clear business plan that details a path toward profitability and growth, great customer service, and a desire to work with others within the mixed-use community.

### ***The Present Situation with Start-Up Businesses***

Most of the start-ups interviewed wanted to be in more centralized or connected locations. Matters of accessibility (proximity to bus lines or parking) and visibility were important to these business owners. They wanted their companies to be seen - for them this represents a way for their company to gain a legitimate footing within the larger

business community. Who they were nearby was also important; the tenant mix is just as critical for these entrepreneurs as for the developers. While their ideal business location may not always translate to the ground level of a mixed-use development, most entrepreneurs were open-minded to that possibility. When I asked start-ups about locating to either of the developments analyzed in this study, the responses were mixed. Both projects were met with some enthusiasm, but business owners were concerned about matters of safety with Development A and Development B was criticized for its remote location.

Safety issues are a concern for business owners and residents alike, yet incorporating start-ups into ground-floor spaces could offer a solution that their more established neighbors cannot: many of the start-ups interviewed (especially those in the information-technology sector) work long and erratic hours. Not only could this pattern support local eateries (especially coffee shops), but it also provides a constant sense of presence in a building that may otherwise be unoccupied at the ground level in the later evening hours. The developer who is working on the flex space project in Eugene echoed this thought, noting that part of their approach involves providing a coffee shop or cafe in the ground-floor of their buildings. He went on to state that coffee shop owners prefer locating in their developments because they have more customer flow throughout the day and night.

Architecturally speaking, preferences varied among the start-ups as they prefer to make the space their own through sweat equity improvements. Yet while the range of preferences varied, it typically lied within the scope of basic, clean, modern space.

In terms of the greatest obstacles facing start-ups and their need for space, most mentioned challenges with leasing arrangements. From an institutional perspective, the definition of start-ups becomes critical to securing workspace. In Eugene's case the Chamber is focused on start-ups that either have growth potential or have that expansion as a goal. For organizations such as EDEV, their emphasis is on start-ups with a clear business plan (without as much weight given to the high-growth start-ups, as they feel that most firms have the ability to scale if that's what they envision). So while the ambitions for a start-up can impact their ability to obtain financing, from the entrepreneur's perspective the ultimate necessity is flexibility and clarity in lease terms.

Start-up retailers specifically face a unique challenge. Some investigated joining a small business incubator program (to have access to the business support services), but could not as the incubator spaces were too small to accommodate their inventory or display needs. This niche market could present an opportunity for mixed-use ground-floors to serve this start-up community.

## **Professional Notes**

### ***Architectural Responses***

While in the future, mixed-use buildings may purposefully be designed with start-ups in mind on the ground level, the scope of this investigation is the pre-existing properties. Architectural responses can be tailored to existing mixed-use spaces wanting start-ups by considering the larger concepts uncovered during the preliminary interview process: the start-ups' preference for more "basic space," developers' willingness to allow non-retail uses on the ground floor as long as it reads as retail (presents a public face to

the ground level), and the relationship among tenant improvements and start-ups financial resources supports improvements that can be taken with the tenant. (There is a lack of funding for built-out improvements.) The suggestions below are more diagrammatic in nature and are intended to give the designer inspiration and a basic platform as they investigate what exact requirements the start-up has and the conditions the mixed-use building provides.

- **Allow the existing to be the inspiration:** Architecturally speaking, this means a renewed emphasis on a building or space's existing assets. While this may not seem like a huge departure from a designer's everyday thought process, it can prove to be surprisingly difficult for designers to grasp. As one developer noted, an architect recommended the installation of new windows whose specifications weren't that different from the existing windows - once they arrived, the contractor called the developer and asked very simply, to remind him why the existing ones needed to be removed. As this developer continued, he observed that sometimes the biggest challenge is getting the architect to understand the vision for austerity. This requires thinking with much more of the budget in mind: embracing things like polished concrete, exposed ventilation, doing simple things well, editing to the essentials, and being able to work comfortably with modest material palettes.
- **Consider the windows as more than a surface:** For retail, that may be as simple as advising the start-up on window dressing techniques using lighting, colors, graphics, etc. But for other business types that are not used to presenting a public

face that requires a designer willing to think of that window surface as a canvas for advertising, display, and dynamism. Creating depth and interactivity may be the key. When dealing with a start-up tenant that has no use for a public street face, one may consider leasing the window space itself to a neighboring tenant

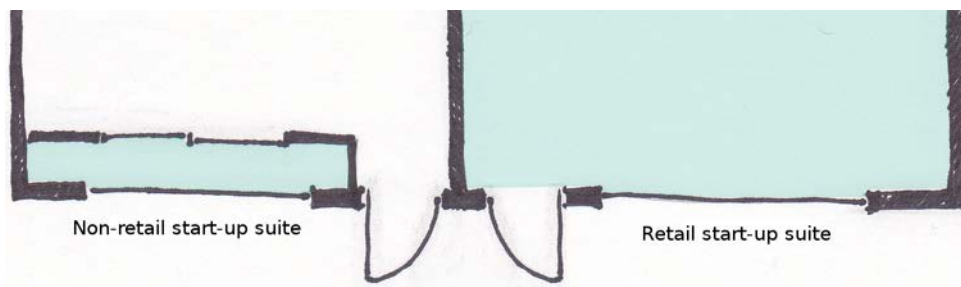


Figure 21. Window leasing arrangement

who has a need for increased visibility or display space. A diagram of this arrangement is provided in Figure 21. In this scenario, both suites are under the same lease time frame and the retail tenant leases the built-out window space from their neighbor for a small fee.

- **Hierarchy of suites:** There are some start-ups that do not need street frontage and may indeed require a level of privacy. While the solution may be as individualized as a window leasing arrangement, it could be that a more complete approach is appropriate: offering a hierarchy of suites. Figures 22 and 23 illustrate a solution that is similar to the method used in the Hub Building in Portland, Oregon. Here a common corridor provides an interior street that acts as a separation among the more street-friendly uses and the uses that prefer a lower profile. However, in some cities this idea is going a step further, providing alleyway entrances to smaller businesses. This idea of reclaiming the alley into an

urban lane is finding its roots internationally from Melbourne to Boston to San Francisco (Figure 24). Historically this also finds precedence in start-ups' need to squeeze into tight, underutilized or under-appreciated spaces. Perhaps emerging companies can serve a valuable role as the alley goes through a rebirth.<sup>15</sup>

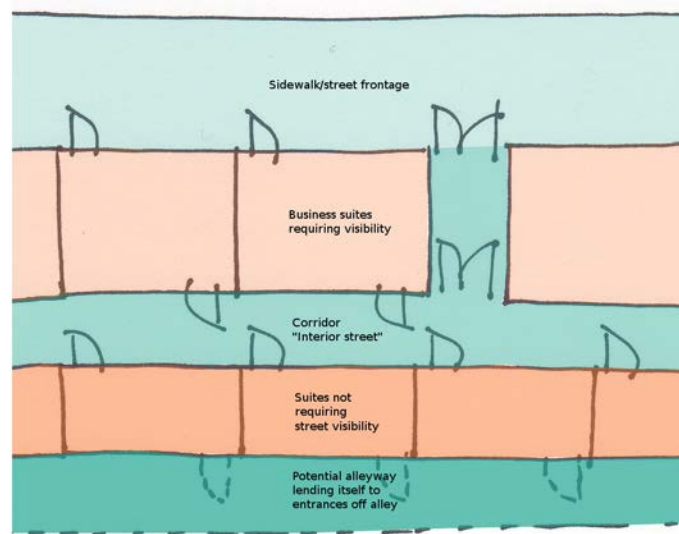


Figure 22. Hierarchy of suites



Figure 23. Interior streets

Source: <http://beamdevelopment.com/portfolio>

<sup>15</sup> To read more about the history of alley reclamation, visit <http://daily.sightline.org/2011/08/26/alley-alley-in-come-free-2/>.

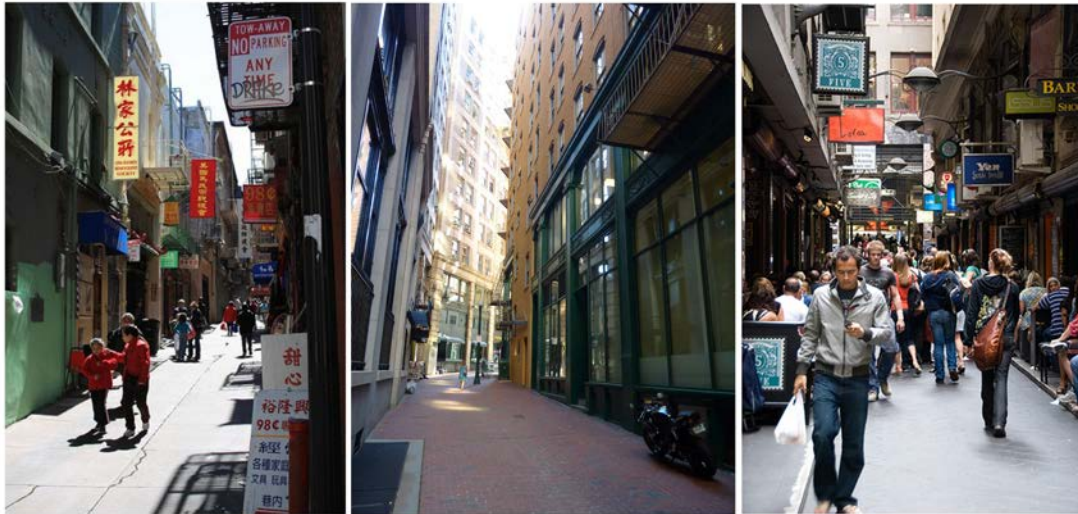


Figure 24. Vibrant pedestrian and commercial alleys  
 Pictured from left to right: San Francisco's Chinatown neighborhood, Boston's State Street, and Melbourne's Centre Place. Sources: flickr\_bluewaikiki, citytank.org, blog.hostelbookers.com

- **Mobile interior architectural pieces:** When one combines the general lack of funding for start-ups' spatial requirements; the flexibility required in a dynamic, start-up environment; and the desire for start-ups to express their individuality, creating moving architectural pieces - build outs that can be taken with into new spaces may prove a valuable item to review.
- **Program for flexibility and sharing:** Programming must be thought of in a way that allows for a sharing of common assets - administrative functions, restrooms, conference rooms, etc. The designer must show an understanding of the choreography of movement through the larger space - allowing each firm to retain its own solidarity and identity, but also allowing for access of common spaces. Figure 25 illustrates some preliminary diagrams: each keeps common amenities equidistant to individual suites; one approach maintains the conference rooms toward the front of the space, while the other allows businesses to have that



premiere edge; and by arranging the restrooms into singular water closets, the overall space can be subdivided into more configurations.

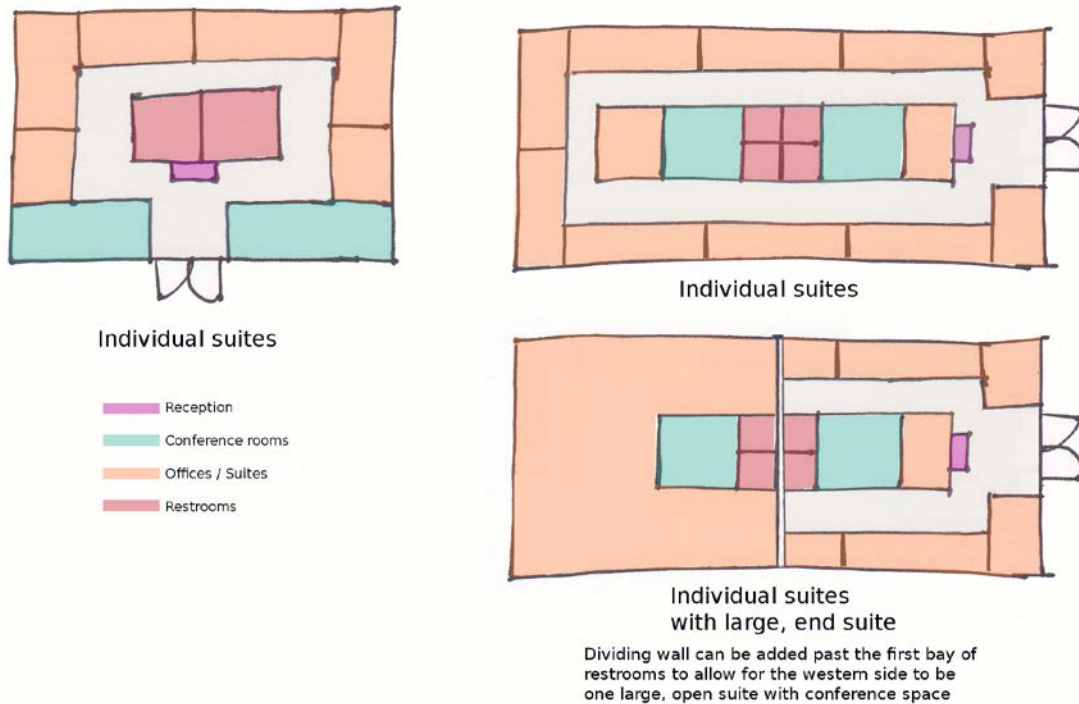


Figure 25. Programming diagrams

- **Education of the client:** Start-ups may be run by first time business owners and first time architectural clients. The designer must give them the tools to establish their vision for the space, provide methods for achieving those concepts, and talk through the budget (while having the patience to understand that their budgeting systems may be very complex).

#### ***Developer / Leasing Agent / Property Owner Considerations***

As we have seen in the interviews and literature review, space matters to start-ups. Pop-up leases can often be a mutually beneficial arrangement; if the relationship

between the start-up and the property owner is managed properly this can lead to continued benefits for both parties. Below is a list of key factors in achieving this effort.

- **Work through a start-up' business plan:** Work through the entrepreneurs' business plan to see when financial milestones will be met and understand how they plan to achieve stability and then growth.
- **Consider different lease terms:** Generally, start-ups look for leasing arrangements that are more flexible not only in length (in the 1-3 year range at the maximum), but also in the amount of space they can rent (from a singular desk to a 10'x10' office, for example), and how their monthly fee is composed (streamlined into one lump sum including rent and a fee for various infrastructure uses – internet, utilities, etc.).
- **Reconsider the terms of the building's proforma:** If the building is not achieving its profitability, then a reassessment of partnerships is a good first step. For example, some property owners look into partnerships with academic institutions needing a space to display student's work (or perhaps a student-run store that allows them to learn real skills). Many developers have looked to government entities that need space as well - offering perhaps lower rent, but more stability. Pop-ups can be a way to advertise your space with minimal risk. But, sometimes being able to separate the proformas of the residential and the retail is the clearest way to achieve profitability. (The residential to retail ratio concept furthers this).

- **Consider residential to retail ratio:** As the literature review suggests, developers nationwide are examining the relationship between the high-performing residential sector and the struggling retail component. While the mantra is "more residential and less retail," it's hard to find information that quantifies this guideline. However, a Eugene developer provided some figures for a project whose residential profits are shielding the development from its retail losses. This ratio works out to be approximately twelve square feet of residential for every one square foot of retail. Now, the challenge is determining how an existing project could work toward that ratio of 12:1. Adding another vertical floor to the residential portion could prove problematic (construction costs, code restrictions on building height, structural modifications, etc.). Converting some of the ground-floor level retail to live/work units or residences may be a solution. A 2008 study from the city of San Francisco's planning department offers helpful principles for ground-floor residences (shown in Figure 26):
  - "Ground-level residential units are important for offering surveillance to the street environment, but the units should not be so physically proximate as to create an uncomfortable situation for residents within their homes.
  - The ability of pedestrians to look horizontally at eye level directly into the window of a residential unit at sidewalk grade will reduce the privacy of the unit and the usability of the abutting rooms. Windows below eye level of pedestrians will tend always to be shuttered.

- Three feet is the general minimum height above sidewalk grade of the floor of residential units that keeps pedestrian eye level below the sill of the windows of the units, which typically are about two feet above the floor. The eye level of the average adult is approximately 5 feet above grade.
- Where units are unable to be raised at least 3 feet above grade due to irreconcilable unique constraints of a site, greater setbacks with intervening landscaping and taller clear ceiling heights (10 feet or greater) can partially compensate. However, greater setbacks and tall ceiling heights do not provide the same privacy benefits as raising a unit above sidewalk grade (8)."

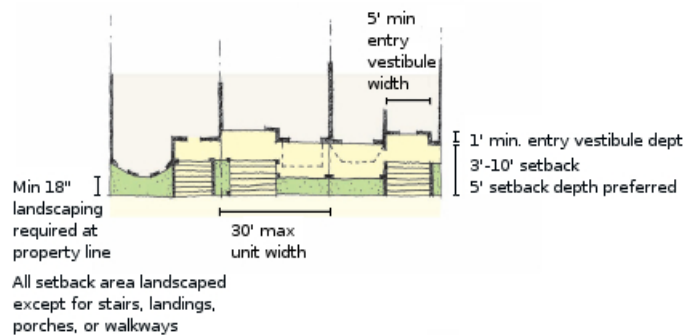


Figure 26. Dimensions for Ground Floor Units  
 Source: *Guidelines for Ground Floor Residential Design*.  
 San Francisco: San Francisco Planning Department, 2008.  
 Print.

The existing mixed-use building may not lend itself to these exact modifications (specifically in terms of setbacks), in which case screening devices may be a more prominent element to the design solution. Figures 27 shows some examples.



Figure 27. Ground floor residences

Source: *Guidelines for Ground Floor Residential Design*. San Francisco: San Francisco Planning Department, 2008. Print.

### ***Planner Considerations***

The impact of the planning community can lead the way toward start-up presence in struggling mixed-use developments.

- **Perform a retail assessment:** One of the things that surprised me most when I began the interview process was that a detailed retail assessment had not been done in Eugene. Knowing the retail sf/person ratio can help cities determine the focus of their plans - ensuring that an overabundance of retail spaces is not built. The good news about an overabundant supply: rents are low, which can encourage the incorporation of start-ups. The bad news: rents remain low unless that supply decreases (i.e. alternative uses for those spaces are identified). During the focus group, many participants expressed frustration over the quantity of retail space in Eugene. Performing an assessment can allow the city to understand its foundation and set realistic goals.

- **Research pop-up leases and incubator models:** Review other cities' plans (both in your region, and close to your city's population, and beyond your direct context). Bringing this information to local property owners and developers will allow for better brainstorming sessions.

- Pop-up leases have certain recipes for success:

The structure of the pop-ups (beginning as a short-term arrangement focused around a preexisting event), management capacity (the ability to be more hands' on), start-ups' business support (resources for business strategies), and the developers' background (experience level and confidence to try new approaches).

- Regional incubator models have faced some challenges at the macro-scale and developed some strategies to cultivate success:

Lease structure: one year lease term accompanied by a reassessment prior to lease renewal for a second year and a singular fee for the space (based on the square footage - much like a flex space model) that includes business support tailored for each tenant (that can include one-on-one mentoring or classes). Start-up preferences: a start-up that is not necessarily brand new, but rather has a defined business plan and can show momentum in those plan efforts. Start-up categories: some incubator models choose to focus more on the capacity of the start-up, rather than the category of business type, but focusing on a particular type of business can prove to be a powerful incubator approach. (One example out of Springfield, Oregon is a food hub that will allow various start-ups to share common necessities, such as kitchen and dining space.) Clustering a certain

category of businesses also lends itself nicely for other businesses that naturally complement that focus to come in and enhance the character of the neighborhood. There are multiple funding challenges when creating an incubator: while regional incubators have received a lot of interest from local start-ups, federal financing restrictions (via CDBG's) directly impact an incubator's ability to get start-ups in the program. Some of those restrictions can include the geographic location of the entrepreneur's residence (per a job creation requirement) or income requirements (which are based on a certain percentage of the area median). While these can be successfully negotiated, that does take time and energy. There is another critical administrative issue, which relates to matters of building control/ownership: during the interview process, no one could name an example where the space for the incubator wasn't already owned by the organization running the incubator (the City or a non-profit).

- **Develop a "S-UP Code":** Much like Form Based Codes (FBCs) have allowed cities to streamline and enhance their design goals, a start-up code can help cities determine which types of start-up businesses could be a good fit for the ground-floor in mixed-use buildings. For example, if a development is centrally located and near existing retail, it may be a great candidate for independent retailers. However, if a development is more suburban or remote, perhaps office uses would be a better fit. Building a pop-up/start-up plan around an existing city plan (for example, Eugene focuses on the "Great Streets" of the CBD) will help enhance both efforts.

- **Consider greater policy implications per start-up preferences:** Overall, start-up companies prefer locations that are more centralized and connected. When one considers the economic momentum emerging firms can have on a city (which we expanded upon in Chapter IV), crafting planning policies that encourage more dynamic neighborhoods can not only support a stronger sense of community, but create locations that are appealing to start-up companies. This may take the form of transportation networks and hubs or pedestrian pathways. It may even go as far as to include organizing social events that dovetail with existing planning initiatives.

### *Start-Up Recommendations*

As the interviews have shown and the focus group session has verified: developers are willing to partner with start-ups, but certain qualities make that relationship more likely. The below list encompasses some recommendations which can help start-ups take a more active role in getting themselves into the mixed-use spaces they want!

- **Be prepared to work together:** Whether that means sharing space and working in a collective or being open to discussions of your business goals - be ready to be a participant in the process.
- **Expectations:** Most start-ups were happy to work in a flexible space environment, realizing that this model can be very cost effective. However one of the start-ups liked the idea of paying by the square foot, but wanted the surrounding space to be left available (and off the market to other companies) for



their potential growth without being charged for this space, until they needed it. During the focus group, a similar point like this arose, and the participants discussed how start-up owners may come into arrangements with the expectation that the space is to be given away. The benefit of having low-rent space is mutually-beneficial: the start-up has the ability to become established and grow to market-levels and the property owner gains a tenant, income, and the opportunity to draw more people to their location. Remembering to gauge expectations in terms of this relationship is critical as pop-up or incubator arrangements are composed.

- **Education:** Take an active role in the negotiations of your lease terms - make sure you have a clear understanding of the arrangement. If there's a modification that you feel would be mutually beneficial - bring it forward.
- **Network:** If your city has a network for start-ups and entrepreneurs - join. If there isn't one existing, consider starting a group along with the Chamber of Commerce and fellow entrepreneurs. The power of your relationship can have a big impact in start-ups' presence in more prominent locations.

### ***Specific Recommendations: Action Plan***

Based on these initial findings, and knowing the context of Eugene, a potential action plan bubbles to the surface. The road map is simply a matter of leveraging existing assets. Eugene has several advantages: a thriving start-up and entrepreneurial community that is supported by many groups (from the Chamber of Commerce to the University of Oregon), a group of dedicated developers ranging from traditional to pioneering, and a

planning department that is eager to find new solutions. The climate seems ripe for the beginnings of a pop-up program, which may provide inspiration for a start-up business incubator model. The below action plan (detailed by task groups) was composed with these advantages in mind.

The planning department tasks can be organized in this manner:

- Have an established, civic-minded developer partner with a new, pioneering developer to lead an educational forum with property owners and local business people. (Based on the conversations from the focus group, getting property owners to engage in a discussion will be extremely challenging, making the selection of “developer ambassadors” more critical).
- Attend the Chamber of Commerce's Q &A session (see below) and formulate a strategy based on the forum.
- Ensure that all strategies and procedures are openly communicated and focused.
- Partner with local educational resources and incubator models (research pop-up programs, as well as the pop-up industry).
- Develop or adapt code requirements based on the findings from the above efforts.
- Identify a person to curate and manage the pop-ups - someone who has the capacity to streamline the process and determine future goals.
- Create buzz - streamline the marketing approach for the central business district, match marketing efforts with planning initiatives, and align pop-ups with those existing strategies.

Tasks for the Chamber of Commerce can be organized in this manner:

- Establish a question and answer forum with start-ups, the local design community, and financial institutions (focusing on the economic role of start-up businesses).
- Work to establish an incubator space targeting certain types of technology-focused firms and independent retailers.

## CHAPTER VI

### CONCLUSIONS

#### **Synthesis of Findings: The Research Questions**

##### ***Is the Mixed-Use Typology an Ideal Environment for Start-Up Firms and Therefore Able to Contribute to the Mix of Possible Ground-Floor or Second-Floor Uses?***

For the context of Eugene, this remains a clear yes. The factors helping it include the flexibility of developers, and the importance of clustering/curating the "right tenant mix" (which is similarly defined among start-ups and developers alike). Barriers include funding, location, and the capacity of parties involved to seek new approaches. The core issue seems to be communication: connecting pop-ups with property owners. (This partnership can be done through city channels but perhaps having an educational facility be the conduit could provide different results).

##### ***Can the Incorporation of Start-Up Businesses, Currently outside of Standard Development Practice, Be a Viable Solution - Creating a Dynamic Environment While Being Economically Feasible?***

While the dynamic potential of start-up businesses is a resounding "yes," the economic feasibility is hit or miss. The success of the economic component is dependent on these items: the structure of the pop-ups (beginning as a short-term arrangement focused around a preexisting event), management capacity (the ability to be more hands' on), start-ups' business support (resources for business strategies), and the developers' background (experience level and confidence to try new approaches).

### ***Will a New Development Model Be Needed to Realize This Vision?***

It appears that, after interviewing both traditional and pioneering developers, a new model isn't necessary. Rather, existing or emerging development practices can be connected in new ways to support this vision (borrowing elements from a flex-space model, incubator approach, and/or pop-up arrangements). After holding the focus group, the obstacle for Eugene is not the development model (developers were surprisingly willing to modify their proforma targets based on the reality of a situation). The true obstacle is the property owners that are not professional developers: getting them to engage in the planning process, allow themselves to be educated on new ideas, and think of their role as more active and less passive. Funding can serve as the inspiration to get these matters accomplished, which further emphasizes the relationship between government resources and private properties. (This is a matter I revisit in Appendix E.)

### **Challenges with This Study**

The largest issue by far revolved around confidentiality and issues of communication. Due to the sensitivity of project economics, information regarding the mixed-use developments had to be conveyed in a more general way. An advantage to this approach is that it will make the ideas relayed easy to convert to other cities facing similar issues.

Getting a developer to share proformas also proved problematic. I could not find a developer who was willing to openly share that detailed information with me. In most cases, getting people to even discuss their particular lease terms was a challenge. (Even after specifically wording a confidentiality agreement for these inquiries).

While I was highly successful in obtaining interviews from professionals, I was not able to contact mixed-use residential tenants. Although I went through the leasing agent to select and reach out to a group of tenants, people were unavailable to speak with me.

Lastly, one of the biggest challenges in writing this document was conveying the great information that went beyond the original scope of questions.

### **Future Areas for Research**

As with any research endeavor, responses to the original questions become the breeding grounds for new studies. For this analysis, the next undertaking could involve taking the initial research questions one step further: exploring the exact qualities of mixed-use buildings and start-ups that lend themselves toward a partnership; defining more specifically what pieces from what development models could be blended together to realize the vision of start-ups in mixed-use; and while we have seen the success of start-up retailers converting a pop-up lease to market levels, investigating the success of non-retail uses in a pop-up setting.<sup>16</sup> (While some of the literature and interviews suggest that technology-based office start-ups can be successful, especially when clustered, this has yet to be documented like its retailing brethren. Retail is a natural fit for mixed-use development ground floors, yet developers were open to other uses which beg the question: can non-retail pop-ups convert to market rate too?)

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<sup>16</sup> While Portland's local retailer, Crafty Wonderland, is the sole example of a pop-up lease converting to market-level - many other cities are finding pop-ups to be a tool in cultivating permanent retailers. For an example of how small towns are finding success with pop-ups, please refer to a January 2011 article by Jim Duffy in the *Main Street News* entitled "A New Take on Pop Ups: Store Giveaway Contest Takes Aim at Downtown Vacancies."

The impact of a developer's background is also something that, if investigated further, can contribute to this overall study. Based on the research done for this analysis, the type of developer seems to have a direct impact on their willingness to discuss and try new ideas. Yet perhaps that difference is not just a matter of developer experience, but a matter of civic support. In the case of Eugene, the more centralized a development and the more direct of a relationship with the city, the more willing developers were to try new things. An investigation regarding the connection between government involvement and developer flexibility could help flesh out this idea.

Concerns over future gentrification are another area warranting further study. If the placement of start-ups in mixed-use ground floors function perfectly (allow the start-up to grow/move to market-rate leases and provide the developer with profits/increased interest in their property), the project itself will become very valuable and the rents will rise (potentially prohibiting any future start-ups from being part of the building). While this is a common issue within the planning and architectural fields, investigating how to mitigate this based on a low-income commercial tenant would be an important contribution.

Lastly, there is a piece that branches away from this study and looks at incubator models. This idea was borne out of discussions with interviewees and while it didn't have a solid place in the scope of this document, it does have a bearing in the overall arena of cultivating spaces for start-up companies. The idea, very simply, is to create "roving" incubators: instead of viewing the incubator as a static entity that start-ups leave once they become more established, it is a framework that would allow the start-ups to stay in

their original location and the incubator itself move to another vacated area of town. There are obvious challenges: increased spatial needs of the successful start-ups, forming new relationships with additional property owners (especially as those kinds of partnerships face steep challenges as is), and transferring the success of the incubator during its relocation. However, the concept was well received during follow-up interview discussions. Considering the overabundance of ground-floor retail space many cities are facing, the current economic climate, and the desire to reinvigorate existing building stock - this could be a valuable resource for cities moving forward.

### **How to Apply This Study to Cities Other than Eugene**

While the action plan listed in the *Results* section is inspired by Eugene's particular context, many other medium-sized cities find themselves in a similar situation: a city lacking inherent critical mass yet looking to create more vibrant neighborhoods. The below points encompass the process taken to create Eugene's action plan and can be applied to cities everywhere.

- **General action plan:** Identify goals; understand the start-up community (which is challenging as it's a diverse group that's under the radar); start talking with property owners and developers early on; and understand the city's foundation (what is the available mixed-use building stock, what areas are facing the highest vacancies, and how do the mixed-use developments fit within the greater city)?
- **Figure out what your town's assets are and build the plan on that knowledge:** As many of the interviewees have said, not every downtown can have quaint retail



lining the blocks - instead of trying to force that template, identify what makes your city unique, what are you already doing that is working, and support that.

- **Research and learn as much as you can:** Distill the general information and see how it works with your community. Hold focus groups to test out concepts and gain a better understanding of context.
- **Don't underestimate the power of the narrative:** Statistics can provide a good foundation, but are easily manipulated; stories and anecdotes are tougher to translate, but impossible to forge. Read between the lines as it is often more valuable than what is inside them.

### **Big Ideas: What to Take Away from This Study**

Perhaps it is best to begin by sharing the good news and the bad news for incorporating start-up companies into mixed-use commercial vacancies. On the positive side, the supply and demand of and for spaces seems to be a fit for Eugene, the majority of start-up types are amenable from the design community and city's point of view, and there is a strong willingness – even desire – to try new ideas. On the negative side, the tide is turning: mixed-use buildings are losing appeal, with a definite preference leaning toward mixed-use neighborhood districts. This is largely due to overwhelming vacancies on the ground-floor. As we've said before, this can be due to the oversupply of ground-floor retail space (as a result of a more forced mixed-use strategy). But this point is a bit more complex: while this oversupply continues to create vacancies, it also provides the opportunity for lower rents (which start-ups can then capitalize on). So we must look to the importance of relationships: how high rent/stable and low rent/unstable can co-exist,

but often need government support. (This support can come in the form of a government entity pre-leasing suites, for example.) Government has a role in this effort as it often greases the wheels and leads the way for developers to try new things. While this is typically applied to the scope of new buildings, there is a strong potential that it has a role with start-ups and mixed-use.

Now that we've touched on the spectrum, let's move to more particular issues:

- **Pop-ups can work in cities of any size**, but care must be given to their structuring. Key factors to consider include starting small and staying focused (planning a limited amount of initial pop-ups to allow for any unforeseen obstacles), clustering them in a focused way (allowing for some excitement to be generated), planning pop-ups around other events as a way to gain initial support (in conjunction with the holidays or a major festival, for example), educate the groups involved, advertise on multiple platforms (let people know what unique opportunities pop-ups present), and be prepared to be hands' on.
- **Investigate before you invest - "look before you leap."** I was surprised to find that during my interviews, the groups that were less focused on research were making some of the largest investments - and they were unable to track the success of these investments. Conversely, the groups that were focusing on research-led, small efforts seemed to be gaining the most traction as they moved forward.
- **As long as it reads retail, ground-floor mixed-use is a good fit for start-ups.** Some groups that are most likely to succeed include: independent retailers,

professional offices, or certain technology-based firms (information-based like i.t. and web development).

- **If certain conditions are met, developers are willing to modify their proformas.** While this can be largely dependent on the developer's background, if the city is supportive and the project is in a denser setting, the foundation for trying different models is more solid. It also helps if the building is in an area receiving attention (this doesn't have to be in downtown necessarily, but a district that is already focused on by the government generates public interest). Lastly, if the retail/residential ratio has been analyzed, the developer can put together an accurate plan that makes the residential sector as the profit generator until the retail component “catches up.”
- **Most start-ups would like to be central and "part of the action."** Mixed-use can go a long way to create the type of dynamic environment that attracts start-ups. Certain qualities are more attractive: an accessible and visible location, at the right price with a base of amenities (such as visibility, cleanliness, a degree of privacy for office space, internet, accessibility, and the space to grow), landlord arrangements that are clear and equitable, and carefully structured collectives. It also requires a certain kind of landlord/developer: one who is willing to take some risk, has the patience to walk through the terms of the lease, and has a desire to see the worth in passionate people. But the road is not one-way, as it also takes a start-up willing to be a part of a team, listen, and have the discipline to cultivate their passion.

- **There is a real need to act now!** In terms of supply and demand, cities nationwide are facing ground-floor vacancies in their mixed-use projects at a time when more and more people are starting their own companies. There is the potential for a true match and this lining up of the stars should be capitalized upon! One major factor that helps this along is the spatial requirements. Mixed-use developers may find themselves in a position where they cannot afford many tenant improvements, or are hesitant to substantially modify a suite for an emerging company. With many start-ups accepting (some even preferring) more basic spaces, this can help to redefine the return on investment and make a lower rent structure more feasible. Beyond this potential, a core reason to act now is the perceived death of the mixed-use building typology. There are two main things hurting the future of mixed-use buildings: financial complexities and lack of ground-floor occupancy. History has shown us that the financial industry may be stubborn to change their ways, but if there is a model proven to be profitable it forms the basis for a new outlook. The injection of start-ups via pop-up leases can be this new outlook and change the future of this typology from uncertain to strong.

## APPENDIX A

### CATEGORIES OF INTERVIEW QUESTIONS

#### **Developers**

The discussions focused on establishing the following points: what are the skill sets needed from members of the design community to create successful mixed-use projects; what factors contribute to making a space under-performing; how much do vacancies affect the leasing potential of a mixed-use project; are more people understanding mixed-use developments; is there a point at which the residential could shield them from retail vacancies; and when it comes to start-up acceptance, would residents who own differ from those who rent.

Once that foundation was established, details could be reviewed: the current building vacancy rate and how that ranks historically, what barriers have arisen with leasing the space and what solutions have been tried, how tenants are selected (the application process and type of business they look for), how flexible the spaces are and how willing they are to subdivide existing suites, return on investment expectations and realities, and rental agreements and subsidies.

The interviews wrapped up with a focused conversation regarding start-ups. Do they feel start-ups can be an asset and contribute to site density? What types of obstacles and possibilities do they see for start-ups in their developments?

#### **Traditional Financial Institutions**

Interviews with the financial institutions started with a clear description of their role; a definition of what, if any, economic theory guides their decisions (and how much

context weighs on this process); and an understanding of what their return on Investment goals looked like for mixed-use developments.

Beyond this, the discussions looked into their metrics for determining risk (how much that's changed over time, if design issues impact risk assessment, and the role of government subsidies in risk assessment); their feelings on mixed-use and start-ups (more specifically an identification of apprehensions and prospects); and finally the recession's impact on the lending environment.

### **Micro-Lending Institution**

While the conversations with the micro-lending institutions had a similar tone to discussions with their more established peers, key departures from a traditional thought process were highlighted. Those items included: a description of goals and funding devices, an identification of the greater obstacles start-ups face when looking for funds, the micro-loan application and start-up selection process, restrictions on capital, and the structuring of agreement terms.

The interviews concluded with more generalized and theoretical subjects: the larger economic landscape and the role of the entrepreneur, as well as Economic Neoclassical theory and its disconnect from start-ups.

### **Chamber of Commerce**

Meetings with representatives from the Chamber of Commerce centered on understanding Eugene's context: understanding their goals for the city and the region (where start-ups fit into this vision, where the vision stands, and what the economic landscape look like now); the challenges and possibilities of working with entrepreneurs

(what are the available resources and partnerships); their opinion on mixed-use buildings and pop-ups (what kinds of development would they like to see); and what inspires them (what cities or models do they look to, what works in Eugene, and what could not work and why).

### **Small Business Incubators**

Discussions with the incubator programs sought to establish a few, key things: a description of the program (what are the goals, the approach, common barriers, success stories, and funding sources), the start-up selection process (and any emerging patterns), the importance of clustering, the obstacles facing vacant commercial space, their feelings on downtown's performance, and future visions for the program.

### **Architects**

Interviews with design professionals began more general in tone: identifying their favorite aspect of working on mixed-use projects, most challenging aspect of working on mixed-use projects, the factors that contribute to a building's under-performance, and the skill sets needed from architects and from other members of the design community to create successful mixed-use projects.

The exact nature of the design process remained at the heart of the conversation: how critical flexibility was during the process, how the spatial requirements were determined, how the approach for the pedestrian experience was developed, and finally what principles or publications guided the major design decisions.

## **Development Commission that has implemented a successful pop-up program**

This interview centered on establishing the following: the structure of the pop-up program, the overall process (what to look for in buildings, property owners, and start-ups), the importance of curating the start-ups, the reasons why it began, their biggest success and biggest challenge, the current commercial vacancy rate for the region, the program's marketing scheme, and future visions for the project.

Lastly, the role of pop-up programs in creating density and the effect vacancies have on a building's leasing potential were discussed.

## **Planners**

Meetings with planners shared similar goals with the architect interviews: understand the skill sets needed from members of the design community to create successful mixed-use projects, identify what factors make them consider a building or space under-performing, discuss how much vacancies affect the leasing potential of a mixed-use project, and talk about the landscape for mixed-use developments.

More specific items were also talking points: retail and population statistics, the nature of public-private partnerships, the overall planning goals for the city and region (and if pop-ups or start-ups have a role in this vision), the planning community's views on start-ups (can they be an asset, can they contribute to density, and what are the obstacles and possibilities), the role of retail anchors, the internal planning conflict between equity and profitability, and the desire to continue investing in mixed-use based on ground floor performance.



## **Real estate professionals who manage mixed-use buildings**

The conversations with real estate professionals shared many of the same aspects as the other interviews: determining what factors make them consider a building or space under-performing, how much vacancies affect the leasing potential of a mixed-use project, and if they feel more people are understanding mixed-use developments.

Yet building-specific details remained front and center: the current building vacancy rate and how that ranks historically, barriers with leasing the space and what solutions have been tried, the tenant selection process (applications and preferred types of businesses), how flexible the spaces are and how willing they are to subdivide existing spaces, return on investment expectations and realities, rental agreements and subsidies, and their take on start-up companies.

## **Start-Ups**

Start-up interviews aimed at understanding the following: the history of the business and its funding structure, business goals, spatial needs (including architectural preferences, locational requirements, and barriers in finding usable space), their opinion on pop-up leases and traditional lease arrangements, their impression of mixed-use buildings and if they would locate there, barriers they see in sharing a space, what they need from a building to be successful, and finally what they are looking forward to most now that they've started a business.

## APPENDIX B

### PRELIMINARY RESULTS: PROFILES AND POINTS OF VIEW

#### **Traditional Developer [A]<sup>17</sup>**

- Key factors for mixed-use project success: the mixing of uses, the density of the development, and the housing component's presence (which is partially shielding them from retail losses)
- The metrics for rating project performance: it is not purely percentage based, but good performance is defined as rent revenues exceeding expenses. Currently the development is under-performing.
  - There is an estimated 30% vacancy rate on the ground floor retail. From the developer's perspective, this is due to the timing of the project's grand opening within the greater economic climate. They noted that it is not a matter of existing retailers leaving, but rather the inability to recruit additional tenants.<sup>18</sup>
- The challenges with leasing ground floor space: again, the larger economic context was the focus - the lack of bank financing for businesses wanting to locate there has been an issue. Often times they've approved a tenant, drawn up the lease, and then the bank doesn't come through with the financing.
- Tenant selection process: the tenant's proforma is a critical piece as well as the compatibility of uses. They research prospective tenants thoroughly - visiting

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<sup>17</sup> "Traditional" denotes the use of a standard proforma and business structure.

<sup>18</sup> They purposefully sought out local businesses - even turning down large, national anchors. Given the current situation, they may have chosen a different path if they could repeat past decisions.

their shop, for example. They prefer to work with local, small businesses and the biggest determinant is to assess the realism of the business plan.

- Marketing: very broad marketing campaign, done through traditional channels (like working with the Chamber of Commerce). Additionally, they plan events and reach out to a large number of businesses.
- Start-ups' role in creating density: felt that start-ups could most definitely create critical density/mass, however was leery about negative effects from clustering - concerned that clustering could negatively impact the walkable feeling they created. Also noted that the explosive growth of start-ups could be difficult to accommodate.
  - Apprehensive to subdivide a space for a start-up tenant.
- What they look for in commercial tenants: passion, commitment, attentiveness, financial ability and experience. They emphasized that it must be a "perfect fit" due to the lease terms (5-10 years).
- Why tenants choose their development: it makes good business sense, they do help their tenants if they need business advice, and the atmosphere. They noted that the existing tenant's bought into the complete development vision (a certain mix) and if that vision is not fulfilled it can bring some unrest.
- Effect of vacancies: the vacancies have had an effect on tenants.
- Lease terms and the possibility of pop-ups: firm on the lease terms, with 5 years being the minimum. Tenant improvements can prove costly and the break-even point is often 3-4 years down the line.

## **Traditional Developer [B]**

- Barriers with leasing the ground floor space: the behavioral problems on the street have caused a few tenants to relocate (even to similar areas with higher rent). However, they noted that renewed interest in their neighborhood is helping them recruit new tenants.
  - The current ground floor vacancy rate is 50%, but they have two potential new tenants (both are venture-backed start-ups and the leases have not been structured differently from their more established business neighbors).
  - Typical commercial lease terms: 2-5 years; residential leases: month to month
- Desire to subdivide space: no issues with subdividing space for potential tenants and they do plan for turn-over. They noted that the more generic the spaces; the better for the future of the project.
  - They have helped fund tenants' improvement efforts in the past.
- Start-ups' role in creating density: felt that start-ups can help create density, however noted that they look for rents that can cover expenditures and rents are the biggest barriers for start-ups.
- The potential with pop-ups: they value start-ups and think the buzz they create is good.
- The possibility of residential completely shielding commercial: yes at the gross level, but for their situation the scale they would need to accomplish that would not fit with the existing fabric.

- Qualities to look for in a commercial tenant: personality and adequate financial resources.
- Tenant selection process: not overly formalized, it is case-by-case. They begin by looking at a letter of intent and then reviewing personal information, business plans, and finances.
- What brings people to mixed-use retail: people like the look and feel of the environment, and there is a false belief that the higher residential rates will support retail below.
- What to look for in a start-up: a neutral to positive use is okay.
- Return on investment (ROI) expectations: historically, the ROI in real estate was 12-15%, but now that is more in the 10% range. For this project it was a 9% preferred return (an approach they would not repeat).
  - Regarding rental ranges, the project has yet to achieve its proforma rent for the commercial sector. The residential units have historically led the market in rental rates.
- Commercial tenant subsidies: they have done this in the past, most notably with an anchor tenant. They did note that tenants talk to each other and if one gets a deal the others aren't it can lead to chaos and negatively affect rental rates.
- Overall lender's understanding of mixed-use: the overall landscape isn't promising (even before the recession began) and this can be attributed to a lack of comparables.

- Also noted that for this community the market is not sophisticated enough - for example, selling the air rights to the residential units up above would be unheard of in this area. This project was divided into three "condos" - apartments, parking, and retail. Even with that division, the lenders wanted to see the overall proforma - couldn't think of them as separate entities.
- Selected, early tenants:
  - start-up restaurant: moved to a different location after internal business issues and eventually went under.
  - start-up restaurant and retailer: moved to a different location that was cheaper after their business plan shifted to retail only.
  - professional office: moved nearby due to street behavior.
- Pop-ups: would love to have them as it could create more visibility for the project. Noted that other property owners would need to be educated on their benefits and management requirements.
  - Typically landlords don't like to donate space for the short term because then the space doesn't seem like it's available. However, felt that a pop-up market could be feasible in Eugene.
- General real estate perspective: reassured that the truth is finally out - nobody knows! Cities evolutions are not planned and noted that old buildings are important to supporting the next evolution, but that Eugene does not have the luxury of older buildings.

## Pioneering Developer [A]<sup>19</sup>

- Development practice: find existing underutilized buildings and renovate them (leveraging tax credits). They do Class C office spaces (the rating is based on the age of the building only) which allow them to market to a broader range of tenants (including a firm wanting space for one to five people).
  - While this does require more labor intensive management; their vacancy rates are 5%.
- Marketing: they don't seek out tenants, typically their projects lease themselves as tenants interact with other companies and the word of mouth spreads.
- Lease structure: modified gross lease that is 1-3 years, with a "growth" provision. This states that tenants will relocate within the building if their neighbor grows (or shrinks) and allows them the same flexibility if they experience business shifts.
- Obstacles with this practice: financing - banks didn't understand their development model, so they had to educate them. They noted that before 2007 some speculative office space was feasible but now pre-leasing is required. Since this is not possible with start-ups as tenants they no longer work with commercial lenders. Another obstacle is unknown building conditions and seismic issues.
- How developments are approached: they have ideas and look for space to do it and also look at the buildings that are available.

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<sup>19</sup> "Pioneering" refers to the use of nontraditional proformas and development approaches

- How location is assessed: they look for a source of entrepreneurs and small businesses, as small business is where the growth is. They consider rental rates, square footage rates, and the presence of engines driving businesses to the site.
  - Additionally, civic involvement and support is very critical to a project's feasibility.
- Tenant selection: start-ups that will activate the site. They look to incorporate coffee shops and restaurants on the ground level.
  - A typical client will make the space work for them. (For example, prototyping shoes, working on motorcycles, holding conferences, and hosting a band rehearsal).
- Challenges of incorporating flex space into building design: the challenge is getting every team member on board with the fact that the flex space is very simple. Their approach is to leave the great internal qualities of old buildings exposed. Their seismic approach aids this effort: they build an internal diaphragm that connects to the shear walls, leaving a clean cement floor which provides a lot of flexibility. Less is more: no drop ceilings, no build outs around columns, minimal amount of demising walls, informal conference areas, etc.
- What to look for in design team members: people who consider a building's assets, have a solid understanding of code and zoning, and are innovative.
- Biggest challenge facing mixed-use: re-activation of retail.
- Pop-ups: they can make a place vital and vibrant. Pop-ups are incorporated into their developments in the form of art shows and restaurants.



### **Pioneering Developer [B]**

- Development practice: build projects that emphasize the arts community, with live/work components.
  - Most of their projects have zero turn over in commercial spaces.
  - Lease terms: long term, below market rate rental rates. (No subsidization of commercial tenants).
- Tenant selection criteria: compatibility of uses, potential to bring energy and activation to the space is very important; their projects attract start-ups that want to be part of their community.
  - Examples include: dance studios, galleries, coffee shops, bike shops
- Spatial requirements for start-up tenants: not extensive - basic space is preferred.
- Funding: both private and public are utilized.

### **Traditional Financial Institution [A]**

- How real estate is valued: based on comparables. An ideal comparable would be a similar building type, adjacent to the property in question, having sold recently. For commercial properties not occupied by the owner (like mixed-use), they look at it from the income approach: the amount of income being generated, expenses, and the returns.
- Feelings on mixed-use: very familiar with the concept and feels it is not a new approach but rather, is deeply rooted in our history. They noted the difference is that now people are being forced to incorporate the commercial aspect in a residential project.

- The importance of tenants in rating building value: a critical piece, because the lower the risk the higher the value of a property. They noted the recent decline in speculative projects which require a certain percentage of the building pre-leased; however they felt that if the mix was 90% residential and 10% retail a developer might be able to secure financing without a pre-leased retail component.
- The difference between condominiums and apartments in mixed-use: condos present certain challenges in tough economic climates (especially in Eugene). For example, if someone wants to get into a 30 unit condo building via a standard government-backed mortgage, the government requires approximately 70% of the condos to be sold, then the Government deems the project a success, and everyone signs their mortgages at once. Developers cannot just sell one condo, most need to be pre-sold.
- Differences in real estate assessment now versus 1930s (specifically the FHA Underwriting Manual): it seems like what they do now, agreeing with the #1 designation for economic stability. The most critical piece is to determine the value of a property.
- The importance of site amenities or social trends to value judgment: yes, but for them it's all based on rents. They can see the demand building, but it is still a matter of where the numbers are at presently. The classification of the property is not a specific issue for them (Class A versus C).
- The role of subsidies: most projects happening in Eugene are subsidized because the market can't support them.

- Can the numbers be weighted - does government backing give more value than private backing: not directly, but a tax exemption can increase the value of a project - if the government is involved it can be a value advantage.
- Pop-ups: a definite solution for places with extended vacancy problems - viable if subsidized.

### **Traditional Financial Institution [B]**

- Banks and start-ups: banks assess risk by looking at cash flow history, without that it is impossible to evaluate. This approach creates a disconnect between banks and start-ups.
  - Banks must focus on the numbers as they have a fiduciary and regulatory responsibility that pushes back against them being creative. Prudence is by the numbers. If they face a decision that is on the edge, trust is what helps them finalize the deal.
- Micro-financing, angel investing, and other resources: they assess business feasibility, but are not as workable for development projects as these are very capital intensive.
- Current state of affairs in the banking industry: trying to work through a losing portfolio.
- Current state of development: public sector based. Since mixed-use is challenging without density, it often becomes a matter of leveraging public funds.

- Future of mixed-use: only energy cost changes can force urbanization, making mixed-use more feasible. While social connectivity is important, we're working through generations of infrastructure investments that continue to separate us.

### **Micro-lending Institution [A]**

- Mission: focus on low income, self-employed people, offering individualized business tools, and emphasizing entrepreneurial learning. Their history is rooted in a relationship among a college, a local retailing collective, and a credit union.
- Approach: not focused on return on investment (ROI), but rather focused on helping businesses become self-sustaining. Their clientele includes ma and pa shops as well as nationally scalable businesses.
- Start-up characteristics: the vast majority of start-ups are a no-grow; they are smaller and more vulnerable. While it may be divided into two categories of lifestyle or growth entrepreneurs, start-ups can really be both due to its dynamic nature.
  - Few start-ups scale, but approximately a third of the growth enterprises takes three decades to achieve that growth.
- Obstacles with traditional financing: impossible for start-ups, banks look for ROI and start-ups don't fit within this category. They noted even with venture capitalists, they want to see momentum. The start-ups lack of history is their biggest obstacle.
- Micro-loan program: they have given thirteen loans so far, five went to start-ups and eight to existing businesses. They wanted to get a good distribution. They

may have one default on the horizon, and that's from a start-up. They knew cash flow would be a problem for start-ups and late payments are common place and expected.

- The changing role of entrepreneurs: it has been changing and the acceptance of neoclassicism in economic theory is part of the equation. Big business depends on stable transactions, but global markets have changed and it's tough to find stability. Rational thinking is being challenged.
- National business history: our country is based on legacy businesses, which are now multinationals that are not investing domestically. The Edward Low Foundation ([youreconomy.org](http://youreconomy.org)) found that the trend is small business - this is the driving force - 1st and 2nd stage businesses (less than 120 employees). Small business launches stabilizes job creation. In Lane County alone, they have seen an increase in self-employment of over 200% over the last 10 years.
- The factors changing our economy: the global economy, skills people can apply to business are refined, and internet technology. They feel this trend is only continuing and growing. The dominance of job creation brought about by big companies (500+ employees) is decreasing. Small businesses are where it's at.
  - Challenges: they feel we've been in the entrepreneurial age since the 1980s, but governments and institutions are having a hard time accepting it.
- The challenge of applying low-income housing economic support to low-income businesses: it's hard to break habits. Developing new models are hard to

accomplish because their based on skills - developers may not have the skills needed to accept change.

- Potential development shifts: structured leases, requiring documented increases in sales, etc. that show progress toward the break-even point. If the leases start low and work higher as the business grows, start-ups could play a role in activating our vacant properties.
- Clustering: every region must take advantage of that place's characteristics. For example, in Eugene they have clothing designers and manufacturers coming together and that creates energy (like the fledgling software industry).
- Start-up needs: a critical mass of customers to gain traction.
- Thoughts on entrepreneurs in our current economy: the entrepreneurial mindset is critical for creating opportunities. Even in this climate they thrive (attributed to the fact that people want to control their own destiny). This different economic climate/context is what's driving the changes - the bigger risk is having a job or career, not being an entrepreneur.

#### **Chamber of Commerce [A]**

- Their role: to be an advocate for start-ups that are ready to receive capital. They stressed that it is just as important to educate the investor as it is the start-up. Their core focus is on job creation.
- The start-ups they focus on: primarily, traded sector companies - companies that reach beyond the county limits. The majority of their investments are for companies looking to go nationally.

- Need for mixed-use: they noted that the first question people ask when they hear about the projects being built in downtown is if there are residential properties planned.
- Challenges with entrepreneurial financing: often times federal money is focused on strictly commercial space, which doesn't encourage mixed-use.
- Importance of anchors in downtown, such as Whole Foods: they need some national branches to secure downtown. Downtown needs a local or national brand to come downtown and make a statement.
  - There is a hope that the five new catalyst projects under construction downtown will help downtown grow.
- The changing face of entrepreneurs: they can be more flexible - no need for big space, they can have a lighter footprint.

#### **Chamber of Commerce [B]**

- Many of the same sentiments were echoed: the importance of flexible, low rent space for start-ups, the role of start-ups in local economic growth, and the emphasis on job creation (looking for nationally scalable enterprises).

#### **Small Business Incubator [A]**

- Successful approaches for downtown revitalization: clear definition of goals, managing each element so that it moves forward at the same time, clarity in mission, and being particular in geographic selection (seek out places with a shared intensity of characteristics).

- Challenges with launching the incubator: took a long time to set up and to match companies with the space. They noted that the resources were made available, but start-ups didn't come right away.
- Funding sources: they are all different versions of two funding sources - there may appear to be a diversity of funds, but they all present the same restrictions. They don't indeed offer any diversity.
- Importance of research: demand must be gauged.

### **Small Business Incubator [B]**

- Goal: Support innovation (take advantage of the intellectual capacity in Eugene).
  - They want to create an innovation ecosystem - a magnet that draws in additional businesses.
  - Also, they wish to document their efforts to provide data for assessment.
- Challenges: managing the myriad of relationships (each person has different goals and expectations).
- Motivations: public benefit, which takes two forms:
  - Putting innovations into outer use - translates into developing new services/products. Investing time, money, and effort to cross into making it tangible.
  - Creating economic activity that generates jobs
- Clustering: the challenge is in how it is replicated.
  - Nationally, the small business administration cites a failure rate of 80-90% small businesses at the 5 year mark. (80-90% doesn't make it to 5 years). But,



other researchers have found if the enterprises form around a university, that failure rate is flipped - 80-90% are alive in 5 years' time.

- Importance of ROI: they don't focus as much on commercial returns, they focus on doing what's right and the money follows.
- Current state of Eugene: in a critical phase - physical space and proximity are the new demands.
- Trends for incubator models: many different incubator models work, but some charge too much, which was and was a challenge with the Washington Research Center in Seattle. Co-working has been more popular in Seattle (especially with IT firms). A trend they've seen is sharing space with law firms.
- Funding restrictions for start-ups: Bootstrap entrepreneurs or venture backed entrepreneurs both face a huge pressure to not spend money, as there is no need for class A space - no desire for 5 year leases.
  - They noted that one venture capitalist they know said that a big warning flag for him when he looks at start-ups is that if they have a huge conference table - they are more interested in appearances than forming viable enterprises.
- Investment barriers: development commission investments may be just as restrictive as banks. Banks don't fund for working capital - free cash flow is what matters. Collateral doesn't matter in this equation. While the policy is flexible on one side, the underwriting remains restrictive.

## Architect [A]

- Retail design process: a very collaborative process between the architects and developer. The developer had conducted a focus group to determine tenant needs and while the developer had some ideas for the tenants, the design was not driven by a particular tenant. They focused on matching the market need: 1200 SF spaces that were flexible with tall, ground-level spaces with services (including designing in a fair number of shafts to accommodate food venues).
- Flexibility: the spaces can be divided in half, because during schematics they weren't sure which side would be more attractive to the tenant (street-side or parking lot-side). If they were more certain of the urban space, realizing that the street sides were going to be more valuable, they may have conceived of the flexibility in a different fashion.
- Residential and retail design considerations: at the beginning, the commercial spaces were faring better than the residential so the developer decided to make the commercial footprint bigger because it would make the building perform better. However, more retail/commercial made the area more vulnerable because once the market fell - the vulnerabilities were more prominent.
- Role of the economy: tough economic conditions make it difficult to determine how much retail/commercial to design.
- Retail guidelines: they did not rely on the ULI guidebook, rather their design ideas came from their small, boutique commercial experience. They conceived of it as a reaction against ULI, inspired by Jane Jacobs - the belief that smaller

- companies look better in a fine grain. They felt that changes in materiality and form help make a place unique. The downside to this approach is that without equally-sized store fronts it becomes hard to lease because the value cannot be pinpointed (people feel that one space may be more valuable than others).
- Determinants of project success: two buildings imply a block structure and create an urban space that people get. While two buildings don't make a city, they have made two buildings look like eight. Their focus was to find things real enough to make an authentic difference - authenticity is what draws people.
  - Determinants of a project's under-performance: the key is the dynamic nature of the vacancies, as a certain number of vacancies are to be expected - it has to be looked at from the basis of its turnover rates (static vacancies represents structural problems).
    - They cited a local developer who could not make a driveway cut off of the main thoroughfare (this was due to a guideline encouraging off street parking) and has been unable to lease their building for many years.
  - Design issues that are critical to flexibility: being able to change the storefronts is very important. They noted that a slight change in ground plane can create all sorts of public space issues due to accessibility requirements, so it must be planned for. The more door options available, the better. Also, getting enough height but making it economical.
  - Goal of the ground floor: create vitality (not lease to boring uses - things that are insular). The developer must have patience if they want the lessees to do

something with the street life - have the capacity to ride it out and follow through with the vision they're trying to craft (create cross traffic).

- Great uses for retail: restaurants are a good draw as they're a destination and this has been the most successful aspect of the project.

### **Architect [B]**

- Importance of resident income levels and retail patronage in mixed-use buildings: not a factor as even high end residents don't use the retail in the mixed-use.
  - They noted nearby live/work units, which the residents don't patronize.
- Driver for the retail footprint: city code, they designed to the minimum square footages, with a few large, corner exceptions. The larger spaces have since been divided, as the larger spaces are more flexible.
  - Tenants were identified early on, but design was not determined by the tenants.
- Design goal: create large draws with finer grain elements. It is not a pedestrian resting space; they didn't try to minimize buildings but provided movement within the facade. The corner spaces have large doors which open and seating is opened up at the corners. They emphasized that architects don't need to specifically create space for people to rest.
- Determinants of success: the apartments are successful because they are comfortable but not extravagant, with exceptional amenities. The retail is not as successful; it is successful because of the need for housing and the willingness of

people to downsize and move to the development (both affordable and upper end residents need housing).

- Flexibility: didn't design a lot of flexibility. The interesting thing is that we think the architecture is the draw, but it's not. Being flexible is contextual. One anchor had a commercial kitchen allowance built in, but really anything can be accommodated. Design alone can't bring the people back, part of these issues could be Eugene itself (it's hard to get a dynamic mix).
- Role of public support: The MUPTE (Multi Unit Property Tax Exemption) program is a plus for development; this helps to get the project online, but it's not going to draw the retail tenants.
- Pop-ups: they liked the idea of pop-ups, especially considering that a nearby university business center supports small business and can be of use in this kind of program. They felt that the concept of creating districts via pop-ups and making a clearing house could work.

### **Development commission with a successful pop-up program**

- History and goals: pop-ups came to fruition in 2009, based out of a retail strategy. They focused on two streets/"strings" to have retail storefront activation on, engaging the local design community (fashion designers, etc.) and showcasing the local creatives.
  - They wanted to create a big splash during the holiday season.
- Lease terms: one month (from November 1 to December 31) with a kick-out clause if the property owner leases the space in the interim.

- They are only offering space - they allocate a small budget to the shops for cleaning and small fixes (\$2,000 from their own marketing budget).
- Obstacles with property owners: there weren't any real obstacles, as they have a small group of property owners - 85% are local, established owners - a great group that is civic-minded. They also had many property owners on the retail strategy task force. The owners understood the short term benefits and that it will enhance rent levels for years to come. They were engaged and familiar with the program. Regarding the retail development component, some people felt that only national companies belonged in downtown. But they felt downtown could be a showcase for local companies.
- Detailed history: The first year, 2009 - no pop-ups stayed past the temporary lease. But two of the three places used in the pop-ups are now leased (they were vacant). 2010 was a different approach - they approached different people (the business plans were more advanced).
  - One group they worked with was a collective of designers - they were around in both 2009 and 2010. The collective wanted to try retail, but were not fully committed to it. This gave them an opportunity for trunk shows to display their products. Another group also curated the store well - they really thought through the designers they brought on board. The key thing for them was to work with collectives, rather than individual entrepreneurs.
- Benefits of pop-ups for property owners: just like a staged condo, the spaces sell better when they're in use.

- Favorite success story: One collective in particular, which was a well-established business, did an annual craft sale via a pop-up and now they're staying on and doing a new lease. The development commission reached out to them because they had the skills to make the transition (the commission acted like a broker in a way). This collective is now a tourist destination of sorts - revitalizing the surrounding area.
  - For 2010, the commission made \$160,000 in sales for the pop-ups and the well-established business was \$90,000 of that amount.
- Key partnerships: the business association; a leasing expert; the visitors association, who runs the downtown marketing initiative; a local person who does retail interiors who volunteers his efforts; and the downtown council. It's a loose group and their project is really matchmaking and not too formal. They really base it on talking with people. The landlords trust the commission to be an editor and find proper tenants.
  - They emphasized that partnerships is the biggest component. They are not getting a profit. They want a like-minded partner - they seek collaborators.
- Key to program success: having event-driven pop-ups, bringing more foot traffic in, and bringing exposure to the space. The pop-ups are part of the holiday promotional (they push what's new and unique downtown).
  - For 2010, they created a separate map, showing where the pop-ups are, and the press rallied around it.

- They have great retail in downtown already. The pop-ups become the stars in the area. A lot of press helped with this - they kicked it off with the mayor doing a ribbon cutting and tied it in with the holiday lighting program. They are surprised that the pop-ups have become more of a center piece - more than anticipated.
- Primary focus: activation - office uses won't do that; the landlord must be motivated. The start-up office use is better in flex space; they focus mainly in retail or promotional.
- The future of the pop-up program: the goal is that the program goes away because the downtown is fully occupied. They see this as a temporary economic thing.  
Note: current retail vacancy for the downtown district is about 8.5%.
  - They are not sure where it will evolve. They want people to feel more confident and start business without needing pop-ups.
- Partnerships they would like to forge: they would like to see the schools take more of an active role - they had an applied arts craft school (where they teach you how to be an artist and make a business out of your art) do a pop-up last year where they filled the space as a showcase for their final products and staged a community dinner/fundraiser there. They would like to see this be a non-holiday role.
- What they look for in a pop-up tenant: they said they don't want to work with businesses that just closed in a neighborhood location and want to move to the downtown. They don't want to take businesses away from their neighborhoods



and they also want to give this opportunity to people who've never had space before.

- Challenging experience: one pop-up tenant brought an unfortunate experience - they were not accepting of feedback once they got the pop-up space.
- Main factor for pop-up success: location that has visibility. In general, everyone wants smaller spaces and they have to partition larger spaces. Mixed use retail is often times seen as an oasis and not as the drivers. They said they have to program the building for the area and can't expect the apartments to support the retail. If the project has no visibility it should be used as an office space.

#### **Planner [A]**

- What makes the project successful: they could only really speak to the residential component, saying that it has "good fundamentals for residential." Which they defined as quiet, good parking, good access, and a good architectural solution - the units are attractive. They then stated that an unintended consequence of being in a quiet area of downtown is that it is difficult to find commercial leasing that makes sense - that downtown planners and property owners use idea maps that are based on pathways and places of magnetism. People may assume that nothing is there because of the perception - there is no reason for them to be traveling by it consistently, and this separation makes it seem that nothing is there.
- What they look for in a retail tenant: they thought this was a tricky question; the city is beginning to work on a retail strategy with the primary property owners and downtown core business interests. They feel that the thing that downtown

Eugene can offer - its unique piece - is the presence of significant entertainment venues. Their idea is to work on connecting pathways to and from these points of interest. This builds off the downtown organizational idea of "great streets" - a.k.a. Broadway, Willamette, 5th, and 8th (which is considered the civic street). The hope is that boutique retail will start to characterize these areas, but it is difficult considering the population and Eugene's overall suburban context. The key question is to focus on what the downtown can do that can't be replicated elsewhere in the city. For them this is performance venues, with the obvious first moves being to add restaurants and clubs. They have three developments underway in the city core - two are adding retail and restaurants to the ground floor. The completed vision will have a string of restaurants down Broadway. They noted that, for example, they have pretty successful bars downtown. While they used to question how to get college kids downtown, the bars have answered that. That has taught them to work with what works and make something of it. (Rather than fight it). The road map, so far, is to focus on entertainment and food and lastly boutique retail. For example, if they could get an Urban Outfitters downtown, that would be a good pivot point (i.e., people will go to Urban Outfitters to get a few things and then go to a nearby boutique to buy accessories, etc.). This builds off the idea of a regional mall.

- Question of rentals versus ownership residential units: while they haven't had a lot of experience with condominiums, they can speak to rentals. Rental tenants become very active investors who are sitting on top of their investment. While

- they're not sure about condominiums, they felt that maybe after better returns with the sales the developer may be able to be more patient with the ground floor.
- Ground floor vitality and lease terms: They noted that ground floor space always needs more positive activity, and short to medium term leases make sense for a broader band of business types. Start-ups are one that the city is thinking about - they want to do a pop-up program. They think it's important to do what can be done in the interim - places can't take on a "negative patina." Positive pedestrian activity can balance out some vacancies. If the context is less positive, the vacancies seem more pronounced.
  - Importance of not overbuilding retail: they believe it's important to build in increments. When I furthered this point a bit by stating that many downtowns and developers are focusing on small, organic moves - not grand sweeping moves, they were quick to tell me that the City has \$28 million invested right now on projects.
  - The challenge of bringing in large, retail anchors to downtown (specifically Whole Foods): it wasn't realistic to think that Whole Foods (WF) would come downtown. The proposed site for WF was to be in downtown but also along a transportation corridor which sees 44,000 cars per day. They felt the most important characteristics for WF were the cars and also being on the University side of the river. They said that although it would have been on the Eastern edge of downtown, over the last twenty years - residential has been shown to pump areas up and make them happen. Yet, it's also shown that residential cannot

support the retail/commercial on its own. They warned that too many planning agencies act in a rush and make mixed-use everywhere. The result: too much sameness with retail on the bottom and residential on top - commercial is not gaining traction. However, WF has developed in other areas and all of a sudden those places "make sense" for people. They said WF wanted a parking garage and, even though there was political discontent, the City had untangled it and were good to go. However, due to the delay the cost of the materials (specifically steel and concrete) skyrocketed. So this (in his terms) "marginal" proposal fell to the wayside once WF did their due diligence and looked at the construction costs. He noted that grocery stores can be bad rent payers - they see themselves as the anchor and therefore want tremendous deals due to their status.

- Why the project is under-performing: because the corners are not leased; the city has helped them by "piling things around them" - including the Lane Community College project which will bring in 1,400 students and placing Enterprise Rental Car in the adjacent building, which brings in 300 employees.
- Importance of density: density is critical; by bringing in anchors you are able to simultaneously bring up property values because people see the anchors and are willing to pay more. They noted that anchors provide a good measure of the value for the commercial opportunity. They feel that the problem with a cluster of start-ups is that they need to project a persona to the community - one of value and magnetism. They think it is a harder sell, which means it has to be strategic. The

city is getting the building owners involved in looking at pop-ups - they see the potential.

- Desire to invest in future mixed-use: answered this right away with a quick "we're investing in two right now." When I asked if they have considered restructuring the support, they said that they are essentially keeping the support structure the same - different tools, but same goal. They said they continue to use land and parking as leverage.
- City support of tenant improvements: they have provided funding for tenant improvements (a common practice it sounds).
- Other forms of civic support: helping identify tenants for proposed developments.

#### **Planner [B]**

- What makes the project successful: the developer's vision for the entire site; the plan to get a critical mass of people to that area; another key part of the equation is the nice job that was done architecturally (the fact that there is a street presence, there are human-scale details, and it functions well).
- Wrong business versus no business: mixed feelings; on the one hand a use may create dead street frontage, but at the same time it helps keep lunch places open. It's not as clear cut as wrong versus none, but rather the categorization of the business types are critical. Some are neutral and some are detrimental.
- Where a building's fail point is: if you have a multi-story building and the ground floor is vacant, that's a failure. It must be successful at the pedestrian level.

- Can start-ups create density: they do feel that start-ups could help create a critical mass if they are placed in the right location - if the start-ups complement or contribute to what's already in the area.
- Continued investment potential of mixed-use: the mixed use goal, from the planning side, is to get it in other areas beyond downtown. They are working on retooling this through the Envision Eugene findings. Their top strategy is to create livable communities. They also stressed that mixed-use comes in many different kinds - there are hubs where mixed-use is at a neighborhood scale. The big goal is how to get the organic city of old back in pockets. Somewhat of a key thing to consider is the labeling of these initiatives b/c people are triggered by different terms. (For example, Eugene doesn't like to think of itself as urban...)
- Internal planning conflict (equity versus profitability): it is hard to balance; the gap of affordability in housing is one that they have to face.
- When I mentioned the findings of the University of Oregon's start-up report they were floored and felt the university should really market that more. This news was very interesting and exciting.

### **Planner [C]**

- What makes the project successful: success is measured in different ways - their perspective is from the community economic development.
  - market rental rates
  - providing a residential anchor and help activate street retail
  - create a good model for integrated parking with retail and residential above

- puts something on the tax rolls
- What brings people to retail and residential: the mix of uses' parking is an amenity but should not be the primary attraction.
- Key goal: get people on the streets and remove dead uses.
- Larger city and smaller town planning differences: may have a similar planning environment; density is the critical difference. Larger cities are more comfortable with mixed-use and have accepted the density/amenity tradeoff (density enables the amenities to exist; corridors make transit work). In smaller towns, there may still be a focus on the negative aspects of density - the concerns.
- How to work past negative concerns about density: part of it is educating the citizens because they haven't seen large projects - they're less experienced and it makes things hard to be streamlined. The focus must shift beyond the controversy of the planning to fostering buy-in and ownership of the plan (center in on the implementation of the projects).
- Challenges of having a pioneering mixed-use project: a lot is dependent on luck - if you are lucky, it hits the market at the right time and people develop around the project and it becomes the center. If the project can't capitalize on the adjacent properties, they become an island - not a catalyst.
- Wrong business versus no business: there is a difference between wrong and right, but there's a lot in the middle. The use can't be offensive to the residents, but any activity better than no activity.

- Retail requirements: complimentary retail across the street; it's best to have equivalent density allowing retail to play off each other.
- Importance of public-private partnerships: many mixed-use projects couldn't have happened with less money at the onset. While shared appreciation is a good idea - if there are extraordinary returns the public would get some of that upside. They stressed that the public can't share more risk - the down side must be capped. The contingent commitment is not appropriate for the public. They can only share risk to a certain degree.
  - It's tough to tell if they over-subsidized a project. They only know if it doesn't get built they didn't do enough, but if it makes a lot of money maybe they subsidized too much and there wasn't a lot of risk to begin with.
- Internal planning conflict (equity versus profitability): they definitely agreed, particularly when it comes to national retail anchors (some small retailers see it as a positive). They stressed that one has to keep the downtown unique and have a diversity of uses - ma and pa stores that are high-risk businesses not a credit tenant - they aren't at the mall. Local independents hardly ever have a strong balance sheet. They said what they go through is a version of the same problems a mall developer faces "what's the mix that works?" Only the mall developer controls the whole mix and its all national chains. The downtown has hundreds of owners with diverse goals and trying to get them to coordinate is a challenge.
  - They noted that it is funny that traditional malls look more like mixed-use and good downtowns are learning from malls (the importance of continuity, etc.)



- Key needs for start-ups: professional infrastructure - they need to identify how to enhance this with public policy and find out how to keep start-ups there.
- Clustering: they said that for the development community, they must know where the competitive advantage is - support high growth, family wage places. They must help small businesses see themselves as an industry. Developers must see what the economy is selecting in terms of industries and help this drive your focus. They must support what drives the economy which isn't attorneys or accountants, its small business.

### **Real Estate Professional [A]**

- What draws residents to the project: the proximity to amenities, the sense of community, and the vibe. Their residents include single people, young urban professionals, and seniors.
  - But he noted that in Eugene people buy homes; they don't rent for a lifetime so they can only capture them in a moment.
- What draws consumers to retail mixed-use: the downtown has little appeal for retail; people draw retail and retail draws people. There is a fundamental gap - disconnect - between retail and residential.
- Factors for retail success: the retail energy and vibe must match with the residential community and offer great customer service.
- Importance of selecting a good business: they'd rather give a better deal to a good retailer to get something good going. They have worked with all kinds of start-ups.

- Challenges with working with small businesses: inability to follow through with their business plan, internal conflicts with business partners, and lack of a business manager. Small businesses outgrow themselves and there are growing pains that they need to control; they need to manage the transitions. They have passion but no experience. They want to match the concept with the people upstairs - there needs to be synergy. Start-ups are independent for a reason and may not play well together. It can be very hands on and a labor intensive task due to the market.
  - Favorite start-up tenant: they came in with a business plan, were well-capitalized, and knew how they wanted the build out to go.
- Live/work developments: by in large that doesn't work well; the separation of public space and private space is critical. The concept is cool but the scale and context must be considered.
- Eugene climate and start-ups: they feel it is well-suited, due to the success of the Farmers' Market and the cultural support for small businesses.
- The tenant selection process: it has evolved - they're putting more stock in the person's passion and preparedness. They said the biggest barrier is that time kills deals, too much process is a problem or if the tenant takes too long with the lease negotiation. Specific to start-ups, they give them a lot of rope to give it a chance - they're optimistic.
- Favorite thing about mixed-use: the chance to create chemistry between down and upstairs.

- Important business characteristics: you need to have people involved with your business who engage with a larger audience, because everyone does better because one is doing well. Critical mass is needed.
- What do residents care about: Something that they can take ownership of. While they are not so much profit driven, as chemistry driven. They want to find operators of retail with the same philosophy as the developers - need a passion.
- Challenges with traditional philosophies: they said it's hard for real estate traditionalists to be creative when their back is up against the wall and at some point it is all about the numbers. Creativity is taking a second seat - when it should be front and center - make money through creativity.
- Partnerships they would like to forge: a connection between empty retail and educational institutions.

### **Start-Up [Retailer - A]**

- Business profile:
  - A small, specialized retailer that has resided at their current location for a decade. It is self-funded and run by an entrepreneur who is very experienced. (Yet the business is not self-sustaining).
- Current location profile:
  - Located in an organically formed, mixed-use neighborhood with older, low density residential homes. The business is on the corner with floor to ceiling windows, great light, and visibility. Pedestrian traffic seems fairly limited, with most traffic generated by vehicles. The surrounding businesses are

predominantly serviced-based and retail. It is on the edge of a recently revitalized mixed-use district.

- Challenges: finding space, making improvements to that space, financial vulnerability, and understanding leases. They have had multiple bad landlord experiences - they're very demanding and require all sorts of data; the requirements were not changed for her as a small business. Their business went through what the large tenants go through.
- Main business goal: offer high quality goods at low prices. Getting all the little details right - putting the experience together.
- Most important factors in space: rent range, visibility, and neighborhood feel.
- Views on mixed-use: likes the idea and has been heavily pursued by a mixed-use developer to move into an existing mixed-use project. However, they feel the project's location is too far removed. They feel that Eugene is not ready for mixed-use yet - too expensive and too high end.
- What they look for in a space: cleanliness, modern looking, good signage, good lighting, and the ability to put interesting things in the windows - visibility through the windows is critical.
  - If they have a slow day, they organize activities that allow people to see and be a part of the energy happening in the store.
- What they're looking forward to most: selling the business, retiring, and re-investing the money. While they love the business it is so demanding. The challenge is that they have been self-employed for so long, they are not sure

where they fit into the job market. Looking forward to stability; being self-sustaining so that it can carry itself and get going.

- Their take on pop-ups: they were very passionate that this is unfair: running a business is not a hobby and everyone must pay their dues, it's unfair to clients because the businesses disappear and cannot be relied upon to be in one location, and it's unfair to landlords. They felt the only way this would work is if it's a business is in a transition (ready to go to market rate right away).
- Sharing space: felt it works better for very small businesses, without the inventory needs they have.

#### **Start-Up [Professional Office]**

- Business profile:
  - A professional practice focusing on health that works with clients in person and via digital communications. It is self-funded and run by a very experienced business professional.
- Current location profile:
  - The business is located in a suburban-style, medium-density office building. Currently it occupies a few individual office suites within the building. The other tenants in the building are professional in nature and provide complimentary services. The building is at a major crossroads of vehicular crossroads and adjacent to a highway, with the surrounding businesses being service-based. All traffic is vehicular-driven.

- Spatial requirements: a building where the entry has total confidentiality - that it's not obvious that people entering are coming to see them. For their current location, they purposefully sought a key tenant mix. Location is very important, being connected to various travel modes - bus line specifically.
- Opinion of locating in mixed-use: loves it; thinks it's a great idea and would consider being in the ground floor commercial space.
- Opinion of mixed-use: the key is to get people to believe and buy in. You have to sell people on the idea. They noted that the price point for mixed-use is a bit high in Eugene.
- Role of start-ups: a wonderful way to reinvigorate the downtown.
- Relationships they'd like to see forged: a connection between the university and the central business district.
- Sharing space: believes in promoting others; they often partner with new professionals who have just started their practice. They share space with them until they can build a clientele.
- Pop-ups: they think there is a need for pop-up leases and want to see more. They believe it's key to have the neighborhood grow together. They think they should do pop-ups in downtown, giving them a year to succeed and they would make it because the biggest line item is rent.

## **Start-Up [Web-based Research]**

- Business Profile:
  - A web-based business providing professional services, established five years ago, and run by a very experienced entrepreneur. It is self-funded, but seeking additional capital from outside investors and in the research/development stage.
- Current location profile:
  - The business is located in a suburban-style, medium-density office building. Currently it occupies an individual office suite within the building, which is incredibly cramped. The other tenants in the building are professional in nature and provide complimentary services. The building is at a major crossroads of vehicular crossroads and adjacent to a highway, with the surrounding businesses being service-based. All traffic is vehicular-driven.
- Business goals: find a way to legitimize wellness professionals online, while utilizing an integrated service model. The goal is dedicated to having the internet as a safe place to access services.
- Current obstacle: managing business growth. It has grown much faster than anticipated.
- Ideal office space: it would have a rock climbing wall! A bigger space for paper storage and computers. The space needs to reflect the energy of the business.
- Most excited about: being a pioneer.

## **Start-Up [Home-based]**

- Business profile:
  - A web-based business providing internet-based services, established one year ago, and run by a first-time entrepreneur. It is self-funded and is currently based at home. Clients are found via word of mouth, cold calling, and internet advertising.
- Current location profile:
  - The business is located in an apartment, occupying a small room, which is cramped. It has no street visibility and clients are rarely invited over for meetings.
- Business history: self-described as "tumultuous." The business plan has gone through various iterations, including even a shift in services provided. Currently self-funded and they are not sure if they will seek outside resources in future.
- Business goals: once they turn enough profit they would like to have a storefront, hire employees, get local notoriety for their business offerings, and scale their business from local to regional and global.
- Desire to get out of the house: eventually they would like to locate to a storefront; have the opportunity to do things with space. They would like to have a space where the home life would not be affected if they have client meetings, etc.
- What they look for in a space: this has not been thought through, as a lot of their presence is online. It would be great for people to see them through a window, but not sure what else they would want as the complexities are too far in the future.



The first things they will consider are the cost per month, services provided (utilities, etc.), and amenities (kitchen and restrooms).

- Industrial and gritty space sounded like a great fit for them.
- Pop-ups: they thought a trial space would be great, give them some legitimacy and a chance to build an additional client base.
- Concerns include the lease criteria - how much say the tenants would have over things, like advertising (which is the component they are most excited about). Their other concern: it would be nice if the pop-up rent included basic services (like internet); if the place is ready to go without lots of set-up from the tenants' end.
- Impression of mixed-use: a great idea. It gives personality to an area. They are not partial to it for their business as they don't see the residents above as a factor for clientele. They don't believe the location would provide them with a competitive advantage; the only advantage would be reduced rent.
- Barriers in sharing space: depends on how considerate the other businesses are; how they handle negotiations. Due to the relative youth of their business, they feel sharing space could add too much stress. They will need privacy for client meetings and concentration. They felt the only way it would work is if the space could be walled off - if they're given the opportunity to find peace and quiet.
- Types of businesses to share space with: it is always contextual. Two firms offering the same services could compete, but if it's the right group of people they

could make positive gains and come together to achieve more. Overall, they felt low traffic and low noise businesses would work best.

- Working hours and habits: it is currently erratic without a set schedule. They felt a storefront would help moderate that; add stability. However, they want the ability to walk in and work at all hours into a storefront space.
- Building requirements: they don't see it as just a matter of location and not even being about the building. For them, it is about being active, getting a client list, and meeting needs. Wherever this can occur will be the right place. Possibly being next or into a business incubator would work, but that's not a make or break situation for their start-up.
- Importance of pedestrian activity: important for future endeavors: they wish to be active with the community and develop resources for people to learn about computers and hold events.
- Looking forward to most: hope! They see a lot of potential in the work they do. This grants them the ability to fulfill their own dreams (and hopefully the dreams of future employees). They want to add value to the community.

### **Start-Up [Technology-based]**

- Business profile:
  - A web-based business providing a digital media ad platform for mobile devices, established about five years ago, and run by a very experienced entrepreneur. It receives funding from angel investors and currently employs four employees (who work from home).

- Current location profile:
  - The business is located within one office of a suite in a suburban-style office building. (The building is near both downtown and the university). It has no street visibility, but does have access to high-speed internet and communal conference rooms.
- Business history: Grew out of another start-up and started at home. They have enjoyed sharing their current space - they've been there for about 3 years. Their funding from angel investments comes from approximately 18 different investors and they were connected to these resources via networking. Their employment history has changed over time, at one point they hired employees nationwide. Currently, they have four employees on staff that all enjoy working from home.
- Need for storefront space: irrelevant for their business model.
- Important criteria for business location: high speed internet is the most important asset. They prefer to be centrally located and would be happy to be in downtown proper, but the utility company has yet to provide that infrastructure in downtown.
- Pop-ups: They see the benefit - even for their own business. Since they are cloud based, they can be located anywhere in a day. They also noted another start-up that was based nearby and has since moved to the suburbs. This company is an online retailer, but could have a real use for a pop-up space.
- Mixed-use developments: They are not sure if they would want to be on the ground floor of a residential building.
- Flex space: very interested in this model.

- Aesthetic preference: prefer basic space - industrial and open.
- Looking forward to most: the excitement of seeing people use their products.

They spend a significant amount of time in development and it is rewarding to see it in the hands of customers.

### **Start-Up [Technology-based]**

- Business profile:
  - A web-based business providing development tools for high performance computing (super computers), established about six years ago, and run by a moderately experienced entrepreneur. It receives funding from clients and currently employs a handful of employees.
- Business model:
  - Their clients fund the research and development (via grants). Their product is released in open source and is available for free download.
- Current location profile:
  - The business is located within one office of a suite in a suburban-style office building, as well as occupying two offices within an adjacent suite. (The building is near both downtown and the university). It has no street visibility, but does have access to high-speed internet.
- Business history:
  - Founded in 2004, it started off slow but has turned a profit the majority of the years since its inception. Their focus is mainly on repeat business - they do

not aggressively solicit business and their clientele is large scale and global, not companies or entities based in Eugene.

- Business goals:
  - To develop tools for high performance computing, simplify development tasks for high computing users, and perform evaluation tasks to simplify building systems. The main goal is to simplify tasks for the developers and improve efficiency.
- Rent challenges:
  - They have found that retail spaces are at a much higher rent level than office space. So a storefront retail space is not a priority for their business. However, they would consider a storefront space as long as there are no disruptive elements (such as transients or drug deals, which keep them apprehensive about relocating to the central business district). One of the other challenges is the amount of different payments they make for different items - they would like to lease a space for one fee that incorporates all of these items.
- Important building attributes:
  - Commercial zoning, reserved parking, access to high-speed internet (it must be close to a hub), locking doors for individual offices (protection of intellectual property), windows (their ideal office is a corner office with a locking door), janitorial services, and in a secure neighborhood.
- Previous mixed-use experience:

- They tried to purchase a large Victorian home, on the outskirts of the downtown city core that had doctors' offices in the ground level. (A building that organically became mixed-use over time). Their intent was to utilize it as a professional office building (although the use would change from medical to technological), keeping the upper levels as a residence. Upon making an offer, the city informed them that they would need to register for a change of use permit which could take nine months to go through (and they were not certain it would be approved). While these mixed-use challenges have frustrated them, they remain open to the idea of working in a mixed-use building.
- What they would most like to see:
  - They are very interested in being a part of a software/technology-focused incubator and feel that the City needs to support this effort. (They see this industry growing tremendously in this region, bringing with it family-wage jobs that should be encouraged).
- Their take on the flex space model:
  - While they liked the idea of lower rents and being able to expand or contract, they were firm on their needs for Class A office space and did not want to be relocated to accommodate a neighbor's growth. Most technology firms do not seem to mind the industrial look of basic space (as their presence is mainly digital and their schedules are non-traditional) but it is important to note that there are start-ups who prefer Class A space.
- What they are most looking forward to:

- Making productive tools for developers. Their future is bright and their funding is good - they plan on hiring steadily over the next few years as they continue in their growth phase.

## APPENDIX C

### FOCUS GROUP FINDINGS

#### **Focus Group Findings**

##### ***Introduction***

As stated in the *Materials and Methods* chapter, the focus group was structured to include the most "controversial" and common ideas from the preliminary interviews. Surprisingly, most of these ideas were not met with significant hesitation or doubt. The general tone of the session was one of optimism for the community, focusing mostly on a discussion of the larger obstacles at play. While this reinforced the initial findings, it did provide a new response to the final research question: will a new development model be needed to realize this vision?

##### ***Findings from Discussion Topics***

The first three topics focused on proforma-related ideas. Most of the discussion time centered on these topics and they inspired a side conversation which provided greater insight to the research questions.

The item of demand for basic space and its relationship to tenant improvements was a familiar topic to the participants. The developers stated that while they were anxious about creating any permanent "tenant-specific" modifications to the space, they were willing to modify the space to suit the general needs of any tenant (both "Class A" and start-up). They also expressed a willingness to experiment with business types allowed in the space, echoing an earlier conclusion that as long as it reads retail - as long as the start-up isn't too disruptive (loud or light-industrial), they could be brought into the



ground floor. Both developers involved in the session had tried many experiments before...

The participants were also well-versed regarding modified gross and graduated leases. They noted that catalyst projects (like the new development that will contain flex work spaces) are very important to the development and leasing landscape of Eugene. The greater the diversity of spaces and lease terms, the greater the possibilities for other developers to try and succeed with new ideas. The developers were willing to try modified gross leases (which allow tenants to lease a very small amount of space), but stated some caution regarding structured or graduated leases. One of the developers cited a project where they tried to enforce a profit-based lease arrangement. This arrangement was not accepted by any of the tenants and they discovered that businesses do have a point where they become very possessive of their profit margin (sometimes allowing that emotion to overshadow the discussion). Conversely, the same developer cited another example where basing the rental terms on the amount of business done by a start-up can work well. This example is an educational facility, whose rent only increases to the next level once a certain amount of students are enrolled. The required amount of students needed for rent increases was worked out between the developer and the business owner. This technique allows the business to get started and only concern themselves with a rent increase once they have established a strong enough clientele base. This point inspired a side discussion about the importance of educating the start-up tenant on leasing arrangements, as well as the developer and property owners. It should be noted that one of the start-ups I spoke with in a preliminary interview did not choose to locate in a

development that has much better visibility and is arguably a far superior location than their current setting due to the profit-based lease. The development in question was discussed in the session. The participants noted that the success of this project was directly related to the critical mass created on the site.

The matter of air rights was an interesting point to discuss, as the preliminary interviews had provided the understanding that air rights had not been done in Oregon. However, the participants cited an example of an air rights arrangement being utilized during a public-private partnership in a Eugene mixed-use development. The idea of separating out the retail and residential components was a familiar concept, and the developers noted their attempts at getting the residential/retail ratio to a point where the retail component is not a required source of project income. One of the Eugene developments (in fact the air right example above) has designed their retail footprint to allow for that very idea. This has allowed the developer to be much more willing to incorporate start-ups into their ground floor spaces.

The final two discussion topics focused around the above-noted action plan. In reference to the creation of more extended relationships working simultaneously to understand the economic role of start-ups, I found the landscape to be much different than anticipated. Contrary to what the preliminary interviews revealed, most of these partnerships are currently being formed. The City is working with the University of Oregon to investigate business accelerator programs, the Chamber continues to have a voice in City planning initiatives, and the retail strategy plan for downtown is a collaboration among the City, the property owners, and other Eugene stakeholders. The

fact most of the people interviewed were unaware of these relationships is telling. Also, while there are some partnerships forming with EDEV and the other entities, it did not appear that many actual start-ups have been invited to join this debate. While their experience level is of a different nature, it would be prudent to provide them with the tools to participate in that conversation. While these extended partnerships are helping the City focus in on goals, I left with the sense that the true economic impact of start-ups is not fully understood. This is due for a couple reasons: the data behind it is still being collected and the data that has been collected has not been widely advertised. As a side note, the start-ups interviewed (regardless of business sub-type) were very passionate about providing their employees with living-rate wages. One of the start-up entrepreneurs noted that for every employee he was able to hire, he could pump another six figures into the local economy annually. While there is not a document to back up that statement, the findings from the University of Oregon Technology Transfer department certainly echo that start-up companies contribute a sizable amount of revenue to Eugene.

The final points of the action plan (the demand for a start-up hub for independent retailers and technology-based firms, the need for streamlined marketing, proper support infrastructure, and curating of pop-ups) led to a nice discussion. The participants were all in support of this idea (and a variation of this idea is currently being explored). They did express caution with the technology-based firms, noting that certain technologies were not suited for a centralized, mixed-use environment. The sub-types of the technology group that would work include information technology firms, computer programming, and web development. Companies that are very research and development oriented often

require more isolation. While the streamlined marketing approach did not strike a chord, the support infrastructure (essentially high-speed internet) did spur on a conversation. The participants confirmed that while there is plenty of fiber in the central business district, the sticking point remained the price point. The discussion ended with an agreement that this needed more investigation. The level of property owner education inspired quite a side discussion, and this lack of owner sophistication emerged as a prominent obstacle for any plans for Eugene. The participants noted that most owners remain unwilling to improve their property. As a side note, the stakeholders in Springfield echoed this sentiment: absentee landlords/property owners remain a major obstacle in medium-sized cities, and indeed many cities throughout the nation. Citing the time when the Olympic trials came to Eugene and the City offered no interest loans for downtown storefront improvements. After meeting with fifteen businesses, they only had one company take them up on the money for the improvements. Noting that since many people have inherited the property from a relative, they feel less invested in the management of the building. Their business is not necessarily to improve the building, but rather collect the rents. (Additionally, it has historically been very profitable for owners to lease their property for parking purposes).As we continued, the only identifiable solution for this challenge was the sale of these properties to diligent developers or the City. A chord that was struck not only in the focus group but during multiple interviews: one must exercise patience, awaiting the moment when that property finally changes hands. As the conversation progressed, the participants noted that the crime problem related to the homeless/wayward people on the street has become such a

sizable issue; it may discourage investment in properties. In fact, several property owners and businesses I spoke with cited street crime as the issue their space wasn't renting or why they chose not to be in downtown. The group was excited to see how a recent influx in police presence may affect this trend.

Regarding the oversupply of ground-floor retail space (which continues to create vacancies but also creates low-rent opportunities for start-ups), participants stressed that what is currently slated for retail must become other uses. This speaks to a larger trend uncovered during preliminary interviews: the importance of researching the need for retail space before building more retail. One participant suggested the need to remove some of the building stock; giving away space to start-ups for a period of time.

A common thread throughout the group discussion was the importance of relationships. Specifically how high rent/stable and low rent/unstable can co-exist, but often needs government support (having spaces pre-leased - especially to a government entity - can create a lot of flexibility in how the other spaces are leased). Per the participants, government really has a role - they grease the wheels and lead the way for developers to try new things. While this is typically applied to the scope of new buildings, there is the potential that it can have a bearing with start-ups in mixed-use too.

The general feeling of the group was that the tide is turning: mixed-use buildings are losing appeal, with a definite preference shown for mixed-use neighborhoods. (This is largely due to ground-floor failings and complexities). As one developer noted, you can't continue to force mixed-use. However, there remain slivers of hope for the typology and the matching of start-ups with mixed-use: the supply and demand seem to be a fit in

Eugene; the types of start-ups are a fit for mixed-use from developer's, planner's, businesses', and Chamber's point of view; and there is a general willingness to try new ideas.

### ***Revisiting the Research Questions***

- Is the mixed-use typology an ideal environment for start-up firms and thereby contribute to the mix of possible ground-floor or second-floor uses?
  - For the context of Eugene, this remains a clear yes, with the factors for its success being: flexibility of developers, the support of property owners, and the importance of clustering/curating the "right tenant mix." Barriers include funding, location, and the capacity of parties involved to seek new approaches. The core issue seems to be communication - connecting pop-ups with property owners.
- Can the incorporation of start-up businesses, currently outside of standard development practice, be a viable solution - creating a dynamic environment while being economically feasible?
  - As previously noted, the dynamic potential appears to be a resounding "yes," yet the economic feasibility remains hit or miss. The success of the economic component appears to be dependent on a few things: the structure of the pop-ups, management capacity, start-ups' business support, and the developers' background.
- Will a new development model be needed to realize this vision?

- As stated earlier, the model doesn't need to be new, but a new way of connecting existing approaches. Yet, after holding the focus group, the obstacle for Eugene is not the development model (developers are surprisingly willing to modify their proforma targets based on the reality of a situation). Rather, the obstacle is the property owners: getting them to engage in the process, allow themselves to be educated and think of their role in a more active way is the major obstacle. As stated in the focus group, funding can be the inspiration to get these matters accomplished. This leads us to really consider the relationship between government funding and the property owners - a matter we will revisit in the *Conclusions* chapter.

### ***Revisiting the Proposed Action Plan***

Based on the focus group's discussion, the action plan originally proposed seems realistic. However, the hinge point has been identified: the success of the educational forum with property owners and local business people. The selection of the leader for this forum takes on a new importance and a degree of pressure. Additionally, as a general rule it appears even more important that research is done to verify the amount of retail space required in a city such as Eugene, so the scope of the pop-up or incubator program can be defined accurately. Creating critical mass and redefining the supply of retail space will go a long way in making this a worthwhile exercise.

## APPENDIX D

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## APPENDIX E

### MUSINGS

I think it's inherently built into architects to find solutions to challenges we see before us. One of the heftiest tasks I faced moving forward with my research was to remember my role as researcher, but as the findings became clear practical solutions became obvious. The findings presented in this document not only shed some light into the context of bringing start-ups into mixed-use retail, but inspire some considerations and recommendations. Indeed, one of the advantages I had in approaching this investigation in a narrative fashion was that after meeting with so many different individuals, connections were made and possible solutions could be reviewed in a holistic manner.

Part of what makes me tick is to connect those bigger pieces; try to see how things relate in this messy world. The thing that keeps circling in my mind - and I know in the minds of others - is the role of the government in all of this. We have seen so many instances of government control overstepping its bounds and taking a mission like re-energizing a neighborhood and turning it into the horror that was Urban Revitalization in the 1960s... Yet, we cannot ignore the power a City has in affecting positive change. While we may often times get that mix of power and vision "wrong" - we must keep trying. Now, that being said I firmly believe we must do what we can to not repeat the mistakes of the past in this quest for bringing mixed-use buildings back from the brink. To avoid that requires "on the ground" research - blending statistical information with informal interviews: numbers never tell the whole story. Perhaps our current situation is a

result of a less comprehensive research approach from the planning field. In fact, some interviewees have stated that the reason the problem of mixed-use ground-floor vacancies is more exacerbated is due to the general oversupply of mixed-use buildings. Planning departments, wanting to encourage the positive aspects of mixed-use, flooded the market by making mixed-use a requirement in new construction. (Members of the Seattle design community I spoke with specifically expressed their frustration with that forced approach.) I believe this is a result of an imbalance between market tendencies and planning visions (which can be tracked back to the absence of a research protocol). So here we sit with more mixed-use retail than we need, but this very problem creates the perfect condition for incorporating start-ups and re-invigorating an entire building typology. During the focus group, one of the developers mentioned that sometimes the plan doesn't work exactly how you intended, but if you're patient enough you get the results you were after. Are we at the stage where patience needs to turn into action? I believe the answer to that is a resounding yes.

One of the things that has stuck with me throughout this process is a comment from a city official relating positive change with the amount of construction cranes in the air. Initially I saw this as a textbook example of growth machine mentality in action, but I came to realize that this is the result from lack of research. Catalyst projects have their place and serve a powerful role, yet infusing a struggling market with more space seems short-sighted when one doesn't fully understand the core of the struggle. Especially in these times, making what you have work is the more imperative challenge.

Some may think it's overly idealistic to hope for this kind of harmony between start-up companies and their community at-large, but this hope is based on the reality we all see before us: vacant ground-floors in mixed-use buildings, struggling city centers in small to medium-sized cities, developers looking for new solutions for profitability, and an economy that is becoming both globally-minded and locally-focused. The biggest challenge before the design community is forming relationships with apathetic landlords. Most of the people I spoke with felt that was a matter best solved by patience and purchasing - yet if there could be a way to make this group feel empowered and energized to take new measures, the needed momentum would happen.

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