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AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Kelley Kahn

SUBJECT: Efforts to Attract and Retain Retail Businesses DATE: August 28, 2013

City Administrator

Date

Approval

9/10/13

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Staff recommends that the City Council

Receive A Progress Report And Possible Action On Implementation Activities To Date
Associated With The Oakland Retail Enhancement Strategy

EXECUTIVE SUMMARY

This report provides a summary of retail attraction and development successes and actions since 2009. Despite challenges associated with the recession, retail has been on the upswing in Oakland since then, evidenced by a variety of retail types from pioneering independent stores to Target, from multiple supermarkets and shopping centers being overhauled, to an intensely successful and robust downtown restaurant scene. The number of community benefit districts (CBDs) is now ten, showing that Oakland property and business owners recognize the importance of investing in their districts. This report provides a snapshot of what is happening Oakland's retail market right now and over the last few years.

BACKGROUND/LEGISLATIVE HISTORY

Council Retail Directives

This report is a comprehensive update on retail development activity since January 2009, when Council unanimously directed staff to implement a work program based on recommendations in the *Oakland Retail Enhancement Strategy*, completed in 2008. These directives included working to encourage large format store development, marketing key vacancies, addressing retail

Item: _____
CED Committee
September 24, 2013

needs with interdisciplinary teams, improving marketing to consumers about Oakland shopping, pursuing land assembly, and keeping Councilmembers up-to-date.

Why Is Retail An Economic Development Objective?

Oakland is likely the nation's largest underserved trade area for comparison goods, which are defined as merchandise sold in apparel, department, specialty and home furnishings stores for which consumers typically shop by comparing quality and prices. Unlike other mid-size cities that draw shoppers in from surrounding areas, existing Oakland stores do not adequately serve the demand of its own residents, let alone shoppers from other locations. Oakland currently exports approximately 75 percent of its potential sales in this category every year to neighboring communities. While the City has many fine merchants, Oakland lacks a critical mass of comparison goods retailers, which in essence encourages residents to shop outside of town.

In addition to providing the necessities of life, retail plays an important role in creating a desirable place to live, work and play as well as a sense of place. In fact, the more successful a shopping center or commercial district is—at any price point—the safer it is and the bigger role it plays in enhancing shoppers' and visitors' positive impression of a city. For example, the national media now regularly reports on Oakland's renewed vitality and renaissance due in large part to the thriving dining, entertainment and retail scene in Downtown Oakland.

In order for Oakland to regain the critical mass of comparison goods retail it ought to have given its size and position in the Bay Area—which it did have pre-1970s—stores totaling over four million sf would have to be built. In other words, Oakland can support six shopping places about the size of Rockridge Shopping Center. While it may seem counterintuitive, in order to get retail a place needs to have retail; comparison goods retailers move as a group and like to cluster. Even with strong shopping districts in some parts of town, well-performing discount department stores, and a robust dining and grocery/drug sector, Oakland is seen as untested by comparison goods retailers due to having so few national apparel and soft goods stores. Increasing the number of these retailers will make Oakland far more attractive to retailers to come.

What works best in Oakland—and was echoed by Retail Strategy survey respondents and public meeting participants—is a mix of national, regional and local retailers in a variety of formats—commercial districts, small shopping centers, large shopping centers. Growing Oakland's retail base will require a thoughtful balancing of support to locally owned businesses while ensuring space and appropriate zoning to attract larger, comparison goods retailers. This mix will allow Oakland to maintain its unique sense of place and draw, while also allowing the City to reduce its sales tax leakage.

ANALYSIS

Retail progress can be assessed by looking at a number of measurements: development and retailer successes, sales tax revenue; completed projects and milestones reached; projects underway; priorities and sites with potential; policy and land use initiatives; and technical assistance, marketing and business outreach.

Retail Market Overview

Despite still being undeserved by comparison retailers, Oakland's retail market has made steady improvements over the last several years and currently has a lot of momentum.

In the years 2011-2013, more than 77 individual retail businesses—including stores, restaurants, bars, entertainment places, banks—have opened in Oakland, representing an estimated 124,000 square feet (sf), over \$1 million in sales tax revenue to the City, and more than 246 jobs. These figures do not include the 2011 opening of Target or the upcoming reopening of Foothill Square, which are described below.

Calendar Year	Number of New Retailers (not an exhaustive list)	Estimated Square Feet	Estimated Oakland Sales Tax Revenue ²	Est. Jobs ²
2011 (not including Target, see below)	10	13,000	\$95,000	26
2012	58	102,000	\$783,000	204
2013 (open or expected to open by end of year; not including Foothill square, see below)	9	9,000	\$205,000	18
Total	77	124,000	\$1,083,000	248

Much of Oakland's recent retail success is due to the surge in new restaurants and bars. These businesses play an important role in revitalizing underperforming commercial districts. They build off of momentum initially created by increasing residential density, or by businesses like art galleries which are rent-sensitive and open to being in transitional areas. Sometimes a restaurant with a visionary chef-owner can be a pioneer who will draw customers from the region.

¹ Estimated sales tax revenue is based on "HdL Retail Store Taxable Sales Estimates," April 2012 for retail categories, not on individual stores' performance.

² Jobs are estimated at 1 job per 500 sf GLA.

While the most oft-mentioned wish of Oaklanders concerning retail is for more comparison goods stores, those businesses are also the most sensitive to a commercial district's environment. In other words, if an area has little or no retail of any kind, a fashion, home furnishings, toy or smart phone store is not going to be the pioneering first retailer. Rather, they—usually locally owned stores, followed by chain stores—come once customers are already regularly patronizing other retail businesses in a district, or in the case a ground-up development, when there is enough space for a number of other comparison goods stores to open at the same time. In short, a restaurant/bar boom is a tremendous intermediary step to achieving Oakland's comparison goods base. This evolution model can be seen now in Uptown and Koreatown/Northgate, where first came art galleries, design businesses, bars, restaurants, now there are a growing number of independent shops.

In addition, construction, redevelopment or pre-development of seven new or existing large scale shopping centers is underway across the City, which will bring over 700,000 sf gross leasable area (GLA) retail space to the market, including a significant uptick in comparison goods offerings, and up to 600,000 sf of retail will be gained with three retail or mixed use developments now in the pipeline.

Development Stage	Number of Shopping Centers	Total GLA to be Built
Underway (under construction, or pursuing entitlements)	7	713,197
Pipeline (planned, initial planning discussions)	3	600,000
Total	10	1,313,197

Sales Tax Summary

As shown in the table below, Oakland's retail base contributes significant sales tax revenue to the City's General Fund—more than \$40 million. As of the 2012 calendar year, Oakland's sales tax revenue had recovered and modestly surpassed 2008 levels in almost all categories. Oakland's portion of sales tax charged to the customer is just under 1% of the taxable sales amount.

	Growth Rate 2008 to 2012	CY 2012 % of Total Oakland Sales Tax Revenue	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008
General Consumer Goods (Comparison)	7%	14%	\$ 5,512,299	\$ 5,285,524	\$ 4,678,543	\$ 4,750,370	\$ 5,155,847
Food & Drugs (Convenience)	13%	10%	\$ 3,906,441	\$ 3,642,066	\$ 3,561,318	\$ 3,368,256	\$ 3,462,753
Restaurants & Hotels	23%	16%	\$ 6,403,933	\$ 5,769,640	\$ 5,475,685	\$ 5,086,228	\$ 5,212,044
Autos & Transportation	-1%	18%	\$ 7,155,699	\$ 6,435,030	\$ 6,188,334	\$ 5,887,263	\$ 7,210,918
Grand Totals for All Types (includes additional industry groups)	3%		\$ 40,503,572	\$ 37,646,826	\$ 33,234,672	\$ 32,585,503	\$ 39,513,388

Source: HdL Companies

As a portion of total sales tax revenue, Oakland outperforms the county and state in Autos & Transportation, Food & Drugs, Fuel & Service Stations, and Restaurant & Hotels sales tax revenue. However, Oakland underperforms in Business & Industry and General Consumer Goods. In 2012, General Consumer Goods generated 14% of Oakland's sales compared to nearly 23% other cities in Alameda County.

Completed Retail Projects

Oakland has seen a dramatic increase in the number of fine-dining and casual gourmet restaurants, as well as a burgeoning full-price independent store scene. Its strong commercial districts—such as GrandLake, Rockridge, Piedmont Avenue, Montclair—have also continued to perform well, as evidenced by high rents and low vacancy. Successes include:

- Target, East Bay Bridge Shopping Center. In March 2011, Target opened a new 140,000 sf store on the former Expo Design Center site near Emeryville. An average Target has annual sales of \$39 million, which would generate \$122,265 in sales tax to

Oakland³. While exact sales figures cannot be made public, this store likely generates more. This new Target employs approximately 250.

- CVS. CVS opened a new store at Eastmont Town Center in 2012, joining the locally owned Gazzali's supermarket, dd's Discounts and other apparel stores.
- Downtown Restaurants and Bars. Oakland has garnered international attention for its explosive restaurant scene, most of which are located in Downtown. More than two dozen restaurants opened in Downtown and Uptown Oakland since 2009. These include Xolo, Fauna, Plum, Plum Bar, Ike's Lair, Hawker Fare, Vo's (reopening), Farley's East, Umami Burger, Donut Savant, The Den at the Fox, Rudy's Can't Fail Café, Make Westing, Somar, Bittersweet, Marrow, Nido, Forge, Haven.
- Downtown Stores. Attracted to expanding residential and the food and drink scene, many new, independent shops have opening in Downtown, including Oaklandish, Harper Greer, OwlNWood, Betty Ono Gallery, Shoe Groupie, Sole Space, Kuhl Frames. Most of these shops augment walk-by customers with online sales.
- Old Oakland/popuphood. Peter Sullivan Associates, owner of the signature Victorian blocks in Old Oakland, partnered with Popuphood and the City of Oakland in the fall of 2011 to make available long-vacant space to merchant start-ups. Since then, three out of seven popup tenants have signed long-term leases.
- Temescal retail district and Temescal Alley. Temescal property owner Sarita Waite realized her long-held vision to create shop and studio space in the shed spaces behind Dona Tomas and Pizzaiolo. Temescal Alley is now home to several stores, design studio, a barber shop and a donut shop. The Temescal district continues to be a font of well-performing restaurants evidenced by the opening of Lanesplitter, Barlata, Burma Superstar, Barkada Bakery + Café, Sacred Wheel and the upcoming Cholita Linda.

Retail Projects Underway

A number of retail projects are underway and are expected to be completed in the next one to two years. Collectively, these will add more than 800,000 sf to the Oakland retail landscape.

- Foothill Square. The long-envisioned revamping of Foothill Square Shopping Center is well underway. The dramatic redo will feature a Foods Co supermarket, Ross Dress for Less and Anna's Linens. Not only are these stores a boon to Oakland, they provide much needed amenities to East Oakland, a part of Oakland traditionally underserved by mainstream retail. New and renovated GLA totals 157,000 sf on 10 acres.
- Safeway. Safeway has three ambitious projects in the works in Oakland:
 - Claremont & College. Construction recently began to replace the existing store with an expanded 45,500 sf store, roof parking and 9,500 sf of shop space on this five-acre site.

³ This figure reflects the Oakland/Emeryville sales tax revenue split on stores in the East BayBridge Shopping Center, one-third Oakland/two-thirds Emeryville. The center straddles the city border.

Item: _____
CED Committee
September 24, 2013

Item: _____
CED Committee
September 24, 2013

- **Rockridge Shopping Center.** Safeway is about to submit a planning application to the Planning Commission for 303,700 sf retail GLA on this 15-acre site at Broadway and Pleasant Valley. The center will feature a reconfigured store line-up including Safeway at the rear, intensified store space at the corner of Broadway with second story space in some locations, and improved circulation for pedestrians and cyclists. Safeway is actively recruiting general merchandise tenants.
- **Lincoln Square.** Safeway is planning upgrades to its existing store and has begun pre-development discussions with the Planning and Building Department.
- **The Hive.** Building off the momentum of the neighboring Broadway Grand apartment/condo/retail project and nearby retail and food businesses, work has begun to refurbish 65,000 sf of 1920s storefronts for retail and office uses on Broadway between 23rd and the Packard Lofts building (home to the new Sweet Bar Bakery). Leases have been signed with Numi Tea (café and headquarters), Drake's Brewing, the purveyors of Chop Bar and Tribune Tavern, and with HUB Oakland, an innovative co-working/business incubator. At the rear of the site will be 105 market rate walk-up apartments. First storefront tenants are expected to move in by end of 2013.
- **Shops at Broadway.** This development, at the northwest corner of the Broadway & 30th Streets, will feature a 25,000 sf Sprouts Farmers Market store and 10,000 sf of in-line retail. The development features a compact design with nearly all customer parking on the roof. The project is midway through the EIR process.
- **Seminary Point.** This project at Foothill & Seminary will feature a drugstore anchor and shop space for a total of 28,000 sf GLA. Plans have been drawn up and letters of intent negotiated, however the project is waiting for resolution of several outstanding issues related to the end of Redevelopment.
- **1800 San Pablo.** Also held up by the demise of Redevelopment is this 120,000 sf entertainment project located in Uptown. It is slated to feature an upscale bowling alley, sports restaurant, gym and structured parking.
- **MacArthur BART Transit Village and nearby.** Construction is underway on the parking structure at this seven-acre site, located between Telegraph, 40th, and MacArthur and Highway 24. The project will be home to 624 residential units, including 42,500 sf of neighborhood-serving retail—pharmacy, bank, a coffee shop/restaurant, fitness club—and other uses that have not yet been determined.. The first phase of the housing component of the project, a 90 units of affordable housing, is scheduled to start construction this month.
- **North Broadway Corridor.** The area around Broadway & 40th, a quiet corridor retail-wise, is seeing a retail surge with new eating places and shops on 40th & Shafter: Homeroom, Manifesto Bikes, Subrosa Coffee and, upcoming, The Hog's Apothecary. Trueburger and Underwood Café are coming to 40th & Broadway along with expansion of the Isis day spa. At Broadway & 42nd Street will be Blue Bottle Café. Near the foot of

Piedmont Avenue will be the latest outpost of regional restaurant/gourmet food shop, Chow.

Major Retail Attraction Priorities & Key Retail Sites

Staff, in collaboration with the Office of Neighborhoods Investment, continues to focus efforts on several priority retailers, as well as on several keys sites that are ripe for new retail development:

- **Target.** Target has been approached by multiple developers about opening a second store in Oakland in the Valdez Triangle or Uptown. Target representatives state that the City can likely support an additional store in Oakland. A decision is on hold, though, until after the new Alameda Target opens in the Alameda Landing Shopping Center located just south of the Webster Tube.
- **Walgreens and CVS.** These national drug stores play an important role as pioneering anchors in nascent commercial districts, particularly in areas with few or no groceries. Both have expanded fresh food offerings. They continue to seek new sites.
- **Supermarkets in East & West Oakland.** Staff remains focused on grocery store attraction efforts in East and West Oakland. As access to fresh food continues to be a significant challenge in these areas:
 - **66th Avenue & San Leandro Street.** Foods Co fills a hole in far East Oakland however the need remains large. Neighborhood Investment staff are preparing to issue a Notice of Development Opportunity for the City-owned site at 66th Avenue & San Leandro Street, which Foods Co had looked at.
 - **People's Community Grocery.** This organization has raised \$654,000, 65% of the way toward meeting its goal needed to open at its preferred site at West Grand & Market.
 - **Oak Knoll.** This 183-acre site in the Oakland hills bounded by Keller Avenue, Golf Links Road and Interstate 580 will likely see development of single family homes and up to 100,000 sf retail, including a supermarket.
 - **Farmers Markets.** Oakland is home to 10 farmers markets, including two in Fruitvale and one at 73rd & International.
- **Costco.** Costco has long wanted to locate a store in West Oakland, specifically the former Army Base. Its strict 15-acre minimum site size has made it difficult to find an acceptable location, but conversations between staff and Costco representatives are resuming.
- **Brooklyn Basin.** Just east of Jack London Square on the waterfront, the Brooklyn Basin project calls for 200,000 sf of retail or commercial space along with 3,100 residential units and 30 acres of parks and open space on 65 acres. The project is expected to break ground in 2014.
- **Sears site.** The Sears site in Uptown presents an opportunity to attract new, large scale retail to Oakland. Other underutilized sites in the area could support additional retail as well as other uses. The redevelopment of the Sears site is an important staff priority to help further downtown Oakland's renaissance.

- **International Boulevard Bus Rapid Transit (BRT).** International Boulevard from downtown to the San Leandro border will see dramatic changes as a result of the establishment of BRT, slated to begin services in 2016. The potential for development of retail nodes will be encouraged at BRT stops.

Retail Policy and Land Use Initiatives

In the last four years, staff have developed and are working on a number of policies and initiatives to support new retail. These include:

- **Creation of Specific Plans.** In light of lessening—and now no—Redevelopment funds, specific plans were identified as a strategy to guide and support development in particular areas thought to need more guidance than what would be offered by the market alone. Specific plans and their accompanying environmental impact reports provide developers with relatively more certainty, simplifying the entitlement process. Specific plans underway call for 2.9 million sf of retail space. All plans are expected to be completed and approved in 2014.
 - **Broadway Valdez Specific Plan.** in the Broadway Valdez area, bounded by West Grand, Harrison, Broadway and 30th Street presents significant opportunities to create a mid to high end comparison goods/destination shopping place, retain and potentially urbanize the traditional Auto Row, expand the area's housing base, and create a more pedestrian friendly, attractive place. With a high percentage of surface parking lots and other underutilized sites in a 10+ acre area, and a degree of parcels held in single ownership, Broadway Valdez is the City's prime if not only location in which to create a regional-drawing comparison goods shopping place, offering a range of national, regional and locally-owned anchor retail and shops.
 - **Lake Merritt Station Area Plan.** Most retail will be neighborhood-serving though Chinatown continues to serve as a regional hub for shoppers seeking Asian foodstuffs and other items. Housing is the dominant new development type.
 - **Coliseum City.** Retail in this plan will be comparison goods, along with entertainment. Other uses are office and housing.
 - **West Oakland.** This plan calls for large format retail and neighborhood-serving retail along with housing and light industrial.
- **Oakland Retail Advisory Committee.** In partnership with the Oakland Metropolitan Chamber of Commerce, staff launched this group in April 2011. The group meets 10 to 11 times per year and is composed of more than a dozen private sector retail real estate experts—retailers, brokers, developers, consultants, attorneys, architects. Committee meetings provide a key venue for city officials and local retail experts to shape and discuss retail development policies.
- **Retail Space Design Guidelines.** Economic Development staff created “Guidelines for the Design of Retail Space in Mixed Use Projects” for planners to use to create leasable

Item: _____
CED Committee
September 24, 2013

space in mixed use projects. Staff discussed with planners which generated productive discussion about where to require retail space and where not to.

- **Disposition of City-owned property.** The City Council recently adopted a resolution allowing economic development criteria and goals to be considered when choosing a buyer or developer for City-owned property rather than only price. This allows the City to use its own property to catalyze change in commercial areas.
- **Mobile Vending.** Given the high cost of opening restaurants, in recent years chef-owners have looked to alternative ways to start their businesses. One route that has gained popularity across the nation recently is preparing and selling food from trucks. In January 2012 the City adopted revised pilot regulations to increase opportunities for entrepreneurs to start a food vending businesses, while protecting the health, safety, comfort, convenience, general welfare of the community and being sensitive to existing storefront food businesses. The ordinance requires food trucks to set up as part of a “pod” of three or more trucks in stated locations on a regular basis. This ordinance joins an earlier ordinance—still in place—which governs mobile vendors in Fruitvale.
- **Zoning Updates.** Economic Development staff is working with Planning & Building staff on updates to the Zoning Code to remove regulatory barriers to new retail, including refining regulations along the I-880 corridor to allow retail in appropriate locations and refining alcohol-sales policies to be more nimble in response to uses such as micro-breweries and boutique spirit producers.
- **Latham Square New Uses.** With an opportunity to activate Latham Square and the adjacent little-used portion at the foot of Telegraph Avenue in Downtown, Economic Development staff worked with Public Works staff to connect the Downtown Oakland CBD and Popuphood to, respectively, program the space with events and to recruit mobile retail tenants. Economic Staff is also providing input on plans for a permanent expanded plaza at Latham Square.

Technical Assistance, Marketing and Business Outreach

Economic Development staff work directly with existing and potential retailers. Having a dedicated retail specialist in the last decade has proven key in building fruitful relationships with hundreds of retail real estate decision-makers. Retail is an intricate discipline and a small world, thus the most important marketing tool is reputation and word-of-mouth.

Direct Staff Assistance

The most important work staff does is build a relationship with the retail client, so they know help is available to get their store open or their development built. Retail sector and Business Assistance Center staff assist retailers with services such as:

- Eliciting information about the business and where the client is in the process. They may not realize all the ways the City can help, or which items they need to work on in which sequence.

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Item: _____
CED Committee
September 24, 2013

- Identify colleagues in Planning, Building, Fire, Special Permits, Police that clients may need to get feedback or approvals from. Possibly schedule meetings and following up with one or more of these units to resolve thorny issues the business faces.
 - Connect clients with prospective team members, such as brokers, architects, engineers, lenders.
 - Connect clients with resources/loans that could include grants, loans, free or low cost technical assistance.
 - Educate public, City leaders and colleagues, and media on retail requirements and best practices.

Community Benefit Districts

Ten commercial districts in Oakland have established mechanisms to assess property or business owners in order to provide a steady income stream which funds activities such as landscaping, lighting, events, marketing, maintenance and security. Economic Development staff work closely with these CBDs or business improvement districts (BIDs) at the time of establishment, renewal and as the districts implement their ambitious management plans. In 2013, staff created a grant program available to CBD formation groups to assist with formation expenses. The first recipient of this program is the Jack London Improvement District.

ICSC

The International Council of Shopping Centers offers events during the year, which are excellent forums for networking and deal-making with retail real estate decision-makers. Staff regularly participates in local and regional events, and periodically at larger events in San Diego and Las Vegas.

Broker Tours

A new outreach method is broker tours. Staff coordinates with a Councilmember's office or CBD manager to identify leasing and development opportunity sites in a district, make contact with property owners to open the sites for the tour, write a tour guide with background of the area and site information, arrange for tour buses, produce a reception, and recruit speakers. Tours of Laurel & Dimond, and of Koreatown/Northgate have been held with good response and feedback.

Oakland Grown

Oakland Grown, which the City's Marketing and Economic Development staff have partnered with, produces the Oakland Grown card, a gift card that can be used at local businesses in Oakland. Currently there are about 900 Oakland Grown cardholders and 25 participating businesses, with the goal of reaching 16,000 cardholders and 200 businesses. The purposes of the card program are to provide a gift that Oaklanders can give and receive that supports local businesses and artists, keeping the money in Oakland and encouraging people to keep spending locally year-round by providing them with rewards points.

Oakland Grown also sponsors an annual holiday shopping campaign highlighting the city's more than 40 shopping districts as well as its strong network of locally-owned, independent merchants and businesses. The popular campaign spurred "Plaid Friday," which promotes local shopping the Friday after Thanksgiving, historically a low sales day for most Oakland merchants. The City of Oakland augments the annual holiday campaign with free holiday parking at City-owned meters and garages during the holidays to make shopping in Oakland easier and cheaper.

COST SUMMARY/IMPLICATIONS

This informational report results in no fiscal impacts.

SUSTAINABLE OPPORTUNITIES

Economic: A robust retail business sector in Oakland provides increased shopping options, "eyes on the street," jobs, and sales tax revenue to the City's General Fund. More businesses locating in Oakland puts more dollars into the City's economy as well, particularly in the case of locally-owned businesses.

Environmental: Encouraging Oakland residents, workers and visitors—many of whom otherwise drive great distances—to shop, dine and be entertained closer to home is vital in improving environmental quality.

Social Equity: A robust retail business sector in Oakland provides shopping options closer to where Oaklanders live and work, thus making it easier and less time-consuming to obtain life's necessities. With more competition comes lower prices on goods and services. More retailers means more jobs, many of which are entry level and have management potential.

For questions regarding this report, please contact Keira Williams, Urban Economic Analyst at 238-3853.

Respectfully submitted,



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