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## *The next bubble to burst?*

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When economic growth stalls, some businesses fail to survive, so our recession inevitably is accompanied by such failures. When it comes to retail, however, the trickle of store closings last year may soon become a torrent now that the temporary stimulus of the holidays is past. As with the collapse of housing prices, the economic downturn is not the root problem, but simply exposed a long-building bubble.

During the past two decades, retail square footage has increased at triple the rate of population growth and consumer spending combined. As Stacy Mitchell documents in her book, "Big Box Swindle," retail capacity more than doubled between 1990 and 2005, driven overwhelmingly by chain store proliferation.

Yet, even as Internet sales increased, the retail building frenzy has continued - about 140 million square feet of new development will be completed this year. As a result, we're awash in shopping space, with nearly double the area per capita of any other large nation (and almost 10 times that of many European nations).

Now add in the rapid decline in credit spending. Barring an unprecedented economic turnaround, our retail glut will yield a sizable wave of store closures once the holiday season passes.

Already last year, seemingly solid chains like Gap, Circuit City and Foot Locker shuttered hundreds of stores, with more to come. And the problem extends beyond retail; Starbucks, Blockbuster and Bennigan's did the same.

By the end of the third quarter of 2008, chain store closings already exceeded 2007's total, reports the International Council of Shopping Centers. The council also predicts that nearly 150,000 other, mainly smaller, independent retail establishments will close this year. Although these independent retailers represent a greater overall loss to our economy and

communities, a diverse local economy can absorb the loss of several small businesses. But communities dependent on a few large corporations are far more vulnerable.

California will endure many large store failures, including Linens 'n Things and Circuit City (each closing 24 stores in-state). Mervyns is closing its remaining 150 stores, including more than 100 in California. Mervyns, based in Hayward, will generate about 10 million square feet of vacant space.

Nationwide, already strapped municipal budgets will be stung by declining revenue from sales tax and commercial property tax, and by increased unemployment. Due to heavy dependence on sales tax, however, California and its municipalities will be hit especially hard.

It's too late for this bubble to deflate without damage, but states and communities should act promptly to reverse some of the conditions that encouraged the bubble and to build a more sustainable economy.

Economic misconceptions, as well as speculation, played a huge role in creating our retail bubble. For example, big-box chains inevitably promise to create hundreds of jobs and bring millions of dollars in sales tax revenue when lobbying to build a new store. The claims are not false, but grossly misleading.

Without population growth, spending on typical big-box goods like hardware, basic clothing or housewares is a relatively fixed pie. Though we might shift our shopping, we don't increase our consumption of socks or toasters much just because a new venue is selling them. "New" sales tax proceeds and jobs simply displace jobs and revenue at existing area businesses.

The community may see an immediate spike in revenue from the new store, but once newly generated public costs for traffic signals, sewer, water, and fire protection are calculated, cities often experience a net loss. This is one reason why, despite the new receipts accompanying retail sprawl, taxes often rise fastest in rapidly growing communities.

A community loses big, however, when a chain displaces sales at an independent business (or displaces entire businesses). Why? A new chain store typically is a clone of many other units, eliminating the need for local planning, and using a minimum of local goods and services. Profit is exported to corporate headquarters and almost all local jobs are low-skill positions.

In contrast, independent business owners typically spend much of their profit locally, give back more to the community, and create jobs for local accountants, Webmasters, ad agencies and many other higher-skilled people. In addition to offering greater career potential, these jobs are a training ground for future generations of entrepreneurs.

A 2007 study in San Francisco by Civic Economics is one of many to quantify the premium that cities derive from local ownership. It found that dollars spent at independent businesses yielded nearly three times more local economic benefit than those spent at chain competitors, and created about 80 percent more jobs.

The recession has a plus side: It has sharply increased awareness of hazards that accompany dependence on giant corporations. As a result, interest in "Buy Local" campaigns, green business programs and other strategies to build wealth from within communities is exploding.

This should not be mistaken for mere backlash against corporate subsidies and exploitation. Citizens are becoming more sophisticated in their understanding of economics and recognizing that directing growth and protecting community character are not obstacles to economic vitality - rather they are effective means to sustain it. Now we need our elected officials to follow.

### **Durable local economy**

Here are some steps to curb retail blight and build a more durable local economy:

- Encourage community-serving retail and redevelopment of vacant shopping centers by restricting retail development on the outskirts.
- Ensure that new development is designed to last and is adaptable by mandating high-quality materials and multi-story, mixed-use buildings. This also will use land far more efficiently than single-story box stores with their moats of parking.
- Limit the amount of land zoned for retail (other than neighborhood-serving business) and the size of big-box stores, as San Francisco and at least seven other California cities have done. Small and midsize spaces are easier to reuse and create a more diverse local economy.
- If larger stores are allowed, require bonds sufficient to cover the cost of demolishing or rehabilitating a vacant store, as Oakdale does.

- Regularly poll local residents and business owners to identify needs and wants and seek local entrepreneurs to meet them. This includes manufacturing, service, retail and more.
- Develop mentor programs and business incubation space to encourage and strengthen entrepreneurs.
- Require impact fees for development sufficient to cover new and recurring costs such as road building, traffic control, water and sewer lines, additional police and fire personnel, etc.
- The state should enforce its sales-tax rules that require online businesses with any tangible connection to California to collect sales taxes, just as brick-and-mortar stores and businesses do. This will enable storefront businesses to compete without a huge handicap.
- Eliminate the destructive competition for retail by negotiating shared sales-tax revenue on a population basis.
- Organize a "Buy Local" campaign or independent business alliance to build support for independent business as San Francisco, Menlo Park, Oakland and Petaluma have done.

*Jeff Milchen co-founded the American Independent Business Alliance (amiba.net), a nonprofit organization helping more than 50 community organizations sustain locally owned business and vital local economies. To comment, e-mail us at [forum@sfchronicle.com](mailto:forum@sfchronicle.com).*

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