

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT  
July 24, 2006

To: Council Downtown Committee  
Council Member Ward, Chair  
Council Member Halliday

THRU: Jesús Armas, City Manager 

FROM: Sylvia Ehrenthal, <sup>ing MB</sup> Director of Community and Economic Development

SUBJECT:	Council Downtown Committee Meeting
DATE:	July 24, 2006
TIME:	7:00 - 9:00 p.m.
LOCATION:	Hayward City Hall - Work Session Room 2A

# **COUNCIL DOWNTOWN COMMITTEE**

**Monday, July 24, 2006**

**7:00 p.m.**

**Work Session Room 2A - Hayward City Hall**

**777 B Street**

**Hayward, CA 94541**

Public Comments: (Note: For matters not otherwise listed on the agenda. The Committee welcomes under this section but is prohibited by State Law from discussing items not listed on the agenda. Your item will be taken under consideration and referred to staff.)

1. **Downtown Retail Attraction Initiative – Draft Program Guidelines**

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Assistance will be provided to those requiring accommodations for disabilities in compliance with the Americans with Disabilities Act of 1990. Please request the accommodation at least 72 hours in advance of the meeting by contacting the Downtown Development Division at (510) 583-4260 or by using the TDD line for those with speech and hearing disabilities at (510) 247-3340.

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**CITY OF HAYWARD**  
**AGENDA REPORT**

AGENDA DATE 07/24/06

AGENDA ITEM \_\_\_\_\_

WORK SESSION ITEM \_\_\_\_\_

**TO:** Council Downtown Committee  
**FROM:** Director of Community and Economic Development  
**SUBJECT:** Downtown Retail Attraction Initiative - Draft Program Guidelines

**RECOMMENDATION:**

It is recommended that the Downtown Committee review and comment on this report and the attached draft Program Guidelines.

**DISCUSSION:**

On March 27, 2006 the Council Downtown Committee reviewed a proposal to create a Downtown Retail Attraction Initiative, and recommended that staff prepare a program to be included for funding consideration in the FY 2006-07 Redevelopment Agency Budget. The program was subsequently included in the proposed budget and was approved on June 20, 2006, with a budget amount of \$500,000. At that time, the Agency Board also appropriated \$50,000 for the purpose of developing a brochure and other marketing materials that may assist this effort.

This program was proposed in response to the observed number of vacant buildings in the Downtown Hayward Redevelopment area, west of Foothill Boulevard. The intent of this program is to utilize financial incentives to attract tenants that will help enliven the downtown area. The funds are intended to secure retail businesses for which there is consumer demand, and yet are not currently well-represented in the downtown.

The attached Downtown Retail Attraction Program Guidelines are intended to apply to a limited portion of the downtown including buildings that front both sides of B Street and C Street from Foothill Boulevard to Watkins Street, and both sides of Main Street and Mission Boulevard from A Street to C Street.

The Guidelines specify two funding mechanisms that can be used to secure desired tenants for vacant retail spaces. The first form of assistance would be a loan that would be made to tenants or owners of vacant buildings, to be used for improvements needed in order to lease the property to an approved tenant. Items suitable for consideration would include interior improvements such as restroom, kitchen, office and storage facilities, display areas, checkout counters and the like. City fees and permits related to the cost of undertaking tenant

improvements could be included in such loans. The second category of assistance would take the form of master lease and sub-lease agreements, and lease options. Lease option agreements could be entered into between the Agency and a property owner in order to secure properties at certain terms, in order to market them to desired tenants for a period of time. Lease options could simply be assigned to a desired tenant at face value once the tenant is identified, and assuming the tenant agrees to the terms of the lease. Master Lease and Sub-Lease Agreements could be used in situations when the landlord requires a level of rent that is higher than the desired tenant(s) can afford to pay. The Agency would enter into a master lease with the property owner, and then negotiate a (lower cost) sub-lease with the identified tenant(s). Inclusion of brokerage fee payments could be included as part of the structure of such Agreements. It should be noted that redevelopment law precludes the Agency from simply granting funds to tenants for the purpose of making rents affordable.

The Program Guidelines propose that all loans made under this program would be subject to review and recommendation by the City's existing Loan Review Committee, which currently reviews loans proposed under the City's Revolving Loan Program. While the terms of the Downtown Retail Attraction Program Loans are similar to the Revolving Loan Program, the latter is not confined to the downtown, has generally larger funding limits, longer terms, and more rigorous payment provisions than what is proposed under the Downtown Retail Attraction Program. In addition, Master Lease and Sub-Lease Agreements would require approval by the Agency Board in accordance with redevelopment law.

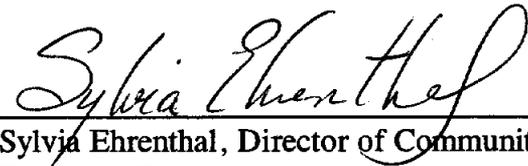
While building rehabilitation loan programs are offered by a number of redevelopment agencies in California, the leasing and sub-leasing of property in order to solve building vacancy concerns is a somewhat novel approach, and staff is not aware of other agencies where this has been tried on a programmatic basis. It is therefore proposed that progress under the Program be reviewed periodically with the Council Downtown Committee in order to determine whether refinements or changes should be made to the Program.

Upon review and comment by the Committee, staff will proceed to develop marketing materials to assist in the retail attraction effort, and begin marketing and outreach for this program.

Prepared by:

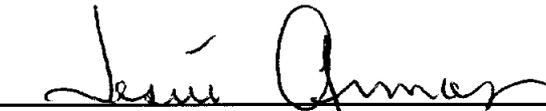
  
\_\_\_\_\_  
Maret Bartlett, Redevelopment Director

Recommended by:



Sylvia Ehrenthal, Director of Community and  
Economic Development

Approved by:



Jesús Armas, City Manager

Attachments: Exhibit A: Draft Downtown Retail Attraction Program Guidelines

## EXHIBIT "A"

### CITY OF HAYWARD DOWNTOWN RETAIL ATTRACTION INITIATIVE DRAFT PROGRAM GUIDELINES

#### PROGRAM OBJECTIVES

The Downtown Retail Attraction Initiative is designed to reduce the proposed number of vacant buildings in the Downtown Hayward Redevelopment area, west of Foothill Boulevard, and to compliment ongoing efforts to make the downtown a vibrant and attractive retail center. Some of the building vacancies are long term – five years or more – and appear to be the result of building deterioration or obsolescence. Other vacancies have occurred within the previous two years and may be the result of unsupportable asking rents, lack of effective marketing efforts or misplaced expectations regarding tenancies. The intent of this program is to utilize financial incentives to attract tenants that will help enliven the downtown area. The funds are intended to secure retail businesses for which there is consumer demand, and yet are not currently well-represented in the downtown. The following are the program objectives:

- Fill ground floor building spaces that have been vacant for over six months
- Facilitate rehabilitation of obsolete or deteriorating building interiors
- Leverage private investment in the downtown community
- Strengthen sales tax and property tax revenues
- Provide quality goods and services that will serve downtown residents and other Hayward residents.

#### SERVICE AREA

The proposed service area includes the ground floors of buildings fronting both sides of B Street and C Street from Foothill Boulevard to Watkins Street, and both sides of Main Street and Mission Boulevard from A Street to C Street. Buildings facing municipal parking lots within these boundaries are also included (see Exhibit A).

#### PROGRAM OUTLINE – TYPES OF FINANCIAL ASSISTANCE

This program is intended to provide two forms of assistance in a flexible format to property owners in order to address several potential barriers to leasing vacant space in the downtown:

Loans to Business/Property Owners for Tenant Improvements and Fixtures: Loans made for this purpose are intended to be used for improvements needed in order to lease the property to an approved tenant. Items suitable for consideration would include interior improvements such as restroom, kitchen, office and storage facilities, display areas, check stands and the like. City fees and permits related to the cost of undertaking tenant improvements could be included in such Loans.

Master Lease/Sub-Lease Agreements and Option Agreements: Lease Options are to be used by the Agency in order to secure properties to market to desired tenants for a period

of time. Lease options may be assigned to the desired tenant. Master Lease and Sub-Lease Agreements are to be used when a landlord has been unsuccessful in marketing his/her building to a desired tenant(s), or when the landlord requires a level of rent that is higher than the tenant(s) can afford to pay based on the landlord's documented expenses, fair return standards, and comparable rents. Inclusion of brokerage fee payments by the Agency may be considered as part of such Agreements.

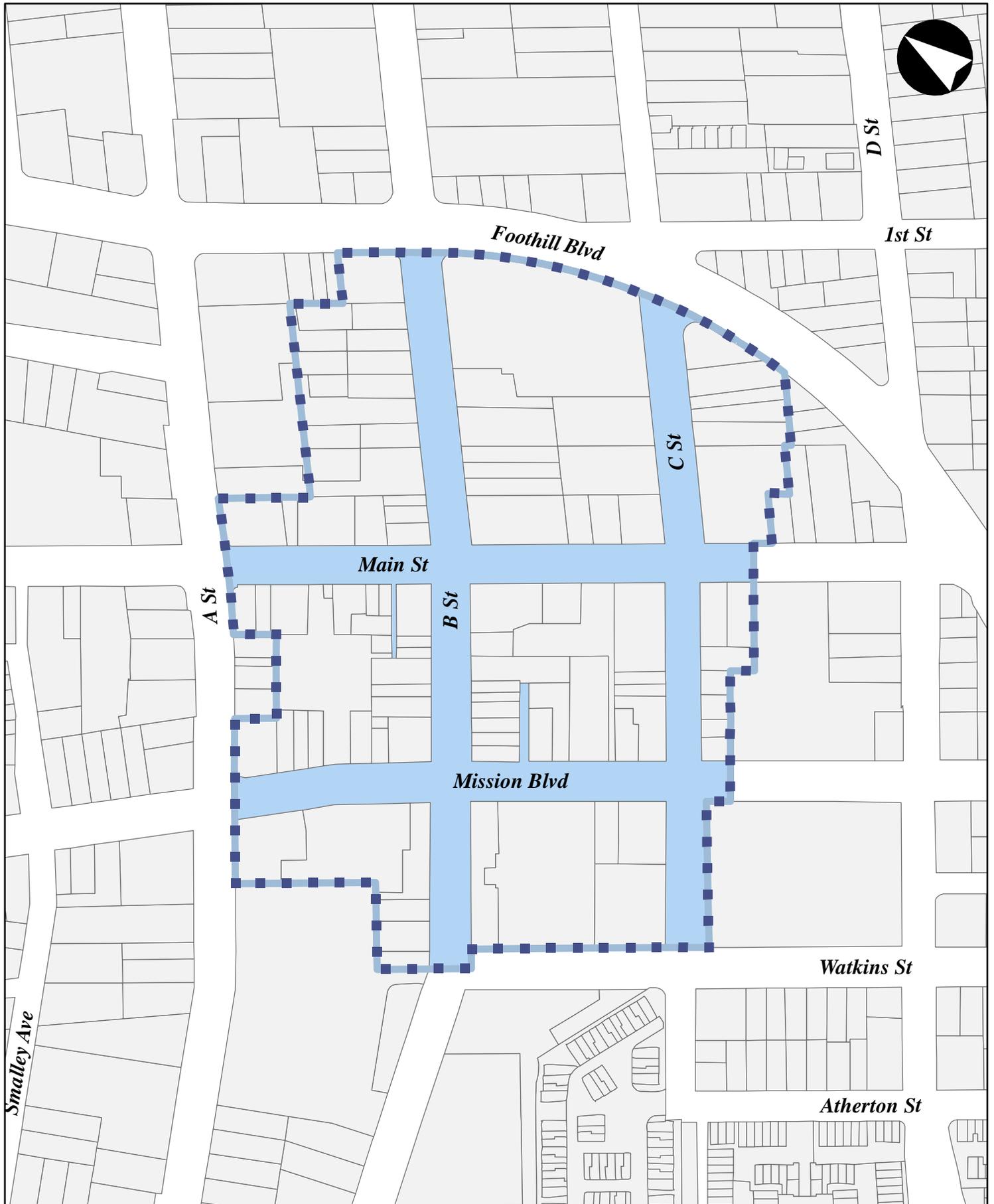
#### General Criteria for Approval of Assistance Under this Program:

- All loans made under this program must first be reviewed by the City's Loan Review Committee.
- All Master Lease/Sub-Lease Agreements are subject to approval by the Hayward Redevelopment Agency.
- Participating properties/shop space must be located within the Program service area and must be vacant for a period of at least six months prior to receipt of funds for assistance. Participating buildings must be structurally sound and habitable, or plans and financing to improve the building to comply with Hayward building codes must be approved as a condition to funding under this Program.
- Building owners must be current on all loans and property taxes associated with the building, with no unpaid liens recorded against the property at the time of funding.
- The building owner and tenant must agree to enter into a lease of at least three to five years.
- All tenants must be in business at least two years prior to leasing the building space, or be owner-operators who have managed a similar successful business for a minimum of two years.
- All tenants must be retail or service businesses of the type included on the attached Target Tenant List (see Exhibit B). Exceptions may be considered for businesses that are not on the list, but are not well-represented in downtown.
- Program participants will comply with Hayward Redevelopment Agency and State Prevailing Wage requirements for construction contracts.
- The Program will strive to meet a minimum 2:1 leveraging ratio of private financing to Program assistance for each building served.

#### Loan Terms

- Loans will have a term coinciding with the length of the lease term for the approved space, as that lease may be extended. If a business stays in the same location for 10 years, the loan will be forgiven.
- Loan interest amounts will be three percent (3%) simple interest.
- No payments will be due the first two years of the loan, payments thereafter will be interest-only, and the principal balance of the loan is due at the end of the lease up until the end of the 10<sup>th</sup> year at the approved location. The loan principal and any interest due will be called if the loan recipient moves from the approved location prior to the end of the 10 year period.
- All loans will be collateralized to the extent possible through the real estate, or Uniform Commercial Code lien on equipment and fixtures.

# Downtown Retail Attraction Initiative Program Boundary - Exhibit A



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**EXHIBIT B**  
**TARGET RETAIL TENANT LIST**

- DVD/Video Rental Store (Hollywood Video)
- Stationers/Greeting Card Store (Hallmark)
- Specialty Food Stores (health foods, chocolates)
- Office Supply/Computers/Software Store (Egghead)
- Art Supplies/Craft Supplies/Picture Framing (Michael's)
- Quality/National Brand Clothing Stores (The Gap)
- Shoe Stores/Athletic Shoes (Converse, Footlocker)
- Kitchenware (Sur le Table) \*
- Small Electronics (Radio Shack)
- Sporting Goods (Copeland's, golf stores)
- Exercise Equipment
- Collectible Card/Game Shops (EB Games)
- Book, music/CD stores (independents or chains)
- Toy Stores
- Children/Baby Stores (including consignment)
- Learning Centers (Kumon)
- Travel Agents \*
- Flower Shops
- Pet Supply/Grooming