

CASTRO & UPPER MARKET
RETAIL STRATEGY

June 2015



CASTRO & UPPER MARKET RETAIL STRATEGY

Really, another plan? Just what my shelf needs! Like many, I was reluctant about this project, but as I walk down Castro Street and see the sidewalks awash with people sitting outside eating, drinking coffee, enjoying themselves, stopping to talk with friends, sidewalks full even during the week – something is noticeably different.

I began working in the Castro in 2007, and eight years later, the district has changed quite a bit. There is more energy on the streets, outdoor cafés are springing up, and we see more foot traffic during the day. Just recently someone asked me what is my ultimate dream for the neighborhood? After pondering this for a while, I thought, people – people coming to the district for public art, cool shops, live performances and great restaurants– people filling the sidewalks, running errands, meeting, working, living, coming to the district because it's a destination.

This Retail Strategy lays out steps to achieve this vision. It is exciting and unique – the result of a true community collaboration. It is also comprehensive– examining the district in terms of its challenges, strengths and opportunities. It explores how to create destination hubs through retail and restaurant clusters, public art or other performance art, pedestrian safety improvements and ways to increase walkability throughout the district – while simultaneously noting key challenges such as difficulties facing small businesses, homelessness, and the complicated nature of curating parts of the district.

In reflecting on this yearlong project, the most compelling component of this Strategy is not all the great data that's been assembled, but the new collaborations that have been cultivated and are continually being strengthened. This vision will only be realized with property owners, community organizations, merchants, developers, and brokers all working together for the benefit of the entire district. This is not about piecemeal planning: a thriving block or node benefits all. It is this call for collaboration that I find truly alluring and most powerful – the lasting principle of the Retail Strategy.

Join us as we continue this important work. I look forward to working with you all!

Andrea Aiello
Executive Director



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Executive Summary

The Castro & Upper Market Retail Strategy is a collaborative effort to guide the retail district's evolution and attract new complementary businesses. As new development continues to occur and retail spaces in existing and new buildings have become available, the community has come together to realize a shared vision to cultivate the district's long-term success. The goals of the Retail Strategy are threefold:

- To help fill vacancies and bring exciting new businesses to the district
- To better understand the preferences and habits of the district's customer base
- To work with City agencies to improve the quality of the pedestrian experience and the district's retail environment.

The Retail Strategy, administered through the Castro/Upper Market Community Benefit District, has been guided by merchants, community leaders, property owners, city officials and a representative Technical Advisory Group (TAG). TAG members, interviews and focus groups with local businesses and retail brokers, merchant surveys and over 1,200 online and in-person customer surveys have provided insights and rich statistical data regarding the district's customer base and retail landscape. The information gathered for this study has helped reframe the understanding many have of the Castro & Upper Market district.

Significant development in the Castro & Upper Market neighborhoods continues to bring new customers to the retail district. Since 2010, over 500 units of new housing and roughly 1,000 new residents have been added, with the development of more than 100 additional new housing units planned in mixed-use projects with retail on the ground floor. New residents tend to be younger than existing residents, and fewer new residents self-identify as LGBT. As the retail corridor continues to evolve, retail offerings will similarly need to evolve to accommodate the increasingly diverse needs of the local neighborhood while simultaneously catering to the national and international tourists who visit its historic gay landmarks.

In spite of complex 6-way intersections along Market Street, survey respondents pointed to "walkability" as the single best attribute of the retail corridor. The TAG continues to work in collaboration with the SFMTA in order to further improve the pedestrian environment through sidewalk expansions, more visible street markings and safer pedestrian crosswalks.



Demographics

\$120K+

Average household income that customers report

40-49

Median age range of neighborhood residents

83%

Customers with a bachelors degree or higher

58%

Customers self-identifying as LGBT

75%

Customers that live in San Francisco

60%

Customers that are local residents

90%

Merchants that live in San Francisco

Shopping

55%

Merchants that have been in business over 15 years

\$80

Spending by the typical local resident customer, per visit

\$150

Spending by the typical customer from outside San Francisco, per visit





Travel to District

3X+	47%	25%	28%
Times per week the typical customer visits the retail district	Customers that walk to the district	Customers that take transit	Customers that drive, bike or use other forms of transportation

Growth and Opportunity

500	1,000	100+	\$8M	\$3M	33
New units built in the past 5 years	New residents in the past 5 years	New units currently pursuing entitlements	Castro Streetscape Improvement Project, completed 2014	Upper Market Street Safety Project, 2015-2016	Vacant retail spaces (6 of which are in new mixed-use developments)



Recommendations

In conclusion to this yearlong project, the TAG (working in collaboration with Seifel Consulting, MJB Consulting and lowercase productions) offers the following summary recommendations to help improve and reposition the district in order to welcome new businesses alongside its successful and longstanding favorites. Each of these recommendations is further described in Chapter 5, which also outlines key action steps to be undertaken.

1

ESTABLISH VISION AND RETAIL POSITIONING



- Identify strategic direction/repositioning
- Develop brand identity to promote retail repositioning
- Identify and build upon key “nodes” of activity

2

MARKET THE DISTRICT



- Attract new local and regional customers, especially by showcasing exemplary businesses
- Develop/share branded collateral with business attraction stakeholders, such as brokerage community
- Enhance collaboration amongst merchants (through coordinated intra-district referrals and expanded online presence)

- Reinforce local efforts to address quality-of-life issues
- Implement streetscape upgrades and re-signaling at intersections
- Improve district connectivity through retail maps, signage, and public art

- Identify collaborative structure to maintain engaged stakeholders and execute recommendations (property owners, developers, brokers, businesses, residents)
- Seek funding for dedicated staff
- Develop and monitor annual benchmark indicators of district improvements

3

CREATE A MORE APPEALING, WALKABLE DISTRICT



5

SUSTAIN RETAIL STRATEGY COLLABORATION



4

"CURATE" THE DISTRICT'S RETAIL



- Convene property owner/broker meetings by node to coordinate retail attraction efforts
- Signal desirable businesses that community would actively support in district
- Identify new leasing opportunities and recruit complementary businesses



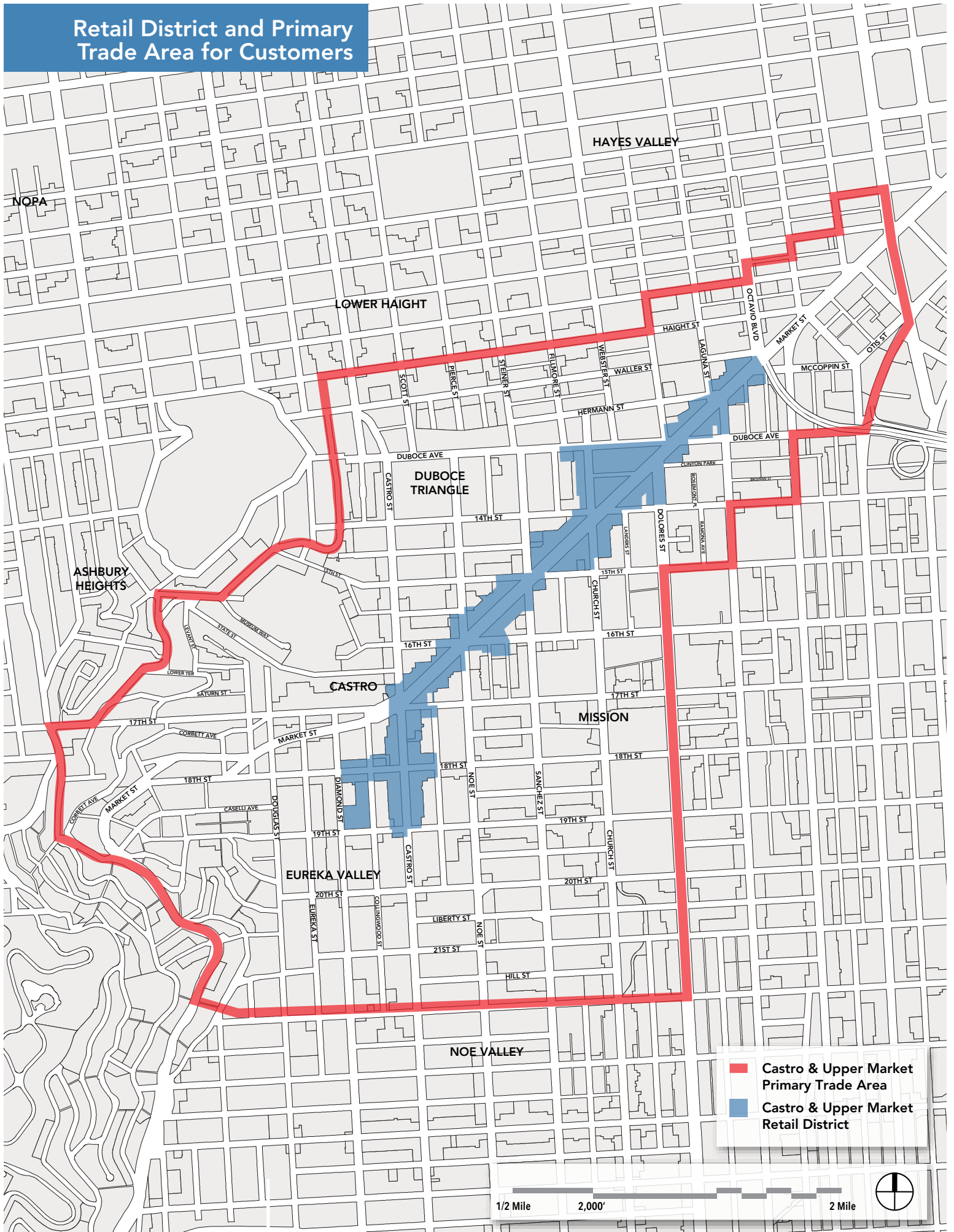


Introduction

The Castro & Upper Market Retail Strategy is a collaborative effort among local businesses, neighborhood residents, property owners and the City of San Francisco to develop a comprehensive strategy to improve the retail climate in the Castro & Upper Market (C&UM) district. The district includes more than 400 businesses offering a unique mix of services, stores, restaurants and bars that contribute greatly to San Francisco’s retail landscape. Despite the corridor’s high pedestrian activity and draw as both a tourist destination and “gay mecca,” the district has experienced a higher vacancy rate than other retail districts in the City of San Francisco over the past few years. According to local brokers, the area has also become less popular than other nearby emerging retail areas. This project seeks to reverse this trend.

1

Retail District and Primary Trade Area for Customers



Study Area and Background

As shown on the adjacent map, the district comprises the upper portion of Market Street from Octavia to Castro Streets and includes key adjoining retail Streets, most notably the internationally recognized Castro Street corridor, the historic center of San Francisco's gay community. It is also adjacent to many of San Francisco's most popular and affluent neighborhoods, including the Mission District, Eureka Valley, Noe Valley, Duboce Triangle, Corona Heights, Ashbury Heights and Twin Peaks. While many of these neighborhoods are not within the retail district's boundaries, residents from these adjacent communities are within the district's primary trade area, or the boundary defining those households that represent the district's most frequent and loyal customers.

Currently, the Castro & Upper Market district has 33 vacant storefronts. Six of these vacant spaces are located in recently-opened residential developments (which have added more than 500 new housing units to the neighborhood). In addition, several other new mixed-use developments are about to open or are in the planning process to be built.

These current and future retail spaces provide an opportunity for the district to add new businesses that will complement and expand the district's offerings. Recent development has also added more than 1,000 new customers, while many other new residents have moved into the surrounding neighborhoods. In addition to new growth, local merchants have described a range of opportunities and challenges that currently face the district and which this project seeks to address.

Project Goals

Given the importance of the district's success to local businesses, neighborhood residents and the City of San Francisco, the Retail Strategy has three fundamental goals:

1. To help fill retail vacancies and bring exciting new businesses to the district
2. To better understand the preferences and habits of the district's customer base
3. To work with City agencies to improve the quality of the pedestrian experience and the district's retail environment

This report provides information, analysis and recommendations that address each of these project goals, and is organized as follows:

- Chapter 1 (this chapter) provides an **overview** of why this project has been undertaken and the key project collaborators.
- Chapter 2 describes the **existing conditions** within the Castro & Upper Market district, with a focus on those conditions most relevant to the retail strategy.
- Chapter 3 presents the **public outreach** efforts that were conducted during the project and includes the lessons learned from three comparable districts that have particular relevance to the district.
- Chapter 4 summarizes the **key findings** from focus groups, surveys and interviews of key retail stakeholders (merchants, customers, brokers and property owners) conducted during the course of the project.
- Chapter 5 presents the Retail Strategy **recommendations**.

Collaborators and Funders

The Castro & Upper Market Retail Strategy grew out of a recognized need by a committed coalition of district stakeholders who are dedicated to the success of the district. The following diverse organizations participated in and provided funding for the project:

- SF Office of Economic and Workforce Development (OEWD)
- Castro/Upper Market Community Benefit District
- Office of Supervisor Scott Wiener
- Castro Merchants
- Angus McCarthy
- Prado Group
- Brian Spiers Development
- Strada Development Group
- Forest City Development
- The Apothecarium
- Duboce Triangle Neighborhood Association (DTNA)
- Eureka Valley Neighborhood Association (EVNA)



Members of the Technical Advisory Group (TAG)

The Castro/Upper Market Community Benefit District (Castro CBD) has provided overall project management and leadership for this project, serving as the coordinator and convener of the Technical Advisory Group (TAG), who have met at least once a month over the past year on the Retail Strategy. This project owes a great debt to the insights and contributions from the TAG members:

Andrea Aiello

Executive Director, Castro/Upper Market Community Benefit District

Richard Kurylo

Project Manager, Office of Economic and Workforce Development (OEWD)

Pamela Mendelsohn

Senior Vice President, Colliers International

Mark McHale

Board Member, Castro Merchants

Dan Safier

President and CEO, Prado Group

Brian Spiers

President, Brian Spiers Development

Jon Yolles

Senior Project Manager, Prado Group

Orie Zaklad

Eureka Valley Neighborhood Association

Dennis Ziebell

Owner, Orphan Andy's

In addition, the business members of Castro Merchants have provided substantial information and input throughout the project during their monthly meetings and at a broad variety of other venues.

This project has been prepared by the retail strategy project coordinator, Danny Yadegar, and the retail strategy consultant team of Seifel Consulting (team leader), MJB Consulting (retail specialist) and lowercase productions (marketing and production). The team members gratefully acknowledge all of the input and guidance that this unique collaboration of stakeholders has contributed to the project.





Existing Conditions

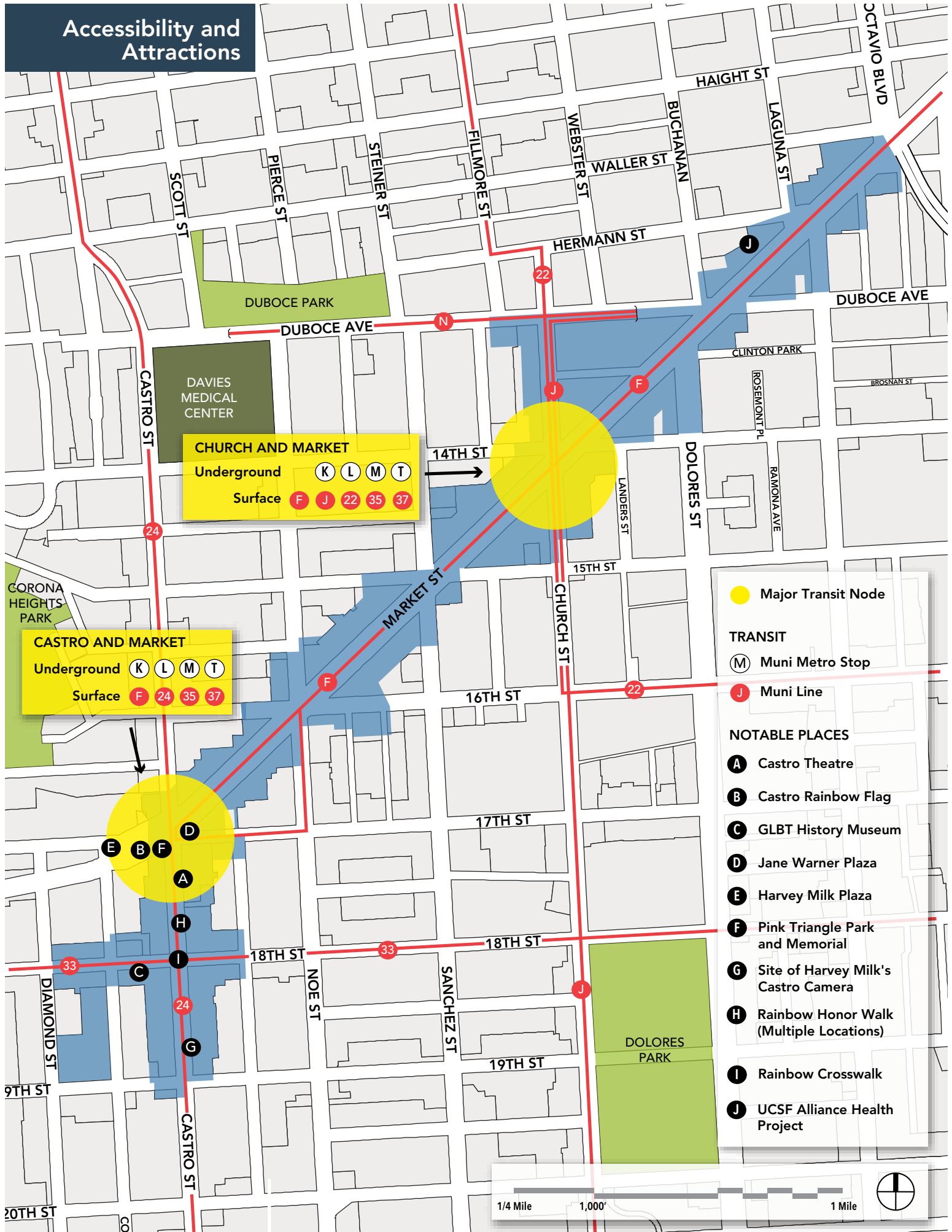
The Castro & Upper Market area benefits from a rich architectural fabric and unparalleled transit infrastructure – indeed every Muni subway line goes through the intersection at Church and Market or comes within a block. Engaging the passengers of this system provides an opportunity to expand the district’s customer base by encouraging people to spend time shopping to and from work or home. The retail corridor is also surrounded by many of San Francisco’s most vibrant and affluent neighborhoods with about 100,000 people living within a one-mile radius of the district and a strong, local customer base of 32,000 residents who live within a short walk of the corridor.

This chapter provides a market profile of the area to offer a glimpse of its customer base and highlight recent changes in the neighborhood. The market profile shows not only how the district compares to the rest of San Francisco but also how the district offers, in many respects, an unparalleled opportunity to the retail community. New development and new businesses are summarized to help convey the wave of fresh energy they have brought into the retail corridor. And although a handful of large vacancies continue to send a message inconsistent with the area’s recent growth, those with pending plans are noted.

The SFMTA is poised to implement a series of long awaited pedestrian improvements on the Upper Market corridor, representing a new public investment of about \$3 million in addition to the recent \$8 million Castro streetscape improvements that have not only enhanced the pedestrian experience but expanded opportunities for outdoor dining. As the neighborhood continues to undergo tremendous change, this chapter seeks to document its momentum.

2

Accessibility and Attractions



CHURCH AND MARKET

Underground **K L M T**

Surface **F J 22 35 37**

CASTRO AND MARKET

Underground **K L M T**

Surface **F 24 35 37**

- Major Transit Node
- TRANSIT**
- M Muni Metro Stop
- J Muni Line
- NOTABLE PLACES**
- A Castro Theatre
- B Castro Rainbow Flag
- C GLBT History Museum
- D Jane Warner Plaza
- E Harvey Milk Plaza
- F Pink Triangle Park and Memorial
- G Site of Harvey Milk's Castro Camera
- H Rainbow Honor Walk (Multiple Locations)
- I Rainbow Crosswalk
- J UCSF Alliance Health Project



Market Profile and Geography

The accompanying map highlights the rich transit infrastructure and cultural assets of the Castro & Upper Market corridor. The district benefits from two underground Muni stations on the City's main tunnel (Market Street), with numerous aboveground options at each station. Cultural assets are focused on Castro Street, one of the first gay neighborhoods in the United States.

Superb Access and Visibility

- **Stellar public transit**, including four MUNI Metro light rail lines at Castro Street Station and all six lines within a block of Church Street Station. Nearby BART station at 16th and Mission.
- **Direct automobile access** to and from the U.S. 101 / Central Freeway (connecting to I-80).
- Significant presence along **Market Street**, San Francisco's **highest-profile thoroughfare**.
- **Major pickup location for Silicon Valley-bound tech shuttles** (i.e. "Google buses").
- **Primary pedestrian route** from Market Street **to and from the Mission neighborhood** (along 16th Street and 18th Streets), roughly ten minutes away on foot.
- Recent **\$8 million beautification of Castro Street**, which widened sidewalks, expanded outdoor dining opportunities and enhanced its curb appeal.
- **Planned \$3 million streetscape improvements for Upper Market**.

History and Culture

- Thriving **LGBT tourist destination**, with many stores and events year round catered to the LGBT community, including Castro Street Fair and Pink Party (aka Pink Saturday).
- The 1,400-person **Castro Theatre** serves as a venue for movies, theater and hosted talks. The Theatre, built in 1922, is a registered City of San Francisco landmark.
- The first plaques of the **Rainbow Honor Walk** were completed and installed in late 2014 honoring 20 self-expressed LGBT individuals, all heroes and heroines of the LGBT community.
- **GLBT History Museum** on 18th Street is one of few in the world.

Strong Resident Buying Power and Sophistication

- Surrounded by many of San Francisco's most popular and affluent neighborhoods, and **more than 32,000 residents live within a short (1/4 to 1/2 mile) walk.**
- **Higher median household incomes, population density, education levels and home prices** than in San Francisco as a whole.
- **Higher percentage of entrepreneurs and creative class workers** than in the rest of San Francisco, which is one of the premiere innovation cities in the United States.
- **Strong buying power** from both neighborhood residents and **more than 96,000 potential customers within one-mile radius of the district.**

TITLE	Castro & Upper Market Neighborhood (Primary Trade Area)	City of San Francisco
Population	32,259	839,336
Population Density	45 persons per acre*	27 persons per acre
Key Population Characteristics		
Percent Aged 35 to 54	42%	30%
Percent Households With Children	10%	18%
Percent Non-Hispanic Residents	88%	83%
Percent B.A. Degree or Higher	68%	52%
Resident Workforce		
Percent Employed Residents	74%	63%
Percent Creative Class Workers	65%	50%
Entrepreneurship		
Percent Work From Home	9%	7%
Percent Self-Employed	14%	12%
Household Income and Home Values		
Median Household Income	\$91,000**	\$72,000
Median Home Value (Zillow March 2015)	\$1.56 million	\$1.02 million

* From 2013 OEWD Neighborhood Profile for the Castro Upper Market area, which uses a slightly smaller geographic area than the primary trade area used in this report to represent the district's most frequent and loyal customers.

** Median household income shown according to Nielsen-Claritas. Survey respondents reported a median household income in the \$120,000-\$150,000 range.

Source: Nielsen-Claritas, Zillow, MJB Consulting, Seifel Consulting Inc.

Recent New Development and Growing Customer Base

- **Eight new mixed-use developments** with ground floor retail along Upper Market, containing over **500 new housing units**.
- **Frequent resident shoppers**, with 3/4 of neighborhood residents visiting the district three or more times per week and 2/3 of visitors coming at least once a week.
- **Large tourist draw**, with visitors from outside of San Francisco spending an average of \$153 per capita (not including transportation or lodging costs).
- **Strong visitor demographics**, 83% of visitors have B.A. degrees or higher, and 32% earn annual incomes of \$120,000 or more.

High Performing Retail Location

- Two extremely **high-grossing supermarket anchors**, Whole Foods Market and Safeway, which combined represent roughly \$100 million in annual sales volume (or about \$1,200 per square foot according to local real estate professionals) and allow for true “one-stop” grocery shopping in the neighborhood.
- **Strong retail sales** in local businesses ranging from **\$500/SF to \$700/SF** according to merchants and brokers.
- **Notable co-tenancies**, including the Castro Theatre, Cliff’s Variety, Mollie Stone’s, Levi’s, Unionmade, Crossroads Trading Co., Soulcycle, Starbelly / Pesce / Super Duper Burgers (Adriano Paganini), Chow and Woodhouse Fish Co.
- **Underserved female consumer**, comprising 39% of the trade area yet just 26% of the foot traffic.
- **True late night vibe**, unique among San Francisco neighborhoods, with a significant evening draw to local bars and restaurants.
- **Diversified retail mix, with large concentrations in convenience goods and services as well as dining and nightlife**, along with noteworthy clusters in clothing and accessories.

Retail Leasing Opportunities

- **Wide range of retail leasing opportunities**, including locations along the:
 - World-famous Castro Street
 - Highly trafficked, grocery-anchored crossroads of Market and Church Streets
 - Vibrant neighborhood node at Market and Noe Streets
 - Emerging intersections and blocks anchored by new mixed-use retail/residential development along Market Street
- Currently **33 retail spaces are vacant**, including 6 (or 20%) in new mixed-use retail/residential developments.
- **Lower average rents** (per square foot) than other nearby shopping districts, such as Hayes Street, Valencia Street, 24th Street and Upper Fillmore.

New Development



- Building Footprint
- Opportunity Site (2008)
- New Development (2015)



Neighborhood Evolution

The Castro & Upper Market area has become home to more than 1,000 new residents in just the past three years. While it has been historically favored by the LGBT population, the Castro & Upper Market area is also appreciated by a broad array of residents for its great architecture, community amenities, mild weather and central location, including the ease of getting downtown and beyond. As members of the LGBT community are increasingly living “out and proud” lives everywhere, some argue that LGBT enclaves persevere not out of need but out of preference. As the Castro & Upper Market continues to evolve, it will need to continually redefine what it means to be the “Gay District” and integrate its new residents within the neighborhood fabric.

“The neighborhood can sometimes rely too heavily on its gay past.”

Response from merchant survey

“The retail still does not reflect the reality of the neighborhood’s new population mix.”

Response from customer survey

NEW DEVELOPMENT ON UPPER MARKET CORRIDOR

Opportunity Site	New Development	Units	Ground Floor
S&C Garage	35 Dolores	33 Condos	(None)
S&C Showroom	38 Dolores	81 Apartments	Whole Foods
(Not named)	1844 Market St (Venn)	113 Apartments	2 retail spaces
76 Station@Buchanan	1998 Market St (Linea)	115 Condos	3 retail spaces
76 Station@15th	2175 Market St	88 Apartments	The Myriad
Shell Station	2198 Market St	87 Apartments	3 retail spaces
Thai House	2200 Market St (The Century)	22 Condos	Hecho, Brewcade
Sullivan Funeral Home	2240 Market St (Planned)	45 Apartments	To be determined
Church Site	2299 Market St (Icon)	18 Condos	Bank of the West 3 retail spaces
Arco Station	376 Castro Street (Planned)	24 Apartments	2 retail spaces

Ground Floor Retail Vacancies



-  Vacant Storefronts*
-  Surface Parking Lots

* Spaces indicated as "Vacant Storefronts" include all ground floor commercial spaces that were unoccupied as of February 16, 2015.



Vacancy Overview

Despite the variety of new businesses and the excitement that each has brought to the neighborhood, vacant storefronts send a different message about the retail corridor. Thirty-three vacancies, several at key gateways to the community, suggest a district with limited promise. While some residents of the neighborhood may be familiar with what is happening with these storefronts, visitors from abroad and the larger San Francisco community are not aware of pending development plans or legal issues that prevent some from being leased. Several of the spaces are over 3,000 square feet and were designed to accommodate retailers that no longer fit the neighborhood's fabric. Despite impressive business turnover, the retail district's current 8%-9% vacancy rate is largely unchanged from studies conducted over the past few years, in large part due to a handful of persisting vacancies.

The Retail Strategy has made it a priority to become more involved with those problematic vacant storefronts that are consistently difficult to lease. The following vacancies, however, are all highly visible properties for which plans currently exist or are underway:



400 Castro (x Market)
SoulCycle



2100 Market (x Church)
Brian Spiers Development
60-unit mixed-use building



2101 Market (X Church)
Verve Coffee Roasters

Photo Credits, top to bottom
Vegan Cinephile
Brian Spiers Development
Architectural Record

New Business

The Castro & Upper Market district is home to a variety of diverse and high quality new businesses. Several new coffee shops, restaurants and food-oriented businesses have recently chosen to locate in the district. Collectively, they exemplify that the district is well poised to support new businesses. While not comprehensive, the following list shows the types of businesses that have opened in the past six months:

Brewcade.....	Bar/Arcade
Dapper Dog.....	Limited Restaurant
Easy Breezy Frozen Yogurt.....	Limited Restaurant
GIDDY.....	Candy
Hearth Coffee.....	Café
Janchi Korean Gastropub.....	Restaurant
Lark Food and Wine.....	Restaurant
Manos Nouveau.....	Restaurant
Mekong Kitchen (prev. Urban Picnic).....	Restaurant
Reveille.....	Café
Weaver's Coffee.....	Café

In addition, six new businesses are anticipated to open within the year, reflecting strong participation in the café revival movement and additional fitness offerings that will complement those already in the neighborhood.

Artis Coffee.....	Café
Hamburger Mary's.....	Restaurant
Ice Cream Bar.....	Limited Restaurant
Philz Coffee.....	Café
SoulCycle.....	Gym/Fitness
Verve Coffee Roasters.....	Café



Brewcade, est. 2014



Mekong Kitchen, est. 2015

Update to 2008 Community Plan

In 2008, working in close collaboration with the community and soliciting the feedback from several hundred residents, the San Francisco Planning Department led the preparation of a Community Vision and Recommendations for the Upper Market area. The process offered a series of public realm recommendations, including ideas for improved sidewalks, envisioned open spaces and design guidelines for new buildings. Of primary importance are the 2008 recommended changes to improve the pedestrian environment, as the Upper Market corridor still remains a high collision corridor. These pedestrian improvements will not only improve safety, but also could make the retail district more appealing and desirable.

Several improvements to the pedestrian realm have already been made along the corridor, the majority of them funded by adjacent project sponsors:

- Bulbouts (with greenery) at intersections along Market Street, including
 - 2001 Market (at Dolores)
 - 2059 Market (at 14th)
 - 2175 Market (at 15th)
 - 2299 Market (at 16th)
- Market and Dolores greenscape improvements, wrapping around the new Whole Foods store, with planters, bicycle racks and outdoor seating.
- Redesigned medians and crosswalks at the intersections of both Market/Church/14th and Market/Octavia.

Yet despite these changes, the corridor nonetheless experienced 60 pedestrian or bicycle collisions from 2007 to 2012 (nearly one every month), which resulted in either an injury or death according to SFMTA's collision history. The improvement of the corridor is of critical importance, and the Retail Strategy team has been collaborating with the SFMTA on the future expenditure of about \$3 million in public funds from development impact fees that are earmarked for pedestrian improvements along Market Street.

Found in the Technical Appendix, **Update to Community Vision and Recommendations** presents a progress report on the status of the improvements that were recommended in 2008 in order to offer perspective on the urgency of the needed pedestrian upgrades and to summarize other remaining improvements that still need to be accomplished. As it shows, many of the 2008 recommendations have not yet been implemented, and the pedestrian experience continues to be impacted by long crosswalk crossings at key intersections (which extend walking distances) and insufficient crossing times.





Outreach and Case Studies

Businesses offer products and services.

Customers purchase the products and services they want.

Landlords own the property where businesses locate.

Brokers ink the deals that bring new businesses to the district.

Businesses, customers, landlords and brokers each play an important role in the retail experience. Thus, the Retail Strategy began with an extensive outreach process to better understand each of their perspectives and impacts on the Castro & Upper Market district. Surveys, focus groups and interviews offered different forums to understand what each group had to say about the opportunities and challenges facing the district.

Acknowledging that the Castro & Upper Market district does not operate in isolation, and that its concerns may be similar to those of other retail districts, the Retail Strategy team also conducted case studies to contextualize the dynamics at play. Comparable retail corridors were chosen that share similar characteristics to Castro & Upper Market, including a historically gay neighborhood in New York City, a comparable international tourist destination in San Francisco, and the nearby Mission neighborhood with its high levels of new development.

The following chapter summarizes the outreach process and offers takeaways from the case studies. All survey forms can be found in the Appendix, and all survey findings are presented in Chapter 4.



3

Merchant Outreach

The merchant community in Castro & Upper Market is well-represented by the Castro Merchants (CM). Their integral role in the Retail Strategy project ensured that merchants were kept abreast of project findings and were also able to offer feedback according to anecdotal experience. Members of the Retail Strategy group were present at all Castro Merchants' monthly meetings, as well as occasional meetings for the Castro CBD's Board of Directors.

Two focus groups were held in October 2014 to provide an opportunity for more-intimate feedback from the business community and to hear from personal accounts. Merchants also participated in their own survey, which allowed the Retail Strategy to gain knowledge about the business perspective and about the area's economic performance.

Broker and Landlord Outreach

Property ownership represents a big part of the retail equation. Lease rates, quality and build-out of the retail space are established by the landlords, typically in collaboration with their brokers. Formula retailers leverage larger distribution networks, have significant brand recognition and can diversify operational risk across many cities, thus they are typically able to afford higher rents. Local retailers, however, may be more sensitive to local economic fluctuations and tend to have a more limited capacity to pay higher rents and fund initial business start-up costs, including the build out of retail space.

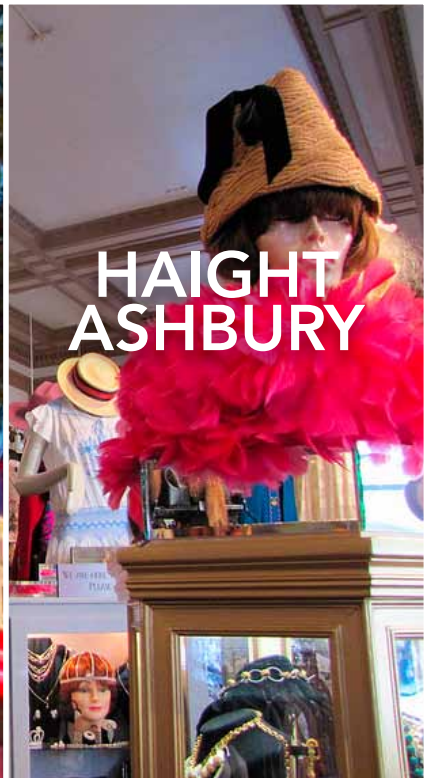
Recognizing that Castro & Upper Market neighborhood residents have a strong preference for local retailers, the Retail Strategy group held conversations with both landlords and brokers to discern what challenges currently exist in leasing retail space in the neighborhood, and how escalating retail rents would affect the composition of the retail corridor. Landlord interviews were held throughout the course of the project, and a broker focus group was held on February 25, 2015. Members of most major commercial brokerage firms attended the focus group – the complete list for which can be found in the Appendix.

Lessons Learned From Comparable Retail Districts

Based on input from the merchants and the Technical Advisory Group, three retail districts were selected as case studies to gain insights from what other retail areas have experienced and done to be successful.

The national comparable examined was Manhattan's **Chelsea** neighborhood and, specifically, the stretch of 8th Avenue between 14th and 23rd Streets, which emerged in the 1990's and 2000's as the most prominent gay enclave in New York City (the nation's largest city), eclipsing Greenwich Village (of Stonewall fame), but which has quickly and visibly lost that identity in recent years. Locally, two districts were chosen:

- The Mission's **Valencia Street**, between 14th and 24th Streets, which is today one of Castro & Upper Market's most formidable competitors for both consumers and tenants, and which is similarly concerned with protecting its unique retail character within the context of dramatic neighborhood change.
- The **Upper Haight**, between Masonic Avenue and Stanyan Street, which has managed to retain a certain level of "authenticity" in line with its bohemian history and brand, and thereby continues to draw as a regional and tourist destination, against the backdrop of wholesale demographic turnover.



The following table compares the key demographic and economic characteristics of the neighborhoods surrounding each retail district case study to Castro & Upper Market.

NEIGHBORHOOD SNAPSHOT (2014/2015)*				
	Castro & Upper Market	Chelsea NYC	Valencia Street	Haight-Ashbury
Key Population Characteristics				
Median Age	41.0	39.7	37.0	35.3
Percent Aged 25 to 34	23%	26%	27%	35%
Percent Aged 35 to 54	42%	36%	35%	34%
Percent Non-Hispanic Residents	68%	85%	63%	90%
Percent B.A. Degree or Higher	68%	72%	54%	73%
Percent Male Residents	61%	53%	54%	52%
Key Household Characteristics				
Average Household Size	1.81	1.65	2.33	2.00
Percent Households with Children	9%	9%	15%	11%
Percent Households without Car	29%	83%	39%	34%
Percent Owner Occupied	34%	28%	24%	25%
Resident Workforce				
Percent Employed Residents	74%	72%	70%	76%
Percent Creative Class Workers	65%	68%	52%	71%
Entrepreneurship				
Percent Work From Home	9%	7%	7%	8%
Percent Self-Employed	14%	17%	12%	10%
Household Income and Home Values				
Median Household Income	\$91,000**	\$105,000	\$77,000	\$99,000
Median Home Value (Zillow March 2015)	\$1.56 million	\$1.75 million	\$1.19 million	\$1.35 million

* Immediate neighborhoods to each retail district.

** Median household incomes shown according to Nielsen-Claritas. Survey respondents reported a median household income in the \$120,000-\$150,000 range.

Source: Nielsen-Claritas, Zillow (San Francisco values as of March 2015), Trulia (Chelsea NYC values as of Feb-May 2015), MJB Consulting, Seifel Consulting.

CASE STUDY #1

Chelsea, New York

Eighth Avenue, between 14th and 23rd Streets, Manhattan



Background

- Called “the gayest nine blocks in the gayest neighborhood of Manhattan” as recently as the mid 2000’s, Chelsea’s 8th Avenue has since **lost almost all of its iconic gay-oriented businesses**, and its retail mix has started to assume a more generic look and feel, with a preponderance of bank branches, chain drug stores, Starbucks Coffee’s, etcetera.
- The emergence of Chelsea as a worldwide tourist destination – along with the Meatpacking District, Chelsea Market, the High Line and the West Chelsea Gallery District – bears the greatest responsibility for the **turnover in 8th Avenue’s retail mix**, with the area’s growing contingent of tech workers and employers (i.e. Google, Twitter) also playing a significant role.
- Specifically, the neighborhood’s rising profile, set within the broader context of Manhattan’s real estate boom, has fueled **twofold and threefold increases in asking rents**, which has, in turn, led to a proliferation of storefront vacancies as well as a narrowing of the retail mix to only those tenants that can afford the higher costs and that present as extremely creditworthy.
- The residential **out-migration of the gay population** in the mid-2000s was the first indication that Chelsea’s identity as a gay enclave might be at risk, but as the initial phase of this exodus coincided with the height of the district’s popularity in the mid 2000’s (as the “gayest nine blocks...”), it would not have been easy to detect.

“ At one time that area was the gayest place in the world, not just the city. ”

John Russell, Next Magazine (2013)

A CAUTIONARY TALE



Takeaways for Castro & Upper Market

- The changing demographics of Chelsea were largely attributable to the same process of gentrification that some neighborhoods surrounding Castro & Upper Market appear to be experiencing today, with an influx of affluent younger families and millennials (many working in the technology field) accompanied by an out-migration of longtime gay residents.
- As in Chelsea, these newer arrivals to Castro & Upper Market tend to value the neighborhood more for its centrality, transit access and relative affordability than its history and identity as a gay enclave, while many of the departing gays are either retiring and/or opting for a lower cost-of-living elsewhere.
- Lacking a visitor draw on the scale of Chelsea, and with protections provided by the Formula Retail Ordinance (and readily leveraged by determined neighborhood activists), **Castro & Upper Market will likely be able to retain more of its existing character**, over a longer period of time, irrespective of out-migration trends.
- In this sense, the Castro might start to assume a similar role for the gay community as inner city “gateway” neighborhoods have assumed for suburbanizing immigrants (and tourists): while no longer “home”, **the Castro would remain a symbolic touchstone as well as a physical place in which to reconnect with the culture amidst the backdrop of assimilation by a broader range of residents.**

Photo Credits, left to right

Rainbows & Triangles: @Elvert Barnes/Flickr

Highline: Architizer

Map: Google Maps

Legalize Gay!: @Elvert Barnes/Flickr

Montmartre Restaurant dish: SeriouSeats

Joyce Nightclub: @Susan Sermoneta/Flickr

Starbucks: @ Stephen Iliffe/Flickr

CASE STUDY #2

Valencia Street, San Francisco

Valencia Street from 14th to 24th Street



Background

- As one of San Francisco's most desirable neighborhoods, the Mission sits front and center on the radar screens of leasing professionals and prospective tenants alike.
- The Mission rose to its current status in spite of a consistently large number of transients and considerable amount of sidewalk litter, suggesting that a thriving commercial corridor is viable despite these challenges.
- The City's recent \$6,000,000 investment in Valencia's streetscape, including expanded sidewalks, bicycle lanes, street trees and new "parklets," is viewed by both the City and neighborhood residents as a contributing factor to the desirability and vitality of the retail corridor.
- In addition, the well-organized Valencia Corridor Merchants Association (VCMA) has helped to protect the local tenant mix and oppose formula retailers. However, while community activism can slow the pace of change or influence retail direction, larger market forces drive a neighborhood's transition.
- Even on Valencia Street, where formula retailers account for just 3% of the tenant mix, it has rapidly transitioned into a restaurant and retail haven geared toward a changing demographic and now bares close resemblance to similar areas throughout the U.S., each with a similar "kit of parts" that includes "farm-to-fork" restaurants, artisanal cocktail lounges and coffee purveyors, craft and maker businesses, etcetera.
- Although not technically formula retail because they sell their products primarily through other retailers and/or online channels, nationally-recognized, hip brands like Betabrand and Weston Wear are well-

POWERFUL CHANGE DESPITE FORMULA RETAIL RESISTANCE



capitalized to secure expensive ground-floor space on Valencia Street for one-off “flagship” stores.

Takeaways for Castro & Upper Market

- Just as Valencia Street offers lifestyle brands and small chains (chainlets) the opportunity to associate themselves with the Mission’s progressive history, Castro & Upper Market may similarly welcome a thematic clustering of retailers looking to underscore their acceptance and support of the LGBT experience.
- The Mission has managed to retain at least some of its earlier Latino and bohemian character because the large amount of retail inventory in the broader Mission District eases the pressure on ground-floor rents not located on Mission and Valencia Streets. This points to the important role that secondary streets (such as 18th Street and in-line stretches along Market Street) play in Castro & Upper Market as they can provide more affordable leasing opportunities for smaller businesses that want to locate in the district.
- The [Valencia Streetscape Project](#) has created a more vibrant, walkable and attractive environment. Local property owners and businesses have transformed parking spaces along the Valencia corridor into landscaped outdoor spaces (parklets) enabling patrons of cafes, bars and restaurants to sit outside, enjoy the neighborhood art installations and people watch. Similar improvements along Market Street, building on the recent success of the [Castro Street Streetscape Improvement Project](#), would help improve access to the district and create a more enjoyable retail environment.

Photo Credits, left to right

Map: Google Maps

Roxie Theater: Roxie Theater

Bicyclists: @Christina B Castro/Flickr

Parklet Seating: Patricia Chang Photography

Locanda Restaurant: @mightylittle/Flickr

Four Barrel Parklet: Streetsblog SF

Tacos: @torbakhopper/Flickr

CASE STUDY #3

Haight-Ashbury, San Francisco

Haight Street, between Stanyan Street and Masonic Avenue



Background

- As in many centrally located San Francisco neighborhoods, Haight-Ashbury's residential real estate values and median household incomes have increased dramatically and are now considerably higher than citywide levels.
- Despite a growing number of "hipster" concepts that align with this more-affluent resident demographic, the foot traffic and retail mix along Upper Haight primarily reflects the styles and sensibilities of a different customer base, one drawn to bohemian and alternative fashions, goods, restaurants and bars.
- For this customer base, Haight-Ashbury is more commonly a *destination* for shopping, one to which they travel from elsewhere in San Francisco and the Bay Area, or patronize on impulse as tourists from further afield. And as a further indication of its gravitational pull, visitors come despite inferior transit links, which do not include either BART or MUNI Metro.
- As a result of its retail mix, transient population and colorful, gritty aesthetic, the Haight has retained enough of its original character to still feel "authentic", especially in the minds of visitors coming to inhale some of its storied past and mythology. It has done so in the absence of any museum or interpretative experience.
- While the Haight has undeniably evolved over time, its lineage remains quite clear, especially in comparison to other one-time hippie enclaves like New York's Greenwich and East Village(s), Toronto's Yorkville or Berkeley's Telegraph Avenue.
- The decidedly counter-cultural flavor of its current retail mix has played a critical role in reinforcing this linkage with the past, and offers a prime example of the power of "co-tenancy" and "critical mass" to establish and fortify the destination appeal – initially, with vintage fashions and more recently, with skate/street-wear.

KEEPING THE FLAME ALIVE



Takeaways for Castro & Upper Market

- While Castro & Upper Market is very different from a retail point-of-view, with its own character and authenticity, the Haight demonstrates that it is possible to cultivate and reinforce a long-time neighborhood brand while embracing new retail offerings. In Castro & Upper Market's pursuit to remain grounded in its storied, yet evolving, culture and history, co-tenancy and critical mass can help safeguard and reinforce its brand identity despite changing demographics.
- The presence of a modest number of select formula retailers with an alternative brand identity, like John Fluevog, Goorin Brothers, Buffalo Exchange and Crossroads Trading, arguably enhances (rather than undermines) the Haight's identity and position as a shopping destination.
- In addition to serving as an international tourist destination, Haight Street has grocery stores and affordable restaurants that shed light on the retail corridor's parallel commitment to serving the neighborhood. Castro & Upper Market can similarly aim to serve both tourist and neighborhood customers simultaneously.

Photo Credits, left to right

Thrift Store: @EP Holcomb/Flickr

Haight Street Market: Danny Yadegar

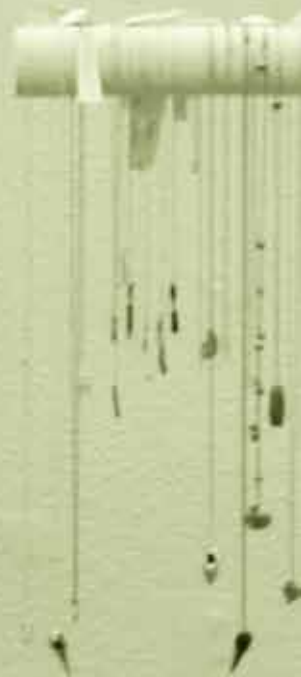
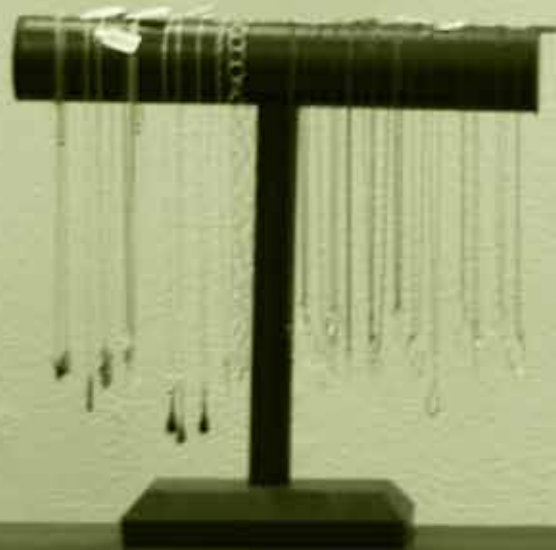
Tie Dye: @Jammin On Inc/Flickr

Street Sign: @Leonard/Flickr

Haight Ashbury Street Fair 2015: @irnnr/Twitter

American Apparel: @taigatrommelchen/Flickr

Map: Google Maps





Findings

Surveys of customers and local businesses, as well as focus groups and interviews with merchants and brokers, provided a deeper understanding of the district's opportunities and challenges. Over 1,200 customers participated in the surveys, as did more than 40 local merchants and 8 of the most experienced retail brokers in San Francisco.

Insights gained through these surveys and focus groups shed new light on the characteristics, perceptions and desires of both customers and businesses. Anonymity allowed merchants to offer candid feedback, and customers were excited to offer their collective voice about a neighborhood's tangible transition. Indeed on multiple occasions, surveyors on the sidewalk were met with a line of people waiting to respond.

Survey findings are summarized here in a way that helps visualize the responses. More detailed survey results are provided in the Technical Appendix. A summary of the observations by the Retail Broker Focus Group is also provided to shed light on the dynamic that building owners and their representatives bring to the table.

4

Comparison of Customer and Business Survey Results

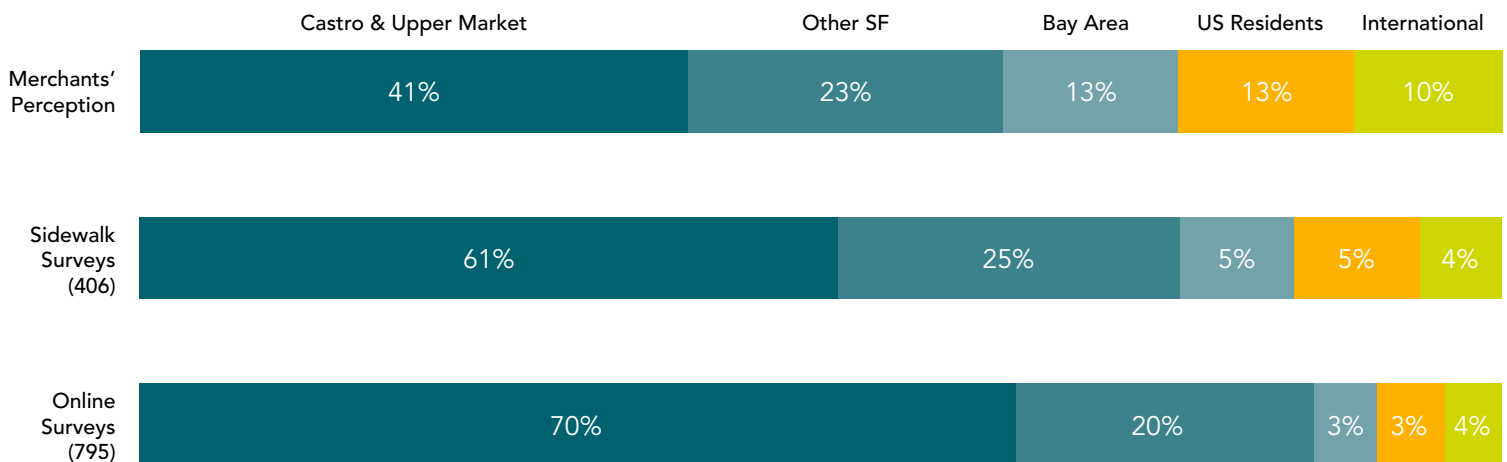
The following section summarizes those questions that were asked of both businesses and customers, allowing for a comparison between how the two groups experience the district. The responses often resemble each other, pointing to a shared perception of the district's opportunities and challenges. The Retail Strategy recommendations, presented in Chapter V, prioritize those areas of shared concern.



A bakery is a top request amongst both merchants and customers. Hearth Coffee Roasters on 17th St bakes its own bread, as has Thorough Bread for years on Church St.

BUSINESSES TO ADD (TOP FIVE ANSWERS)		
	Merchants	Customers
1	Restaurants	Trader Joe's
2	Bakery	Bakery
3	Men's Clothing	Apple Store
4	Gift Store	Butcher
5	Local Grocer/Deli	Women's Clothing

Where Customers Come From



BEST ABOUT NEIGHBORHOOD (TOP FIVE ANSWERS)		
	Merchants	Customers
1	Diversity	Walkability
2	Sense of Community	Diversity
3	Central Location	Friendly People
4	History	Central Location
5	Architecture	Accessibility

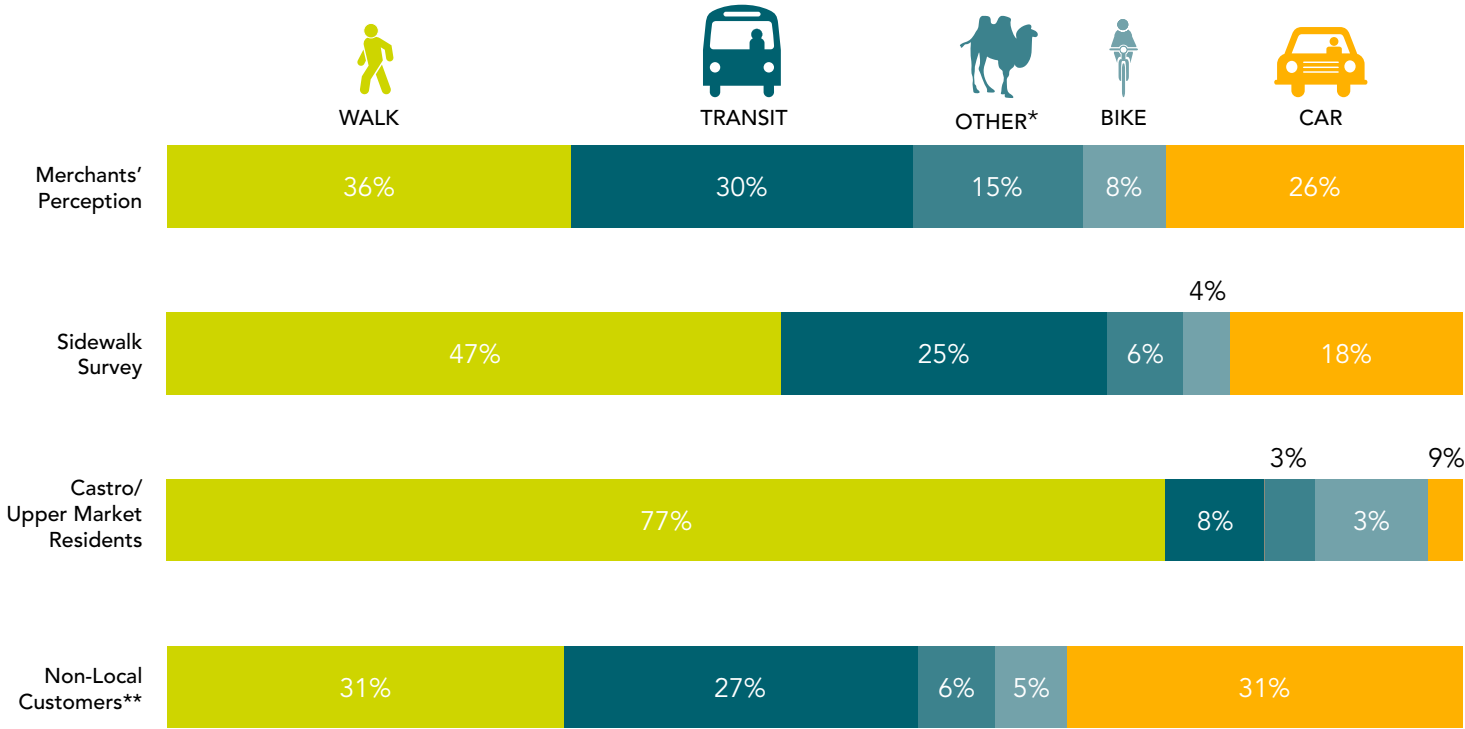


MOST NEEDS IMPROVEMENT (TOP FIVE ANSWERS)		
	Merchants	Customers
1	Homelessness	Homelessness
2	Vacant Storefronts	Cleanliness
3	Crime/Safety	Vacant Storefronts
4	Parking	Parking
5	Retail Mix	Crime/Safety



Homelessness and vacant storefronts are both primary concerns amongst merchants and customers alike.

How Customers Get Here



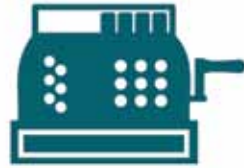
*Includes Taxi, Uber, Lyft, and Tour Bus
 **Customers Not From Castro/Upper Market

Average Store Size



1900 sf

Average Sales/SF



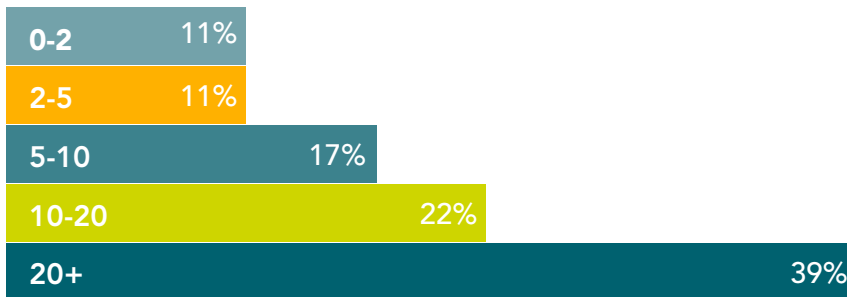
\$450/sf

Average Rent/SF



\$4.30/sf

Years in Business (with percentage of responses)

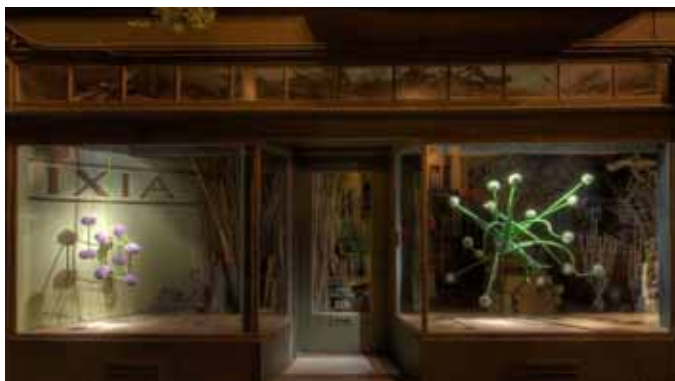


Merchants Living in San Francisco



90%

The majority of businesses in Castro & Upper Market have been in operation for more than 15 years. **IXIA**, which regularly changes its window display of floral arrangements, has been in business more than 25 years.



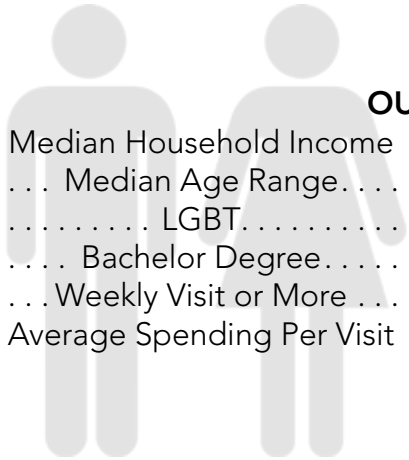
Customer Surveys

Over 1,200 customers participated in the surveys, with about 450 surveys gathered through sidewalk interviews by volunteers in November 2014 and about 750 surveys performed online over a two month period from November 2014 to early January 2015. These surveys provide insights into the customer experience and preferences of both local neighborhood residents and visitors to Castro & Upper Market (C&UM).

1. Who is shopping here?

LOCAL RESIDENTS

\$120k-\$150k	Median Household Income	\$120k-\$150k
40-49	Median Age Range	40-49
73%	LGBT	68%
85%	Bachelor Degree	83%
94%	Weekly Visit or More	51%
\$70*	Average Spending Per Visit	\$150

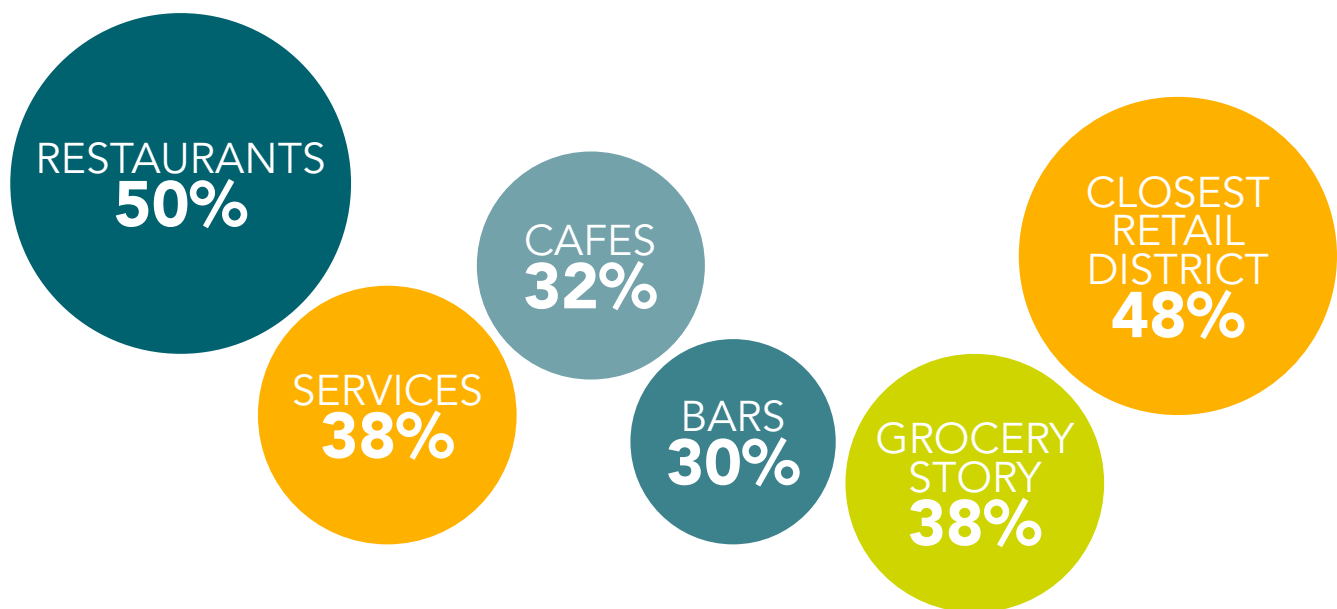


OUTSIDE SAN FRANCISCO

Note that $\frac{3}{4}$ of residents visit the retail corridor at least three times per week, leading to a weekly spending of over \$200.

2. Reason for visit

(respondents selected all choices that apply, most popular responses listed)



3. Other retail districts where you frequently shop?



The Mission, with its rich culture and new restaurants, is the most competitive district to Castro & Upper Market. Pictured: Sunday Streets on Valencia Street, May 2011

4. Do you identify as LGBT?



Responses from the sidewalk surveys offer the most random selection of customers, and are thus seen as the most accurate reflection of the overall customer base. Of note is that newer residents are less likely to self-identify as LGBT.

Broker Focus Group

To better understand the local retail landscape through the eyes of commercial brokers, a focus group was convened on February 25, 2015. Eight brokers attended, representing a majority of large commercial brokerage houses in San Francisco. The brokers offered their candid perspectives, shared challenges in the leasing process and provided recommendations to increase the district's vibrancy. This meeting has resulted in a closer collaboration with the commercial brokerage community, and several of their recommendations have already started to be implemented as part of this project.

Below are some of the **perspectives** that the brokers shared regarding retail leasing in the Castro & Upper Market district.

- **Rents are highly varied.** Rents vary greatly from building to building and location to location throughout the district.
- **Many buildings require significant improvement in order for the right tenant to occupy the space.** Landlords are often reluctant to invest in significant tenant improvements, and many potential tenants are unable to afford the cost of both rent and tenant improvements.
- **Requests for Castro & Upper Market locations are low compared to nearby districts.**
- **Retail mix is not strong in many areas.** A lack of synergy exists among retail businesses.

Broker Observations on Monthly Rents in Castro & Upper Market

\$3.50/sf	Below market rents (landlord or master lessee subsidized)
\$5.00/sf	Maximum typical local merchant is willing to pay
\$6.00/sf	New vacancies for desirable locations, i.e. Castro Street
\$6.00/sf	Rent formula retailers willing to pay in desirable locations
\$7.00-9.00/sf	Typical new space in downtown and very popular neighborhoods

The brokers regularly tour prospective businesses through the district and hear their concerns about the area. Acknowledging that the retail corridor is surrounded by one of San Francisco's wealthiest enclaves, the brokers shared that the Castro & Upper Market area is often overlooked by new high-end food and retail. Prospective businesses voice the following primary **concerns**:

- **Adult stores can be a turnoff to family-focused retailers**, and larger brands that are concerned about their corporate image.
- The **demographic is predominately older gay men**, which limits customer penetration. New businesses prefer a younger, more hip clientele.
- The neighborhood is notorious for being **"difficult" to get community support**. Formula retailers think twice before committing the roughly \$150,000 needed to go through the conditional use approval process.

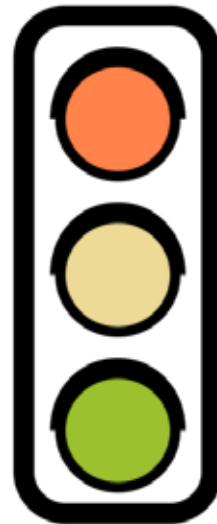
Broker Recommendations

In conclusion to the focus group, the brokers offered the following recommendations in order to help reposition the district's retail offering and encourage new businesses to locate in Castro & Upper Market. Several of recommendations are already being implemented, including the retail "Traffic Light" which appears later in this report.

- The Castro needs another **strong retail anchor**, in addition to the Castro Theatre and Cliff's Variety.
- **Businesses and property owners need to share more information on rents**, so rents can be more appropriately negotiated for desirable businesses.
- **Explore short-term tenants**, such as artist collectives that will create a new "buzz," generate foot traffic and are willing to sign month-to-month leases, potentially in spaces in the process of being developed or more permanently leased.
- Work with landlords to orchestrate a **collection of retailers in contiguous spaces** (4+) that will showcase the power of **co-tenancy** and broaden the range of retail goods currently offered.
- Develop a retail **"Traffic Light"** that signals to the brokerage community the kinds of businesses that would be supported and those that would likely be opposed in the district.



Alongside the Castro Theatre and the weekly Castro Farmer's Market, **Cliff's Variety** on Castro Street is one of the area's top anchors, bringing in customers from further afield. Additional retail anchors would help bring foot traffic to the district. Photo Credit: @torbakhopper/Flickr



By proactively suggesting business types, a Retail "Traffic Light" is seen as a way to increase collaboration between neighborhood leadership and property owners/retail brokers.

Issues To Be Addressed

Surveys, research and outreach helped the Retail Strategy team identify the opportunities and constraints of the Castro & Upper Market district. In developing a series of recommendations, the Retail Strategy team first sought to identify the issues that indeed require additional attention in order to be addressed. Many of the issues are well known to the average customer and experienced while shopping along the corridor. Several issues, however, came to light only through dialogue and reveal areas where deeper collaboration may be necessary.

There is a common understanding that the community is going through a transition. Many long-standing residents are choosing to move elsewhere, and the desirability of the neighborhood has spurred recent development. The Castro, while continuing to be the City's "Gay District", is redefining its role in a 21st century context. And while this transition is well understood amongst local residents, it is less acknowledged beyond the corridor's boundaries. New businesses are not well marketed or known beyond the district. The area's rich transit infrastructure provides an excellent platform to get the word out and expand the area's customer base.

The neighborhood's transition is experienced most acutely through its retail vacancies. Several vacancies exist at high visibility locations, and send a message that is inconsistent with the area's momentum. The darkness and inactivity of vacant storefronts also offer refuge for an increasing number of homeless people whose presence presents a safety concern.

A strong preference has been expressed for local retailers, but a strong concern has concurrently been expressed about the rising number of vacancies, including most notably, spaces that have persistently remained vacant for a long time. A concerted effort amongst neighborhood leadership in collaboration with property owners, and preferably with dedicated staff, is required to message those types of businesses that are complementary to the existing retail mix and to actively recruit them to the district. Such collaboration can also help keep an eye on the district's retail landscape, ensuring that vacancies are filled in a timely manner with tenants that complement existing businesses.



Collaboration amongst merchant and neighborhood groups is crucial to having a meaningful impact on the district's retail environment. The Rainbow Honor Walk is one example of a successful community collaboration. Photo Credit: Rick Gerharter/ Bay Area Reporter

Key Issues To Be Addressed Through Recommendations

<ul style="list-style-type: none"> • Castro & Upper Market is going through a dramatic transition and requires guidance • The Castro continues to evolve and must redefine what it means to be the "Gay District" • Rich transit infrastructure in the retail corridor provides an opportunity to expand the customer base 	
<ul style="list-style-type: none"> • Merchants report that customer foot traffic is down in recent years • Many new businesses are not known beyond the district • Important stakeholders, such as property owners and brokers, are unaware of new market opportunities 	
<ul style="list-style-type: none"> • Quality of life concerns (homelessness, cleanliness, crime, safety) rank first amongst customers and merchants • The pedestrian experience is impacted by long (distance) crosswalk crossings and insufficient crossing time • The Castro & Upper Market retail corridor is experienced as several disjointed segments 	
<ul style="list-style-type: none"> • Vacancies at several key gateways to the community send an unfavorable message • Neighborhood leadership needs to agree on what businesses are desirable • Neighborhood leadership needs to engage the brokerage/property ownership community 	
<ul style="list-style-type: none"> • Strong leadership and collaboration is required to change the trajectory of the neighborhood • A concerted effort, involving multiple parties, will require the coordination of dedicated staff • There is a limited capacity to evaluate the health of the district's retail landscape 	





Recommendations

The following recommendations aim to address the primary concerns for the district. The thought process is simple – to identify a vision for the district’s future and to realize that vision through marketing, physical improvements and collaboration. While the action steps associated with each recommendation will involve a series of key steps that are outlined in this chapter, each recommendation will require the prolonged engagement of neighborhood leadership to accomplish them. As this study has demonstrated, the Castro & Upper Market corridor has no shortage of highly motivated merchants and property owners who care deeply about its future and who can lead these efforts toward a more successful future.

Recommendations, coupled with action steps, aim to provide a structure to the community’s efforts in order to bring its communal vision to fruition. Some of the action steps are already partially executed, while others require significant funding. While not all of the action steps are expected to be implemented, the collective implementation of these recommendations offer the greatest potential to help the district expand and enliven its retail mix through current and future storefront opportunities.



1. Establish Vision and Positioning

The retail strategy of any business district must start with a nuanced assessment of how the district can and does differentiate and “position” itself within the broader competitive retail landscape, both as a destination for consumers and as a location for tenants. Its marketing content and “brand” identity must reinforce this strategic positioning, with coherent messaging and content that is compelling and targeted to specific audiences. Otherwise, marketing activities and brand identity will lack credibility and meaning, with no realistic chance of realization.

Identify strategic direction/repositioning

The local business community and neighborhood associations need to collaborate and agree upon the vision and strategic direction for retail in Castro & Upper Market. Based on the market analysis presented in this report, the strategic retail repositioning must respond to the following key observations and emerging trends:

- Residents strongly identify with their neighborhood and view the business district as the heart of their community.
- Merchants have a deep stake in and commitment to the district and broader Castro & Upper Market community, with many living and working in the neighborhood.
- Societal attitudes toward the LGBT community are shifting, with a broader awareness of and more positive attitude towards the importance of inclusiveness.
- While many local residents self-identify as LGBT, the neighborhood is in the early stages of demographic transition with younger families and individuals moving to the neighborhood, many of whom do not identify as LGBT.
- Other competing business districts (e.g. Mission, Hayes Valley) are attracting more attention from consumers and brokers.
- Castro & Upper Market lacks cohesion as a single business district. Given its length, unusual shape and retail variety, consumers and prospective tenants often view it as a collection of distinct subareas – each serving specific consumer needs and offering unique locational advantages to tenants. These distinct advantages and differences should be embraced and built upon by the district, while simultaneously reinforcing the interconnectedness of the subareas.
- The following aspirational visions for the district were noted by merchants during the focus groups and the customer and merchant surveys:
 - Conveys an appealing, walkable, late-night retail neighborhood
 - Offers unique retail and diverse cuisine
 - Showcases alternative arts and entertainment
 - Attracts visitors from around the world while serving as the “heart” of the neighborhood for residents



The success of Sui Generis, a designer consignment retailer on Market Street with a regional pull, highlights the demand for mens fashion.

Develop brand identity to promote retail repositioning

Local merchants, potentially through a subcommittee of Castro Merchants or the Castro , should collaborate to develop and promote a brand identity that helps expand the district's market share by clearly differentiating it in the minds of those who do not live there. Local merchants should consider retaining a savvy marketing consultant/creative agency that specializes in place marketing. To help inform this process, the following key words and phrases, which have a strong association with the district, have been compiled:

- Celebrate diversity—highlighting the district's focus on inclusivity.
- Come out and Play!—Castro Merchants tagline.
- Community—"Heart of the community", "sense of community", "gay community" are key strengths of the district according to both customers and merchants.
- Local flavor—emphasizing strong relationship between customers and local merchants, and their dedication to San Francisco.
- Round the clock—highlighting the extended hours of the district in contrast to many other neighborhood districts in San Francisco.



Pictured here dancing in Jane Warner Plaza, the Sundance Saloon is an LGBT country-western dance club. Their dance lessons and events strengthen the neighborhood's sense of community.

“ The Castro is gay in an 80s/90s way. I think it could be cool, welcoming and still true to itself but just be 21st century gay. ”

Response from customer survey

Identify and build upon key “nodes” of activity

The Castro has three distinct nodes of retail activity that need to be mutually reinforced and enhanced through better marketing and positioning. Strategies for these specific subareas can be broadly summarized as follows:

CASTRO CORE

(Castro Street, 18th Street, and Market Street from Castro to Sanchez)

Build upon the Castro’s historical relevance and symbolic importance as a pioneering gay enclave while welcoming others drawn to its celebration of alternative lifestyles. Expand its destination appeal with a larger selection of sit-down restaurants and comparison goods stores that present a genuine contrast from other shopping districts across San Francisco.

CHURCH STREET NODE

(Church Street and Market Street, from Sanchez to Buchanan)

Focus primarily on the convenience needs of the large swath of central San Francisco already shopping at its Safeway and/or Whole Foods Market anchors while also expanding the collection of ethnic restaurants as well as fast-casual food and beverage concepts. Reinforce and extend the smaller-scale neighborhood feel already prevalent along Church Street south of Market.

EASTERN GATEWAY

(Market Street, from Buchanan to Octavia)

Establish stronger connections with and take advantage of the “spillover” retail from three rapidly growing adjacent neighborhoods (Hayes Valley, Mid-Market/Van Ness and the Mission) by adding new restaurants, bars and shops with destination appeal. Discourage non-retail uses at street level.



The Church Street Node, with its unparalleled transit access, plays an important role in the district.

Finally, all three of the above sub-areas also contain so-called “B” locations within them – that is, **SECONDARY NODES AND LONG “INLINE” STRETCHES** between intersections. These call for a similar, focused approach:

- Build on the momentum generated by newly developed, mixed-use projects.
- Generate foot traffic with new destination-oriented businesses, particularly dining and drinking establishments.
- Provide opportunities for smaller-scale entrepreneurs and niche-oriented independents.
- Discourage non-retail uses at street level.

Initial recommendations for complementary retail tenants

Given neighborhood concerns regarding formula retail as well as the likely preferences of property owners, the most promising

target tenants are local, regional and national “chainlets” (including multi-concept operators or MCOs) with a relatively small number of locations, as these offer both a distinctive brand as well as creditworthiness given their successful retail track record. (See side bar for initial suggestions.) The primary exceptions to this recommended focus on chainlets should be:

1) larger regional and national chains that have been “green-lit” by local neighborhood groups and that have a genuine interest in demonstrating their commitment to and associating their brand with the LGBT community; and

2) true independents with a proven draw in other well-known LGBT enclaves (e.g. West Hollywood, Provincetown, etcetera).



*Bonobos is a popular online men's clothing retailer. To establish a physical presence in important cities, the company also has "Guide Shops".
Photo Credit: M. Dumas & Sons*

The Retail Strategy's consultant team has developed the following list of potential complementary retail tenants for the consideration of the TAG and the wider community. Retailers have been chosen based on their fit to the “chainlet” profile described in this recommendation, subject to further review with district stakeholders.

Comparison Goods:

Andrew Christian Flagship Boutique, ES Collection, Jeremy's, Atlas and Athena, Bonobos Guideshop, Aviator Nation, Past Perfect, Scandinavian Designs

Restaurants and Nightlife:

Daniel Patterson (MCO), Matt Semmelback (MCO), Traci des Jardins (MCO), Chuck Stilphen (MCO), Tonic Nightlife Group (MCO), Bradley's Fine Diner, Smoke's Poutinerie

Fast-Casual Food and Beverage:

The Plant, Tender Greens, Blue Barn Gourmet, Farm Burger, MOD Pizza, The Halal Guys, Muscle Maker Grill, Pressed Juicery



2. Market the District

According to interviews with local retail brokers, the profile and standing of Castro & Upper Market has diminished among prospective tenants interested in San Francisco locations. While Valencia Street, Divisadero Street and Hayes Valley have successfully secured a strong market draw and top-of-mind awareness, it is important to remember that such popular destinations have only recently emerged as premiere retail destinations.

The character, demographics and economic conditions of urban business districts ebb and flow. Consumer preferences change as well. While these changes are largely driven by broader economic and social forces, strategic initiatives on a neighborhood scale can play a critical role in shaping how a retail district successfully responds to them.

In this vein, Castro & Upper Market should embark on a concerted effort to reclaim its market position by cultivating greater awareness among visitors (from elsewhere in San Francisco and further afield) and leasing professionals, and developing a strategic approach to attracting new retail to the district.

Attract new local and regional customers, especially by showcasing exemplary businesses

Castro & Upper Market should embark on a consumer-focused rebranding that clearly and explicitly differentiates it from other San Francisco business districts, making sure to align its messaging and content with its current and proposed retail positioning. This identity should build on the most popular of its existing businesses while encompassing emerging niches that it is well positioned to capitalize on in the future. Suggested niches include fitness, healthy cuisine, and pet food & supplies, which would complement the existing retail mix.

While many San Francisco neighborhoods default to a local focus, Castro & Upper Market should leverage its considerable name recognition and brand equity on the national and international stage, raising its profile and enhancing its appeal to out-of-town tourists by drawing on its pioneering gay history, its evolution as an LGBT enclave as well as its celebration of alternative lifestyles more generally.



*Lindsay and Shawn of D&H Jewelers attract customers from San Francisco and beyond with their unique sustainable jewelry. Many people outside the district are not aware of Castro & Upper Market's offerings.
Photo Credit: D&H Jewelers*

“ I’d like to see the neighborhood appeal to a more diverse demographic so that businesses see more foot traffic from locals visiting from other SF neighborhoods. ”

Response from customer survey

Develop/share branded collateral with business attraction stakeholders, such as the brokerage community

As a first step in changing the conversation among leasing professionals, the merchants should consider retaining a marketing consultant/creative agency, in concert with a retail consultant, to develop a district-wide retail leasing brochure that (re)-frames the district's retail opportunities and presents a new narrative about Castro & Upper Market. This piece should then be featured and distributed as part of a broader marketing campaign that includes presentations at industry conferences, articles in local mainline and business publications, tours and "Open Houses" of available spaces and new developments, quarterly newsletters communicating new retailers and recently announced projects, etcetera.

Enhance collaboration amongst merchants (through coordinated intra-district referrals and expanded online presence)



Local Take on 17th Street offers locally sourced gifts and crafts. The store, popular amongst tourists, regularly sends customers to Cliff's Variety, which offers complementary products.

Another important yet overlooked part of marketing is the kind that the merchants themselves undertake on behalf of the district, whether serving as its ambassadors, referring customers to nearby businesses, working together on an expanded online presence, providing testimonials in support of recruitment efforts, etcetera. Surveys indicate that most of the merchants in Castro & Upper Market are not currently collaborating on marketing efforts or business referral programs, thus depriving the district of potential retail synergies, which could generate additional business. Castro Merchants should consider establishing a subcommittee to develop collaborative marketing materials (both in print and online), business referral programs and a merchant outreach program that features local businesses that have significantly benefited from doing business together.



3. Create a More Appealing, Walkable District

The Castro & Upper Market District is one of the most walkable districts in San Francisco, with its numerous shops and services within a short walking distance of surrounding neighborhoods. World-class public transportation, with numerous Muni bus and metro lines, also reduce the need for a car. Indeed nearly half of customers reach the retail corridor on foot, and customers cite walkability as the aspect of the neighborhood they like most.

Yet despite the large number of walkers, significant barriers prevent the retail district from being a safe and inviting environment for pedestrians: 6-way intersections have long crosswalk distances and chaotic paths of vehicular travel; pedestrian signals are often too short to fully cross; 4 vehicle lanes of travel along Market Street divide the north and south sides of the street; quality shops and restaurants are disaggregated and hard to find.

The Retail Strategy envisions a safer, more walkable and attractive Castro & Upper Market retail corridor that helps customers experience the various retail nodes as part of a larger whole and makes it easier to locate its diverse offerings.

Reinforce local efforts to address quality of life issues

Issues related to homelessness, cleanliness, crime and safety ranked highest amongst both customers and merchants as primary concerns. While addressing homelessness on a neighborhood level may be impossible, neighborhood leaders should continue to work in close collaboration with City agencies to assist those at-risk individuals living on the street, and to increase the cleanliness and safety of the district. Community responses to quality of life issues such as Castro Cares should be expanded, and additional efforts should be made to increase the presence of police on foot and bicycle patrol in the neighborhood to reduce crime, increase overall safety and help reduce aggressive behavior among the homeless population.

“Let’s go back to the days when the police were on the streets.”

Response from customer survey



Bicycle and foot patrol, pictured here at Castro and 18th, are strongly preferred over car patrol. Police presence is highly effective in curbing unwanted street behavior.

Implement streetscape upgrades and re-signaling at intersections

Working in close collaboration with the SFMTA, community leadership should continue to advocate for streetscape improvements that address pedestrian safety concerns and improve bicycle and vehicle circulation. Planned transportation, bicycle and pedestrian improvements funded by development impact fees from projects along the corridor should be spent expeditiously in order to prevent potential traffic injuries, improve overall walkability and minimize conflicts between bicycles, automobiles and pedestrians.

Signaling at complex 6-way intersections must be adjusted to better accommodate pedestrian circulation patterns and ease several vehicular backups on streets such as 14th, 15th, and 16th Streets. Signalization allowing pedestrians to cross two rather than one diagonal cross street, when walking along Market Street, will reduce travel times throughout the retail corridor and improve the district's connectivity.

Improve district connectivity through retail maps, signage, and public art

In addition to signalization improvements, other strategies can be implemented to help establish the district's connectivity and navigability. While retailers on Church Street and Market Street benefit from high visibility, retailers and restaurants on side streets, such as Noe and 18th Streets may benefit from additional publicity. Maps that locate the district's retailers would help showcase the area's diverse offerings and can be distributed as fliers, referenced online, or as large signs or electronic kiosks throughout the corridor. Additional signage could also improve way-finding to important destinations in the district (ie. Castro Theatre) and beyond (ie. Mission District). The use of creative street elements such as signage, furniture, lighting and art would not only help to highlight the district's community character but also to strengthen its cohesive feel.



Wayfinding listings and maps, such as this one from Alexandria, VA, would help visitors navigate the district and learn about businesses off of the main streets of Market and Castro.

“ There needs to be maps with “you are here” dots. It’s easy to get lost. ”

Response from customer survey



4. “Curate” the District’s Retail

With notable exceptions, landlords and brokers are incentivized to look for the “low-hanging fruit” – tenants that can pay the highest rents, are the most credit worthy and require the least effort to secure. In order to realize Castro & Upper Market’s full retail potential, district stakeholders need to develop a more proactive and curatorial approach, one that advocates on behalf of the district as a whole rather than on a site by site basis. Dedicated staff at a local business-oriented nonprofit, and/or municipal agency, would be best positioned to lead such an effort.

This dedicated staff will need to have the ability to engage diverse stakeholders toward a common goal, develop and implement a retail marketing strategy, and work with the brokerage community and property owners to recruit retail businesses to the area. (In summary, this staff needs to be a credible, collaborative and committed partner to the private sector.) This person must be thoroughly familiar with the “language” of leasing and may benefit from “Retail 101” training on how tenants, brokers and owners think about potential retail market opportunities, space considerations and the structuring of leasing deals, etcetera.

Convene property owner/broker meetings by node to coordinate retail attraction efforts

Property owners, leasing professionals and other stakeholders should be engaged in a meeting focused on curating retail at an initial “pilot” retail node – initially recommended to include the properties surrounding the intersection of Market Street and Church Street. The key focus of this initial effort would be to secure “buy-in” to a synergistic, retail re-positioning and tenanting strategy for this node and to play a significant role in the implementation of this strategy. In the interim, as some vacancies may be required for pending development or leasing negotiations, short-term tenants should be considered.

Signal desirable businesses that neighborhood groups would actively support

In order to provide tenants and brokers with a greater sense of predictability and to preempt prolonged disagreement during the conditional use process for formula retailers, Castro & Upper Market should promote and regularly update a “traffic light” framework for desired businesses, with individual retail categories given either a “green” (most likely to be approved), “yellow” (approval contingent on specifics) or “red” (likely to be opposed) light. An initial traffic light, from Spring 2015, is featured on the following page. More aggressive measures to actualize this vision, such as legislation, should be further explored.

Serve as a useful resource for the tenant and leasing communities

Key stakeholders in Castro & Upper Market should consider establishing an online information resource for prospective and existing retail businesses, brokers and others interested in learning more about retail opportunities in the district. This could take the form of a quarterly email update or working with a well-marketed online portal to feature the area’s retail vacancies. StorefrontSF is one such effort sponsored by the City, and the San Francisco Business Portal (businessportal.sfgov.org) also functions as a one-stop resource for permits, licensing, and small business assistance to merchants. This information resource would help improve and reinforce relationships with the retail brokerage community.

A trained marketing professional could also develop and maintain a database of tenant prospects, first identifying and screening possibilities that align with the district’s positioning and tenanting strategy, and then forwarding prospective tenants that meet their site criteria to landlords and brokers trying to lease spaces.

Retail “Traffic Light”

In order to better message the business types that are desirable for the district, neighborhood leaders reached consensus on the following list arranged as a “retail traffic light”. Designed as an intuitive way to gauge the neighborhood’s response, those items given the GREEN light can expect full community support while those in the RED category will face strong opposition. Uses given a YELLOW light are seen as complementary to the neighborhood, given certain conditions and appropriate siting. While not intended as a comprehensive list, the traffic light serves as a point of reference for those outside of the neighborhood.



GREEN LIGHT

- Art Gallery Space
- Bakery
- Butcher
- Clothing, Mens
- Clothing, Shoes
- Grocery Store, Specialty
- Gym
- Ice Cream
- Jewelry
- Restaurant, Late Night
- Restaurant, Outdoor
- Specialty Bookstore
- Veterinarian

SITING OR SPECIFIC BUSINESS RECOMMENDATION

- None
- None
- Castro Street subarea
- Castro Street subarea
- None
- Trader Joe’s
- Equinox
- None
- None
- None
- None
- i.e. Art or travel
- None

YELLOW LIGHT

- Art Supply Store
- Bars
- Clothing, Womens
- Office Supply Store
- Technology Store

WHY YELLOW LIGHT?

- Local retailers preferred, but retail type typical formula
- Concerns around operations
- Concerns around viability
- Local retailers preferred, but retail type typical formula
- Local retailers preferred, but retail type typical formula



RED LIGHT

- Coffee
- Convenience/Pharmacy
- Fast Food, Formula Retail
- Financial Services
- Salons, Nail and Hair
- Formula Retail at Any Corner

WHY RED LIGHT?

- Current saturation in the retail corridor
- Current saturation in the retail corridor
- Local retailers preferred
- Does not generate foot traffic
- Current saturation in the retail corridor
- Inconsistent with neighborhood character



5. Sustain Retail Strategy Collaboration

The Castro & Upper Market Retail Strategy represents a novel approach to improving the quality of the district's retail mix. While disagreement between neighborhood and merchant groups often exists, this Retail Strategy is truly a cooperative strategy to fill the corridor's vacancies and collectively guide the neighborhood's transformation as it welcomes new stores and restaurants. In order to have an enduring effect, the collaborative nature of this project must continue. It must also be monitored to gauge progress from year to year.

Regular stakeholder meetings will be required to sustain an engaged commitment to the project. In the absence of dedicated staff beyond June 2015, the Retail Strategy will depend upon Castro Merchants and the Castro CBD to pursue funding to anchor an employee focused on the implementation of the recommendations above.

Identify collaborative structure to maintain engaged stakeholders and execute recommendations (property owners, developers, brokers, businesses, residents)

A subgroup of the existing Technical Advisory Group (TAG) needs to continue to hold regularly scheduled meetings to monitor progress and continue the collaborative process of the Retail Strategy. A monthly meeting/call is suggested in the early stages of this effort, which could be followed by less frequent collaborations as the strategy progresses. The current composition of the TAG should be rethought, potentially to include greater representation of leasing stakeholders such as merchants, property owners and retail brokers.

Seek funding for dedicated staff

Acknowledging that certain action steps require a level of time commitment that only a funded position can realistically offer, the Castro Merchants and the Castro CBD are considering to pursue additional funding to secure a part-time employee. Such an employee would have as a primary responsibility the implementation of the recommendations outlined in this report, to include orchestrating a coordinated marketing campaign and becoming more involved with business recruitment. City agencies such as the Mayor's Office of Economic and Workforce Development or the Office of Small Business, as well the federally-funded Small Business Development Center are all potential funders. Local developers, property owners and businesses may also consider contributing a portion of their marketing budget towards endeavors that position their buildings or businesses through better positioning the district.

Develop and monitor annual benchmark indicators of district improvements

Lastly, community leadership should decide on metrics that are updated annually to provide an understanding of what progress has been made to improve the district's physical environment and retail composition. Streetscape improvements should be first and foremost evaluated according to their capacity to reduce collision rates. They should also be evaluated on their timeliness, in comparison to publicized city agency timelines. The district's vacancy count should also be monitored, but not just reported by the number of storefront vacancies, but rather in total time vacant. (Prolonged vacancies have a more negative impact on the district, especially when located in highly visible locations.) The number and characteristics of new businesses that open in the district, as well as those that leave, should also be tracked with "entrance" and "exit" interviews conducted to better understand the business opportunities and challenges that they face.



Monitoring the length and location of retail vacancies in perpetuity is important to understand how the Castro & Upper Market's retail district is changing.

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Thank you!

Resources

Project Resources and Technical Appendix

The project team also wants to especially thank TAG member, Orie Zaklad, for creating and hosting the project website, <http://www.castroretail.com>, which served as a key outreach tool and information resource during the Retail Strategy's development. It will continue to be a web resource as the Retail Strategy is implemented. For further information on the customer and merchant surveys, market data and other research that informed the Retail Strategy please download the Technical Appendix of this report, which will be posted on the project website in late June 2015.



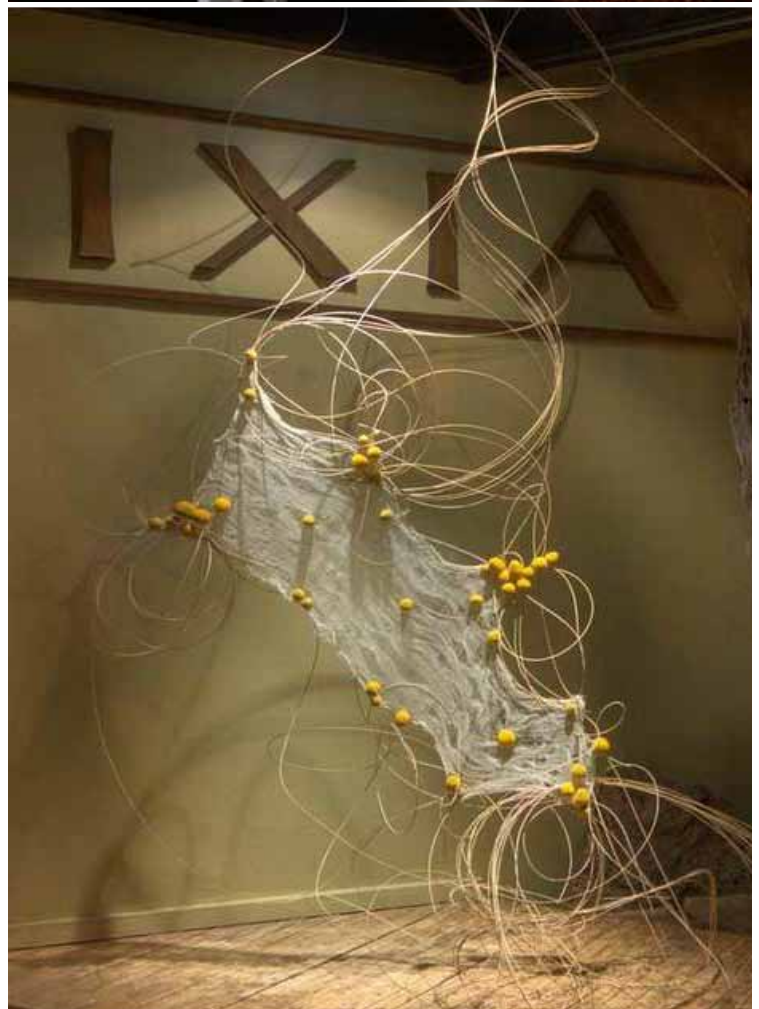
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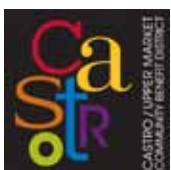
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Marketing and Production



CASTRO & UPPER MARKET RETAIL STRATEGY

A project of the
Castro/Upper Market
Community Benefit District



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