PHED & GO Committees #1
January 30, 2012
Discussion

MEMORANDUM

January 26, 2012

TO: Planning, Housing, and Economic Development Committee
Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst

SUBJECT: Redevelopment and small businesses

The Planning, Housing and Economic Development Committee and the Government Operations and Fiscal Policy Committee plan to discuss the challenges faced by small businesses in redevelopment areas, as well as the current or future role of County government in addressing those challenges. This discussion is timely, given the recent and upcoming master plans, including:

- Approved and Adopted White Flint Sector Plan (market driven redevelopment)
- Wheaton Sector Plan (public-private partnership driven redevelopment)
- Long Branch and Takoma/Langley Crossroads Sector Plans (anticipating future light rail)

County government operates or funds several small business assistance programs that can serve small businesses affected by redevelopment. State and Federal programs, as well as non-profits, supplement these County assistance programs. Several departments within County government are involved in small business assistance. In addition to County assistance programs, the Council has recently approved new zones that aim to incentivize developers to create commercial spaces that are appropriate for small businesses as part of many new development projects.

In spite of these programs and regulations, many small businesses here, as everywhere else, continue to struggle. When redevelopment is imminent or occurring, many of the problems faced by small businesses are attributed to the redevelopment. Part of the difficulty in drawing a causal connection between redevelopment and business failure is that many marginal businesses choose to locate in areas that have inexpensive rent and that may already be ripe for redevelopment.

This memorandum addresses:

- Definitions of "small business" and "redevelopment"
- Challenges faced by small businesses in redevelopment areas
- Programs available to assist small businesses affected by redevelopment
- Zoning to protect or encourage small businesses in redevelopment areas
- Recent master plan efforts and small business
- Policy recommendations
- Policies NOT recommended

Representatives from the Departments of Economic Development, General Services, Housing and Community Affairs, and from the Mid-County and Silver Spring Regional Services Centers will be in attendance.

Definitions

"Small business" is defined in various ways. The U.S. Small Business Administration defines a small business as a business that is not dominant in its field of operation, and which qualifies under federal regulations.[1] The Small Business Administration has established size standards for all for-profit economic activities as they are described under the North American Industry Classification System (NAICS).

The County regulations regarding the implementation of the Local Small Business Reserve Program define a "local small business," and that definition includes a reference to size and sales criteria. The size and sales criteria are different for wholesale, retail, manufacturing, services, and construction.[2]

DED defines "small business" for purposes of administering the Impact Assistance Program and the Small Business Revolving Loan Program differently, and uses the same gross revenues and size (by total employment) criteria for all industries. For example, the DED's policy manual for the Small Business Revolving Loan Program states that "It is the Program's objective to lend to those Montgomery County small businesses that have gross revenues of less than $5,000,000 annually and have less than 75 employees."

"Redevelopment area" is difficult to define. In a broad sense, a redevelopment area is an area in which change in the built environment is occurring or is likely to occur. "Redevelopment" simply means taking a previously developed property to a higher, more productive use. According to the National Council for Urban Economic Development[3], "Redevelopment occurs when the private or public sector sees an opportunity to transform a property into one with greater value and/or economic benefit to the local economy. The sub-optimal use often results from obsolescence, or a loss in utility of a property, which results in lower land values."

"Redevelopment," as a term, is often confused with the terms "revitalization," "gentrification," or "urban renewal." In contrast to "redevelopment," all of those terms imply change in an area that is blighted.

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[1] See 13 CFR 121.
[2] See COMCOR 11B.65.01, Local Small Business Reserve Program.
[3] "Real Estate Redevelopment," National Council for Urban Economic Development, 1996.

Challenges faced by small businesses in redevelopment areas

Small businesses everywhere face significant challenges. Many are headed by inexperienced managers, are undercapitalized, and struggle to compete with larger businesses that enjoy economies of scale and can offer lower prices.

Small businesses in redevelopment areas face additional, unique challenges. One set of unique challenges has to do with leasing:

- Commercial rents may increase, reflecting either redevelopment activity or expectations of imminent redevelopment activity.
- Property owners may be unwilling to commit to long-term leases, or may reduce investment in the property in anticipation of imminent redevelopment.
- Alternatively, tenants may over-estimate the likelihood that their lease will be renewed, or over-invest in FF&E (furniture, fixtures, and equipment) or make other expenditures that are not recoverable given the short-term nature of the leasehold.

A second set of unique challenges faced by small businesses in redevelopment areas is disruption/displacement:

- Some small businesses are unable to weather any prolonged disruption affecting visibility or accessibility, or any disruption that requires temporary closure.
- Some small businesses are displaced, and may struggle to find comparable space (supply) at comparable rents.
- Small businesses that are displaced may also struggle to achieve pre-displacement sales volumes.

In order to track changes to indicators such as rents and vacancy rates, the Council would first need accurate and reliable baseline data. Up until now, rents and vacancy rates have not been tracked systematically by master plan areas or other sub-County geographies.

County programs available to assist small businesses affected by redevelopment

The Montgomery County Department of Economic Development administers two financing programs that are particularly relevant to this discussion:

- Impact Assistance Program
- Small Business Revolving Loan Program

The **Impact Assistance Program (IAP)** was established to assist small businesses adversely affected by County-initiated development projects. Under the IAP, assistance is available to any small business (gross revenues of less than $5,000,000 annually, with fewer than 75 employees) based and operating in Montgomery County. Assistance is available to mitigate the impact of **County projects** currently in process, and only businesses currently impacted are eligible under the Program. The maximum award under the program is $20,000, though greater amounts can be awarded on a case-by-case basis.

- In FY05, the IAP was approved by the Council.
- Since FY05, a total of $650,000 has been appropriated for the IAP.
- In FY10, the fund balance was reduced by $150,000 due to the County's budget savings plan, reducing the total appropriation to $500,000.
- Since the inception of the IAP, a total of $477,521 has been granted to 27 area businesses adversely affected by County projects.
- The remaining balance available is $22,479.

The **Small Business Revolving Loan Program** (SBRLP) makes loans to small businesses (gross revenues of less than $5,000,000 annually, with fewer than 75 employees). Eligible businesses must spend program funds to either (1) assist the start-up or expansion of the business, or (2) retain and stabilize the business. Program assistance typically ranges from $5,000 to $100,000, with a maximum term of up to 5 years.

- Since the start of FY00, the Council has appropriated a total of $600,000 in cash to the SBRLP.
- Total cumulative appropriation, including State matching funds and re-appropriated funds from loan repayments, is $3,371,789.
- The FY10 budget savings plan resulted in a total reduction to the fund balance of $400,000.
- Since the inception of the SBRLP, a total of $2,117,500 has been disbursed to 36 local small businesses in the County.
- The remaining balance available is $668,749.[4]

The County operates, promotes or supports other programs relevant to small businesses, but not specifically related to redevelopment:

- Business Empowerment for Women
- Small Business Mentorship Program
- Montgomery Works

State programs also exist that are intended to assist businesses affected by redevelopment. The Department of Housing and Community Development (DHCD) Neighborhood Services Division, with its Community Development Block Grants, Community Legacy or Sustainable Community programs, and Neighborhood Works Program, provides assistance in targeted areas affected by commercial revitalization.

[4] DED projects an FY12 balance of approximately $850,000.

Zoning to protect or encourage small businesses in redevelopment areas

In areas with substantial redevelopment or revitalization, some small businesses that otherwise would have survived may not survive the disruption and change resulting from redevelopment. However, if development patterns in a redevelopment area support the development of small spaces in a finely-grained mixed-use environment, new small businesses will occupy the area after redevelopment.[5]

With Zoning Text Amendment 11-01, the Council adopted amendments to the CR zones and created the CRT and CRN zones. Permitted uses and incentive density categories in the zones both have the potential to affect the future availability of spaces suitable for small businesses.

Permitted uses under the CR, CRT, and CRN zones also allow or favor the development of spaces suitable for small businesses. Examples of permitted uses relevant to this discussion include:

- Live/work units— permitted use in the CR, CRT, and CRN zones.
- Retail trades, businesses, and services of a general commercial nature with each tenant footprint up to 5,000 square feet—permitted use in the CR, CRT, and CRN zones.
- Retail trades, businesses, and services of a general commercial nature with each tenant footprint between 5,000 square feet and 15,000 square feet—permitted use in the CR and CRT zones and limited use in the CRN zones.

Under the zones, developments that seek to obtain greater density than is permitted in the standard method of development must apply under the optional method of development. Development under the optional method must provide public benefits under the incentive density provisions of the zones. Examples of incentive density provisions that are applicable to this discussion include:

- **59-C-15.853 Connectivity and mobility.**
    - **(a) Neighborhood Services:** . . . at least 10 points for safe and direct pedestrian access to at least 10 different retail services on site or within ¼ mile, of which at least 4 have a retail bay floor area of no greater than 5,000 square feet.

- **59-C-15.854 Diversity of uses and activities.**
    - **(d) Small Business Opportunities:** Up to 20 points for providing on-site space for small, neighborhood-oriented businesses.
    - **(g) Live/Work:** Up to 15 points for developments of up to 2.0 FAR total density that provide at least the greater of 3 units or 10% of the total unit count as live/work units.

Recent master plan efforts and small business

Among recently approved master plans, the approved and adopted Wheaton Sector Plan most explicitly addresses the vitality of local small businesses. The Plan acknowledges the changes that will occur in Wheaton with redevelopment and states that "Redevelopment may displace some existing businesses, but it will also create more demand for specialty retail and small businesses. This Plan encourages preservation of space for small businesses in new mixed-use developments." With regard to the County's redevelopment program, the Plan states that the new development

[5] H Street NE in Washington, DC is an example of a corridor that lost some small businesses during the redevelopment process, but which has also managed to redevelop with a healthy and eclectic mix of small businesses.

resulting from the public-private partnerships should be consistent with plan objectives and should "create opportunities to help retain and grow local small businesses."

Policy recommendations

In addressing potential effects of redevelopment pressure on small businesses, the Council **should** consider the following:

Study the problem. The Council should direct a department or agency to track rents, vacancy rates, and other potential indicators (for example, number of establishments) of health or distress in small-area economies. Establishing a baseline in 2012 will enable continued tracking and policy solutions that target identified problems in particular geographic areas.

Budget actions related to redevelopment of Wheaton. The Council could mitigate the impact of a specific County project (for example, the Wheaton redevelopment) through the budget. Given the timing of the Wheaton redevelopment, no budget action would likely be needed this year.

- The Council could appropriate additional funds for the Economic Development Fund (EDF) and earmark those funds for the Impact Assistance Program or the Small Business Revolving Loan Program.
- The Council could appropriate funds in the CIP Project Description Form (PDF) for planning studies to identify and quantify impacts of the redevelopment on local small businesses, to design appropriate mitigation programs, and to provide funding for mitigation assistance.

Strengthen the technical and financial capacity of small businesses in advance of redevelopment pressure. The Council should explore options to enhance the technical and financial capacity of small businesses in redevelopment areas, including legislation. At the same time, the Council should be mindful that the cost-effectiveness of such efforts is often limited by the technical capacity of the businesses involved. As such, technical assistance and financial assistance are both important when preparing a community for imminent changes.

Connect potential tenants and vacant space. Matching a tenant in need of space and space in need of a tenant could correct market inefficiencies that result from lack of information ("broker of last resort"). There is currently no established program, hotline, or website that connects potentially displaced tenants to vacant commercial space.

- The cost of implementing such a program would be a factor, and may argue for implementing through a private sector partner.
- On January 23, 2012, DED presented a status update on its new website. Phase 2 of the website is to include a real estate database that will help potential tenants find available space in the County.

Level the playing field. Be mindful, when adopting procurement policies and tax and regulatory incentives and exemptions, that small businesses deserve a level playing field.

Policies NOT recommended

In addressing potential effects of redevelopment pressure on small businesses, staff cautions against several other potential policy approaches:

Do not impose commercial rent control. Commercial rents increase in accordance with lease terms or when new leases are signed. There is no County program or regulation that prevents commercial rents from increasing. While such a program would address some problems, it would cause others:

- Property owners unable to achieve market rents would have no incentive to increase supply.
- Demand for commercial space would increase due to artificially suppressed rents.
- An inability to achieve market-clearing prices would lead to shortages of commercial space.
- Shortages of commercial space would create barriers to entry and make it difficult for businesses to relocate.
- In many cases, the businesses are marginal, even at pre-redevelopment rents.
- Even with rent control, many small businesses (especially retail and restaurants) would not be able to operate profitably after redevelopment due to changes in the local market.

Do not throw money at the problem. In order to be cost-effective, financial assistance programs should be targeted to solve specific problems in geographies that share key characteristics. Eligibility should be limited to businesses that are capably managed.

Do not attempt to assist small businesses through zoning. Zoning is a tool that is very poorly suited for mitigating the effects of redevelopment on small businesses. Zoning cannot be used to provide financial support to struggling businesses or to prevent competition from large or non-local businesses. Zoning can be used to require or incentivize desirable development patterns, or to prohibit odious development patterns. Jurisdictions with broad enabling laws are sometimes able to regulate formula businesses (chain stores). Zoning can also be used to limit the extent of redevelopment if doing so is consistent with the applicable master or sector plan.

Attachments:	© 1	Gazette article, January 18, 2012, by Aaron Kraut
	© 2	Gazette article, December 16, 2011, by Kevin James Shay
	© 4	Gazette article, December 7, 2011, by Aaron Kraut
	© 5	Gazette article, November 23, 2011, by Aaron Kraut
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	© 8	"Can gentrification work for everyone?", by Will Doig

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Maryland Community News

Published: Wednesday, January 18, 2012

Montgomery County Executive proposes $40 million for Wheaton redevelopment *by Aaron Kraut*
Staff Writer

Montgomery County Executive Isiah Leggett on Jan. 17 defended his proposed $40 million investment in Wheaton by saying the money would cement redevelopment that would bring new life to the community.

The partnership between the county, developer B.F. Saul and the Washington Metropolitan Area Transit Authority will bring 600,000 square feet of office space, 40,000 square feet of retail, a 120-room hotel and a Town Square to the Wheaton Triangle by 2019, according to Leggett's recommendation in his six-year capital budget.

But some say such a big public investment means existing business owners should reap some benefits.

The Coalition for the Fair Redevelopment of Wheaton presented Leggett on Jan. 17 a petition with about 500 signatures that urges the county and B.F. Saul to provide financial aid to small business owners before and during construction.

At a town hall budget meeting in Silver Spring, Leggett said the county's $40 million is necessary to attract developers who previously had no interest in Wheaton. The county projects the total cost of redevelopment will be between $200 million and $300 million.

"Don't bemoan the fact that we're going to make an investment," Leggett said. "You have to make an investment, otherwise it would have worked already and it has not."

Leggett said the county must do a better job protecting small businesses than it did during the redevelopment of Downtown Silver Spring. At least 80 Silver Spring businesses were displaced by redevelopment, according to a 2005 University of Maryland study.

"The plans to develop the small businesses in Silver Spring, I think were inadequate," Leggett said. "Many of them were shoved aside because they could no longer pay the rent or stay in Silver Spring, even though they were there for a long period of time. I don't want to see that happen in Wheaton."

But business owners want specifics.

The county and B.F. Saul must provide ways in which Wheaton small businesses, many of which are Latin-owned, would be protected from rising rents and business lost during construction, according to a Jan. 17 blog post by Latino Economic Development Corporation communications and advocacy Director Ash Kosiewicz.

Montgomery County Director of Economic Development Steve Silverman last year said the county, and not B.F. Saul, will be responsible for relocation expenses and other assistance to small businesses.

Leggett's budget recommendation shows that in fiscal 2015, construction would begin on the WMATA bus bay between Viers Mill Road and Georgia Avenue. Construction of the county portion, a platform over the bus bays, would last approximately 18 months and allow for an additional 18 months of B.F. Saul construction of highrise office and retail buildings.

Construction on Town Square, on the public parking lot across from the Mid-County Regional Services Center, would begin in fiscal 2018.

The budget now goes to County Council, which must approve the budget by June 1.

akraut@gazette.net

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Maryland Community News

Published: Friday, December 16, 2011

Maryland's small retailers feeling the redevelopment squeeze *by Kevin James Shay*
Staff Writer

Some five years ago, Amanda Sanchez moved her restaurant/bar from Silver Spring to Wheaton because her rent was rising and access problems arose from a redevelopment project.
Now the owner of Riverside Lounge is going through Act II of the same squeeze play.
The area around Sanchez's relocated business in downtown Wheaton is undergoing changes that include more mixed-use development with new offices, housing and retail.
"There is not much parking for my customers," Sanchez said. "It's a very slow economy. I might have to sell because of the new offices and houses causing rents to increase."
Sanchez's predicament is playing out across Montgomery County, as well as Baltimore, Frederick, Prince George's and other counties in Maryland. Many consumers want the snazzier and more upscale shopping venues that often stem from redevelopment, but that redevelopment comes at a price for numerous small businesses.
In Rockville, where tenants at Mid-Pike Plaza along Rockville Pike near Montrose Parkway have had to endure road construction that often confused their customers for several years, Syed Husain, manager of Dry Clean-Pro, said rising lease rates have been the main contributing factor to him planning to close the store by as early as next week.
"I don't know what I will do after that," Husain said.
'Probably the future'
A similar transition is occurring down Rockville Pike at White Flint Mall, where Rockville developers Lerner Enterprises and Tower Cos. plan to demolish much of the 850,000-square-foot shopping center and replace it with a mixed-use "town" with new housing units, retail and office buildings.
The transition from strictly commercial centers to multiuse areas blending housing, office space and retail likely will be repeated throughout the county, said Steven A. Silverman, director of Montgomery County's Department of Economic Development.
"What White Flint mall is doing is probably the future," he said. "It's much bigger than just White Flint."
Wendy Morigi, a spokeswoman for Lerner, said her company does not comment on discussions it has with tenants. She said it was too early in the process for mall management to announce plans for the businesses in the shopping center.
Murat Etili, owner of gift and home furnishings shop Knightsbridge Trading Co. in Mid-Pike Plaza, is concerned that lease rates will price him out of the shopping center after a redevelopment project that also plans to rename the center Pike & Rose.
Construction of the first phase, which calls for 200,000 square feet of retail and office space and 460 new residential units, is expected to begin next summer, according to developer Federal Realty Investment Trust of Rockville. Officials hope to lure a high-end iPic movie theater, where customers can order dinner and drinks as they watch a film.
"If rates go up, that would be a burden to us," said Etili, who revamped his business from the English Trading Co., moving from Westfield Montgomery mall in Bethesda.
The holiday shopping season at Knightsbridge Trading is up so far from last year, Etili said.
"It's working out so far," he said, adding that most customers have been able to find him during construction.
Next door, Filene's Basement is closing and is holding a going-out-of-business sale, but that is not due to rising rent or construction. The bankrupt retail clothing chain is shuttering its stores by early next year.
The center also once had a Silver Diner, which moved its flagship restaurant up the Pike to a larger site in Federal Plaza about a year ago. Since then, business has been booming at the new spot, with lines of people waiting to get a table out the door many nights.
Coalitions forming
Some businesses have joined with nonprofits and residents to form coalitions to address concerns. The newly formed Coalition for Fair Redevelopment of Wheaton includes more than 50 businesses.
Ash Kosiewicz, advocacy director of the Latino Economic Development Corp., which has offices in Wheaton and Washington, D.C., said she didn't know of a business that is being hurt by construction in Wheaton, where most projects are still in the planning stage.
"Our work within the coalition, beyond addressing issues of affordability, jobs, and community services, has primarily focused on what could happen to small businesses in Wheaton once redevelopment begins," Kosiewicz said.

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Montgomery County Council member George L. Leventhal said in a recent email that he has met with numerous small-business owners at Pike Center in Rockville, which also faces redevelopment, who detailed the difficulty of relocating.

"On the one hand, we rely upon the private market to match tenants and landlords at a price agreeable to both," said Leventhal (D-At large) of Takoma Park. "On the other hand, local government is upzoning these properties to achieve a new vision of mixed-use, transit-oriented development. This vision calls for extensive ground-floor retail opportunities, but it seems to me local government has an obligation to ensure this vision is achieved."

He suggested to Council member Nancy M. Floreen (D-At large) of Garrett Park, chairwoman of the Planning, Housing and Economic Development Committee, that issues such as the cost of relocation and whether the county should help small businesses hurt by access issues during reconstruction be addressed at an upcoming meeting

The matter is scheduled to be discussed by the planning, housing and development committee on Jan. 30.

Staff Writer Alex Ruoff contributed to this report.

kshay@gazette.net

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Maryland Community News

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Longtime Wheaton Triangle businesses face uncertainty *by Aaron Kraut*
Staff Writer

In 44 years as owner of the Showcase Aquarium tropical fish store in Wheaton, Joe Myers has learned what works for his business.

Color sells; goldfish are a perennial favorite; the most exotic species always draw interest.

Myers' store is one of a number of longtime Wheaton Triangle small businesses that have survived on a reputation for personal service in a unique field.

The Little Bitts cake decoration shop is a few doors down. The Barbarian Comics store, on the same strip of Triangle Lane, attracts fans from across the region. But like most Triangle business owners, Myers faces a dilemma.

The redevelopment plan from developer B.F. Saul includes an apartment and town square on Lot 13, the preferred parking lot for many Triangle customers. Although the start of construction likely is years away — Montgomery County officials are negotiating a General Development Agreement with B.F. Saul — the specter of redevelopment worries many, including the 67-year-old Myers.

"How do we plan? How do we know what to do? It's like you knowing your job is going to disappear sometime down the road sooner or later," Myers said. "We don't know quite when, so I don't know, and I don't know anybody who does know."

Myers said he doesn't see his business surviving the anticipated two years of construction for the apartment building, which would wipe out 168 metered parking spaces bordered by Reedie Drive, Triangle Lane and Grandview Avenue.

The high cost of rent already is an issue, Myers said, and he doesn't think county aid to businesses affected by construction will be enough.

Myers, an Olney resident who runs the shop with his daughter, Kathy, sells at least one goldfish per day, so he placed a tank of $14 large goldfish near the front of the store. Clownfish, like the main character in the animated film "Finding Nemo," are popular with kids. The rare breeds, such as the black ghost knifefish, ribbon eel and freshwater stingray, are favorites of more experienced aquarium owners.

Myers orders fish from all around the country and travels to a wholesaler in Virginia each week to restock. At full inventory, there are about 5,000 fish on the store's shelves.

Most of all, Myers said, customers respond to the personal relationship forged during years of fish purchases, tank maintenance and consultations with Myers and his employees.

Five or six people per day ask Myers if they can feed the Koi in the large tank in the middle of the store, which throughout the years has become a tradition. Myers said adults come in and reminisce about feeding the Koi as children.

"After they've been coming in for 25 years, it's hard not to know a person's name. And we know their kids and their kids' kids," Myers said. "With everything but fish, you have a vet you can take them to. You don't have a vet you can take fish to. You have to bring them to me."

Patsy Zukav of Wheaton said she has visited Barbarian Comics once per month for nearly 30 years. The store keeps a number of subscriptions for her, and she said owners James and Thomas Wu provide expertise that is rare in many area comic book shops.

"It's also a social thing. I like the environment of the place. There are people I can relate to," Zukav said. "The other customers that come there, those are people that share my hobby."

Without the convenient parking of Lot 13, Zukav said she'd try to keep shopping at the store. The B.F. Saul plan includes new parking, along with 500,000 square feet of office space and a hotel on the nearby site of the Wheaton Metro Station bus bays.

"It would probably be tough, and it would be tough on the other people that come and shop here as well," Zukav said. "It would upset an entire culture."

Filippo Leo, who owns Marchone's Italian Deli in the Triangle, said redevelopment could help the area when completed, but the business lost during construction would be too much to overcome.

"Some people are going to see a new building and they aren't used to that. That's OK. I don't mind that." Leo said. "But over two years of construction, taking away that parking. That's it. Nobody's going to survive."

Myers would like to remain in the Wheaton Triangle. But facing uncertainty because of the redevelopment plans, he said his choice is clear.

"I can look for something else," Myers said. "I can move this somewhere else."

akraut@gazette.net

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Maryland Community News

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Small businesses gear up for big changes *by Aaron Kraut*
Staff Writer

Luis Bonilla is creating a website for his Choice Electronics shop in Wheaton, considering advertising options beyond Spanish-language TV and radio stations and looking at adding more computer technicians to his staff.

As officials from Montgomery County and developer B.F. Saul negotiate the details of a proposed 484-acre redevelopment project for Wheaton's Central Business District, Bonilla is thinking of how to best position his 12-year-old business with the potential for 1,000 new apartment dwellers, mixed-use office buildings and an entirely different customer base.

For the 55 to 60 businesses that make up the Wheaton Triangle area, many of which are Latin-owned, adaptation to a changing market could be the key to survival.

"We have to be thinking about a new and different type of clientele, and we have to target that clientele, and we have to do the changes necessary for that," Bonilla said. "We have to be ready."

With new customers from the recently opened Metropointe and Archstone Wheaton Station apartment buildings near the Wheaton Metro Station, Marchone's Italian Deli owner Filippo Leo said change already has started.

"It's a new bunch of young people," Leo said. "I see them. They are coming."

Leo has owned the eatery, which opened in 1955, for almost 30 years. In September, he started a Twitter account. The store's website includes a menu, photos and a video of Leo teaching Italian phrases.

A 17-story, 486-unit apartment building in the same building as a new Safeway will open in 2013 across the street from the Metro station. The B.F. Saul project likely is years away, according to county Director of Economic Development Steve Silverman, who said negotiations with the developer on the key General Development Agreement could last until March.

Peter McGinnity, manager of the Wheaton Redevelopment Program from the county's Department of General Services, addressed concerns from small business owners about the project Nov. 16 at a Wheaton Redevelopment Advisory Committee meeting. McGinnity urged business owners to update their business models to attract computer-savvy "Generation Y" customers.

"Part of what businesses need to do is they need to expand their horizons," McGinnity said. "It's not simply the issue of redevelopment."

The Coalition for the Fair Redevelopment of Wheaton, a group of about 25 business owners organized by the non-profit Latin Economic Development Corporation, asked the committee to endorse a number of small-business support programs. The coalition also asked the county delay finalization of any General Development Agreement until B.F. Saul agrees to provide community benefits.

The committee voted to endorse most of the coalition's priorities, including provisions for parking during construction, relocation assistance and a multicultural town square, but it decided against endorsing any type of legally binding community benefit agreement.

At the groundbreaking ceremony for the Safeway apartment project Nov. 9, Silverman said it is the county's responsibility, not B.F. Saul's, to provide protections for existing small business in the wake of redevelopment.

At last week's committee meeting, McGinnity pointed to a number of county and state small business loan and improvement programs as resources.

Bonilla, who spoke at the meeting as a member of the Coalition, said most business owners are not well informed about what's coming. A translator worked with a few Spanish-speaking members of the Coalition during the meeting.

"We have seen the movement that shows there are changes, but there hasn't been any specific information saying they are doing this and that," Bonilla said. "I guess our obligation is to get involved and try to find that information."

McGinnity said the county soon will complete a survey of businesses and nearby residents to pinpoint concerns.

In an interview in August, he pointed to the county's partnership with the Latin Economic Development Corporation, which provides technical assistance and microloans to area businesses as an outreach tool.

"There's a tendency to try to react to something rather than plan forward, and I think that was part of the situation that occurred in Silver Spring," McGinnity said, referring to the redevelopment of Downtown Silver Spring that began in the late 1990s. "A lot of small businesses there sort of waited to see what was going to happen. Once it did happen, the train had started to leave the station at that point. One of the things we want the businesses to know is you don't wait, regardless of whether or not you know the exact date of redevelopment."

Georgia Bennett, who has owned the G & C Unisex Salon on Triangle Lane for 16 years, said her concern

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remains the loss of business and parking from construction. The redevelopment plan calls for a mixed-use office building on Parking Lot 13, the metered-public lot that provides 168 spaces for customers of Wheaton Triangle businesses.

"We understand about broadening our horizons, but the thing is you have to understand what you have now and what you're going to lose," Bennett said. "We all want better, but we need to know where we're at and where we're going. To me, I don't see it. I know it's all about bringing more money into Wheaton and revitalizing Wheaton."

Some businesses, restaurants especially, might face an easier adjustment than others in a new downtown Wheaton.

The sign on Bonilla's store advertises repair services for DJ systems, home electronics, car sound systems and computer and electronics. He knows the services his business offers must change.

"I'm sure there is going to be a lot more demand for technology service," Bonilla said. "I have to make sure I'm ready for any change, that my business is suitable for those customers."

akraut@gazette.net

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THE FINANCIAL PAGE

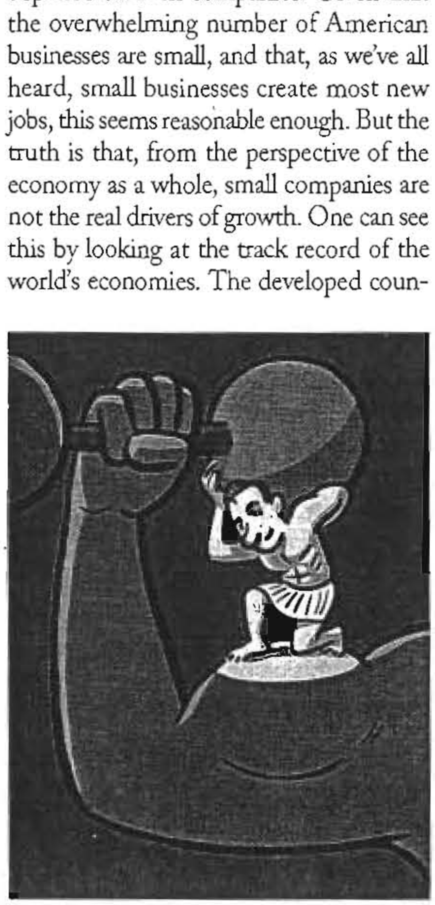
BIG IS BEAUTIFUL

American politicians may not agree on much these days. But they are unanimous in their veneration of small business. With the job market stuck in neutral, both Republicans and Democrats are pushing to give small companies more help, and are trumpeting the supposedly unrivalled ability of small firms to create jobs and propel innovation. In part, this reflects political calculation—the small-business lobby is powerful in Washington. But it also reflects the hold that small business has on the public imagination. We may spend our dollars at Walmart and IKEA, but in our hearts we have a soft spot for the corner store.

Americans have always been ambivalent about big companies, as Marc Levinson shows in his new book, "The Great A. & P. and the Struggle for Small Business in America." A. & P. was the biggest and most important chain store in the first half of the twentieth century. Consumers liked the lower prices and the greater selection that A. & P. offered. But distrust of A. & P.'s power, and the threat that it posed to the livelihood of small grocers, sparked a national campaign against chain stores, which led to the enactment of laws designed to limit competition and to testrain cost-cutting by big retailers. States passed taxes targeted specifically at chain stores. The Robinson-Patman Act, of 1936, effectively made it illegal for suppliers to offer chain stores better deals than they offered other retailers. And state and federal fair-trade laws allowed manufacturers to set a minimum resale price for their goods and to legally prohibit retailers from discounting them.

The odd thing is that although these laws stemmed from a populist movement, they actually resulted in price increases for the public at large. In other words, it wasn't consumers the government was trying to protect from big business—it was small business. A. & P.'s most important foe in Congress, the populist Wright Patman, was open about this, saying that he wanted to insure that the U.S. did not become a "nation of clerks." Forcing consumers to pay a few extra dollars for their groceries or household goods was worthwhile if it was a means to this end.

These days, government regulation to keep prices high is less popular. But the fetishization of small business continues apace. Some of the support derives from real virtues that small companies offer—diversity of choice, connection to local communities. But much of it derives from the idea that the nation's economic well-being depends on such companies. Given that the overwhelming number of American businesses are small, and that, as we've all heard, small businesses create most new jobs, this seems reasonable enough. But the truth is that, from the perspective of the economy as a whole, small companies are not the real drivers of growth. One can see this by looking at the track record of the world's economies. The developed coun-



tries with the highest percentage of workers employed by small businesses include Greece, Portugal, Spain, and Italy—that is, the four countries whose economic woes are wreaking such havoc on financial markets. Meanwhile, the countries with the lowest percentage of workers employed by small businesses are Germany, Sweden, Denmark, and the U.S.—some of the strongest economies in the world.

This correlation is not a coincidence. It reflects a simple reality: small businesses are, on the whole, less productive than big businesses, and though they do create most jobs, they also destroy most jobs, since, while starting a business is easy, keeping it going is hard. This is true around the world. A recent study by the World Bank that looked at ninety-nine developing countries found that large firms had significantly higher productivity growth. And in the U.S. the connection between size and productivity is, as a 2009 study showed, especially close. In part, this is because big businesses are able to enjoy economies of scale and scope. Big businesses are also better able to make investments in productivity-enhancing technologies and systems; in the U.S., for instance, big companies account for the vast majority of R. & D. spending.

It's been ever thus. Levinson shows that, because A. & P. invested in its own warehouse-and-delivery system, it was able to improve inventory management, which is essential for any retailer. While its competitors were taking four months to turn over their inventory, A. & P. was doing it in five weeks. Walmart, similarly, invested heavily in making its supply chain more efficient, and it was directly responsible for a sizable portion of the productivity boom of the nineties. It's harder for small businesses to innovate in these ways, particularly when credit is tight, as it is now. More important, most small businesses aren't necessarily interested in expanding or innovating. A recent study by the economists Erik Hurst and Benjamin Pugsley shows that only a tiny fraction of small-business owners have any interest in becoming big-business owners, or even in bringing a new idea to market. Most are people who simply want to run a small company, do work they enjoy, and have some control over their own financial lives.

Those are admirable goals, but they're not going to make companies more productive. And that matters, because greater productivity is the main driver of long-term economic growth and higher living standards. Because big companies are more productive, they offer workers, on average, better wages and benefits—or, as in the case of Walmart, they offer consumers significantly lower prices. And the impact of these things on living standards is not trivial. It's hardly a coincidence that in the decades after the Second World War, when ordinary American workers became part of the middle class, very big companies employed a huge percentage of the workforce: in the early seventies, one in five nonfarm workers worked for a Fortune 500 company. Small may be beautiful. It's just not all that prosperous.

—*James Surowiecki*

CHRISTOPH NIEMANN

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Can gentrification work for everyone?

As money flows into Washington, D.C., poor neighborhoods are being transformed. And that's where the battles begin

BY WILL DOIG

(Credit: Salon/Svinkin via Shutterstock)

"Gentrification" is like the secret word in Pee-Wee's Playhouse — say it and everyone freaks out.

"It's possibly the most charged word in the built environment right now," says Christopher Leinberger, the well-known urbanist and a non-resident senior fellow at the Brookings Institution. The image of mustachioed, trust-fund hipsters displacing poor people of color will do that.

And that's a shame, because gentrification has some undeniable upsides: reduced crime, better services and a more diverse array of businesses — and not just coffee shops. "As a Detroit native who has seen this place rot from the inside-out, I'd kill for a little gentrification," Detroit Free Press editor Stephen Henderson recently tweeted.

Reconciling the two edges of that sword — improvement versus displacement — is becoming a more urgent issue with each passing year as cities continue to rapidly tra er than being seen as an injustice, can gentrification *correct* an injustice by returning prosperity to a long-neglected neighborhood? A good place to start looking for answers to these questions is Washington, D.C.

Gentrification has changed large swaths of D.C. in recent years, from Columbia Heights to H Street. Most recently, change has been trickling into the city's poorest area, Ward 8, a district in Southeast Washington that's the home to former D.C. Mayor Marion Barry. The evolution there is happening against a surprising statistical backdrop. The income gap between whites and blacks in D.C. has become one of the highest in America. Ward 8 has a staggeringly high unemployment rate. And for the first time in half a century, D.C. is no longer a majority-black city, a milestone passed earlier this year that got a lot of people talking about the G-word.

Ask two Washingtonians what they think of these changes — even two people from the same neighborhood — and you can get two very different responses. Malcolm Woodland moved to Ward 8 in 2000, and finds the increasing economic stratification of his city alarming. "I find it strikingly wrong," he says. "It almost leaves me speechless and breathless." He believes that even if the city's new wealth ultimately reaches his neighborhood — and many Southeast neighborhoods have some new prosperity these days, whether those along Capitol Hill, the waterfront or near the new Washington Nationals stadium — most of the current Ward 8 residents will be displaced by it. "I don't think gentrification benefits or has ever benefited the previous community that was there," he says.

David Garber sees it differently. He's lived in D.C. for almost five years, most of that time in Ward 8, as well. "I don't think there's anything inherently wrong with a city that has multiple income levels," says Garber, who now lives in Ward 6 and is the current

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Commissioner for the Navy Yard / Ballpark neighborhood there. "At the end of the day, when a city becomes more prosperous, there are a lot of potential improvements available for communities that don't have as many resources. In places like Ward 8, there's a lot of opportunity for more economic development."

In many ways, Woodland and Garber are similar. Neither is a very longtime resident of Ward 8. They're about the same age (Woodland is 34, Garber is 29) and they're both middle-class. But Woodland is black and Garber is white, and as far as Woodland is concerned, that's where their opinions diverge. "I really can't find another lens to understand [the city's inequality] outside of a racial one," he says.

Woodland believes the dynamics that have stymied his community's growth for decades have everything to do with race: white flight, housing discrimination and other historical calamities that left Ward 8 vulnerable. Now he sees gentrification as the neighborhood's next racial adversity. "The people who come in bring the services they want. Public housing gets razed and condos get built. Starbucks is soon to follow."

He's right that it's hard to see gentrification as separate from race. Nearly everyone who lives in Ward 8 is black; only about 3 percent of its residents are white. If it gentrifies drastically, this is sure to change. And though some of the current population might benefit if they decide to sell their homes for a windfall, most won't have that option — less than a quarter of Ward 8's residents own their homes.

But there's a wrinkle to this narrative. Not all of Ward 8's pockets of gentrification adhere to the blacks-out, whites-in stereotype. A recent Washington Post story on Anacostia, a slowly gentrifying Ward 8 neighborhood, reported that many of the artists, yogis and professionals snapping up houses are black themselves. The article noted that plenty of the area's current residents are *proud* to see young, successful African-Americans returning to the historically black neighborhood's Italianate and cottage-style homes. And while Starbucks may well arrive someday, for now the neighborhood is thrilled to have its first sit-down restaurant, the black-owned, Yelp-approved Uniontown Bar & Grill.

Of course, whites are moving in, too. Garber said when he first moved to Ward 8 "there was definitely a little tension. I think I needed to prove I was interested in being part of the community." He says he plunged himself into public meetings and neighborhood events, and as a result, "just ended up meeting everyone." Once that happened, he says, "It was one of the friendlier places I've lived."

Is this a Pollyanna-ish vision of the white gentrifier adding welcome diversity to his new community? Maybe in part. But Garber at least doesn't seem to fit the stereotype of the aloof interloper holed up in his new house waiting for the neighborhood to change. Some of gentrification's tensions might be eased if more gentrifiers saw themselves as Garber says he did: as a new arrival in an existing community, not a pioneer of some urban wilderness. "I think that for many of the folks who fear gentrification, there's a history of them not having a say in how their communities are changed," says Elahe Izadi, reporter for WAMU and DCentric, a website that covers race and class in the

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District.

Those types of changes have provided provocative color for more than a few stories about the "New D.C." On H Street, where gentrification is much further along than in Ward 8, "Tapas Bars Replace Soul-Food Joints" pretty much sums up the coverage. One unhappy H Street business owner told the New York Times that her property tax bill had tripled because of H Street's new streetcar plans. There are limits to how much of a difference neighborliness can make. Gentrification may be good for a city at large. It may even be good for many of that city's poorer residents. But it will never be good for everyone. As urban areas keep getting more popular, they're also going to continue to get more expensive. What you can do, says Brookings' scholar Leinberger, is take steps to minimize the growing pains.

"You need a conscious affordable housing strategy," says Leinberger. "The ultimate solution is to provide enough housing supply to drive down prices." That means building denser and bigger (Ward 8, like many poor neighborhoods, has plenty of room for more construction). Inclusionary zoning can help, too, by mandating that a certain amount of housing must be reserved for lower-income residents. Just outside D.C., Maryland's Montgomery County has had success with this. "They've produced probably 20,000 permanently affordable housing units. And it's important to spread it as widely as possibly throughout the entire geography."

Sometimes more affordable housing already exists right under our noses. Unlike some other cities, D.C. allows homeowners to rent out their "granny flats," the windowed English basements half a level below the main floor of a townhouse. "It's a separate unit with its own entrance, and a place where teachers, police officers and other people who aren't well-to-do can live," says Leinberger. There's also room for creative solutions on a case-by-case basis. When Leinberger was involved in the redevelopment of downtown Albuquerque, N.M., he and the city collaborated on setting up a nonprofit called the Albuquerque Civic Trust, which received a cut of the profits from property that gentrified as a result of the new development, and then used that money to build affordable housing. And Washington itself has an innovative law that helps renters get together to buy their building if it goes up for sale, which can help keep people in place before gentrification moves property values out of reach and prices people out of their own neighborhoods.

This is what many people want — not to prevent gentrification, but to work it into their city and then be there to reap its benefits. "In my reporting I've spoken with people who have lived in some of these neighborhoods for 10 or 15 years, and they'll say, 'I remember when someone was shot every week on this block,'" says Izadi. "'It was a scary time and we're glad that's not happening anymore. I can walk down the street with my children and feel safe.' Everyone wants the same thing at the end of the day, a nice safe community. But they want to stick around."

The problem is, not everyone will be able to. Some displacement will always occur, and that's upsetting. But it's also a bit deceiving, because people were being forced out of Ward 8 and other low-income neighborhoods long before gentrification came along. They were forced out by crime, drugs, decay and other conditions that made those places unlivable. Much has been made of Washington losing its black majority this year, but the truth is, D.C.'s black population has been declining since 1970. It's declined for the same reason that its white population did: Many of those who could find a way to get out were doing so. Many moved to bordering Prince George's County, now one of the country's wealthiest black suburbs. It was displacement by other means.

Fleeing by choice isn't the same as being priced out, but seeing some black professionals now buying homes within the city rather than decamping for the suburbs is good news. The 2010 census showed that the District's population rose for the first time in 60 years. It's a more racially diverse (and less segregated) city today than it was a few years ago. Immigration is rising, and homicides are at a 50-year low. Finding ways to build on these benefits, rather than prevent them, could make this a golden era for Washington rather than a gilded one.

More Will Doig

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