FINAL REPORT

Market Analysis
Strategic Retail Plan
And Recommended Action Plan

Prepared for
City of Georgetown, Texas

Submitted by
Economics Research Associates

November 2001

ERA Project No. 13792
Credits

City of Georgetown

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Special Thanks

A special thank you to all the downtown property owners, tenants, and interested persons who participated in the workshops and public hearings during the report process. Also, the Williamson County Appraisal District, City of Georgetown Development Services, Brashear Properties, and the members of the Main Street Advisory Board Economic Restructuring Subcommittee who assisted in data-gathering for the report.
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I. Introduction and Executive Summary

Economics Research Associates (ERA) was retained by the City of Georgetown to prepare a Retail Master Plan for the downtown commercial district. Georgetown, Texas, the county seat of Williamson County, is located 30 miles north of Austin. Williamson County was the fastest growing county in Texas, according to the 2000 Census.

The information used to complete ERA’s analysis was provided by volunteers, store and business owners, realtors and brokers, City and County employees and others. The data was collected and verified over a period of months, and represents the best data available at the time of the study; for purposes of analysis, the study used data available until June, 2001, with selective updates to accommodate several key changes which have occurred downtown since then.

Georgetown has been, and will continue to be, profoundly affected by population and job growth in the region. The greater Austin area is experiencing rapid growth (the 2000 Census indicates that the Austin-San Marcos Standard Metropolitan Statistical Area (MSA) has increased its population by almost 34% since the 1990 census, to approximately 1.25 million residents). Williamson County’s population grew by over 79%, one of the fastest growing counties in the U.S., to a population of almost 250,000. It should be noted, however, that downtown Georgetown has not yet materially benefited from this level of growth. Whether a result of the location of the County’s new retail growth (closer to the NW Austin and Round Rock commercial corridors) or the lack of habitual repeat shopping in downtown Georgetown, it seems that many new residents are not spending around the square.

A significant part of Austin’s recent growth has been fueled by the technology sector, with Williamson County and Georgetown/Round Rock particularly affected by the northward expansion of Dell Computer and the selection of a north Austin site by Samsung for its first major U.S. manufacturing location. The result of this growth has been a steady spreading of residential, hotel/motel, retail, and other commercial growth
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beyond Austin’s city limits, through Round Rock and on toward Georgetown. Although there has been a downturn in the past half year, over the long term, it is not expected that the trend of northward sprawl and technology expansion will be stopped, it will only happen more slowly.

To those traveling north on Interstate 35 who do not understand the history of the Georgetown/Round Rock area, it is often difficult to know when leaving one jurisdiction and entering another. The undifferentiated commercial corridor that runs along I-35 is almost uninterrupted from the former Austin Mueller Airport site to the southern edges of Georgetown. From a perception standpoint, the new cluster of auto dealerships now developing in the southern part of Georgetown will close the last large gap of open land between Georgetown and the northward sprawl of Austin/Round Rock. In ERA’s view, this decreasing lack of differentiation is both a problem and an opportunity for Georgetown.

As a result of this growth, new retail development is proposed for the area surrounding the town, particularly to the north and west. But as a vestige of the traditional Texas courthouse town, downtown Georgetown’s historic square, architectural character, well-preserved buildings, and pedestrian scale represent enormous opportunities for increased sales to both visitors and residents. Growth is not necessarily a negative factor for historic towns, but the manner in which growth is planned and managed can make the difference between maintaining a community’s identity and losing it. Georgetown’s ability to wrestle with that growth will be significantly affected by decisions resulting from creation of a new comprehensive plan. The introduction of fast food, discount retailers and other typical commercial development along I-35 was predicted 20 years ago in the original Texas Main Street Program recommendations report, but Georgetown did not have adequate planning and economic development infrastructure in place to effectively differentiate the result from other Texas commercial corridors. The view of the historic Williamson County Courthouse dome is still visible from I-35, but the surrounding highway context of fast food and strip malls is increasingly undistinguishable from the Round Rock corridor along I-35. We believe that Georgetown can achieve something better.
The focus of this report is the development of future market and development strategies for the retail program in downtown Georgetown, including implementation strategies which address key opportunity sites and actions for the downtown district.

This report includes the following sections:

I. Introduction and Executive Summary

II. Needs and Possibilities

III. Retail Market Demand Analysis

IV. Potential Niche Strategies/Leasing Targets

V. Lease Review

VI. Leasing Strategy

VII. Implementation/Action Plan

VIII. Addendum – Case Study Analysis for David Love Building

Appendix- Area Retail Projects Summary

In addition to the retail market and development strategy described in this report, ERA worked with local volunteers to organize and package data on commercial properties located in the downtown district. This property book, to be submitted, will be a separate document; its purpose is to provide a database and record from which future monitoring of property availability, value and opportunities for leasing and redevelopment may be managed.
Executive Summary

The actions, conclusions, and recommendations in this report are based on ERA’s research and participation in meetings and work sessions with a range of individuals and organizations in Georgetown. The opportunities in Georgetown are real and growing (especially in the tourist/visitor market along I-35), but the rapid expansion of the regional market and limited capacity to plan and implement downtown (and other) municipal improvements in the community due to staff overload and vacancies in the Economic Development and Planning departments have taken their tolls on the downtown area. New competition from major regional and national big-box and discount retailers such as WalMart has also affected many downtown businesses through loss of market share and reduced volume. That notwithstanding, ERA recommends that several policy, financial and implementation steps be taken to carry out the downtown retail strategy for Georgetown. A summary of major findings and conclusions follows:

- The retail market in downtown Georgetown has been affected by rapid expansion of competing retail offerings in the immediate area and in Round Rock, and by introduction of big-box retailers such as Wal-Mart. These large discount chains consolidated many of the merchandise lines formerly sold in multiple downtown stores, and locally owned businesses often find it difficult to compete without a differentiated product and customer experience. Because of the historic character and scale of the square and the surrounding commercial blocks, ERA believes that downtown Georgetown can compete with nearby ‘suburban-format’ retailers, especially for food service and specialty retail goods expenditures by residents and visitors.

- The current supply of downtown retail, estimated at approximately 200,000 square feet of space (not including auto-related uses such as dealerships and repair businesses located downtown), is roughly in balance with the current capture of resident based expenditures and sales productivities. This balance is a reflection of a number of factors: the current mix of stores and retail goods offered downtown; the amount, quality, price level and proximity of new retail offerings in other areas of Georgetown (particularly along I-35 and Williams Drive) to recent residential development; and changes in shopping patterns over the past ten years (the growth of discount and high-volume ‘Big Box’ retailers such as Super*Wal Mart, Home Depot and others). ERA’s analysis of the demand and supply balance downtown is explained more fully on page 35 of this report. This is not to say that downtown Georgetown cannot increase resident
expenditures over time. But during the near term, ERA believes that incremental growth in downtown retail offerings will be supported by visitors attracted off I-35. To attract additional customers, consumer sales, and the businesses they support, downtown will need better signs directing visitors from the highway to the central business district, an expanded range of food service offerings (most likely including sales of liquor by the drink), additional efforts to recruit new retailers and restaurants, a focused advertising campaign and program targeting tourists and visitors, an organized program to foster recruitment of additional individually-owned and selected national specialty retail stores, availability of convenient parking, and a concerted effort to preserve and protect the charm and character of the historic buildings downtown.

- The primary existing markets for downtown retail in Georgetown are local residents (including Sun City), Southwestern University students and their visitors, and downtown employees. Additional support for more retail can be generated by tourists and short-term visitors coming downtown from I-35.

- At approximately $70,000 per year, average household incomes in Georgetown are relatively high. This, combined with regional growth trends, makes Georgetown attractive to retail recruitment prospects, particularly regional businesses that know the Georgetown market. National tenants may be more difficult to recruit in the near term; until resident and visitor numbers reach higher levels downtown Georgetown will not meet the formula population requirements that many national retailers have as site location criteria.

- ERA estimates that, of total potential retail sales of approximately $263 million per year from the resident, student and employee markets, downtown Georgetown can capture between $20 million and $29.4 million in sales if appropriate improvements are implemented. In addition to this figure, ERA estimates that an extra $6.7 million to $9.8 million in sales can be attracted from tourists and visitors attracted from I-35. Total overall estimated downtown sales could range from $26.7 million to $39.2 million per year.

- The character of the historic downtown and surrounding neighborhoods has been eroded by strip development along principal roadways and I-35. A Master Plan and Design Guidelines for physical improvements will complement the strategies described in this Retail Master Plan to protect and reinforce this character.
As a real estate investment area, downtown Georgetown is in transition. Some property owners have dramatically increased rents without making investments in their buildings, increasing pressures on street-related retail to generate higher sales. The growth in Williamson County has resulted in significant expansion of County office and support spaces downtown, as well as conversion of some former retail spaces into professional offices.

There are a number of priority redevelopment sites downtown, including larger locations such as the Hewlett site, the Draeger site (in the future), the Williamson County Academy block, as well as smaller parcels near the Courthouse expansion and smaller, more underutilized light industry/warehousing locations west of the square.

According to the 2000 Census, Georgetown’s resident population is approximately 51,200; projected growth from planned and platted new residential development could add up to 45,000 additional new residents, almost doubling the population of the area. This growth represents a strong opportunity for downtown retail over time, particularly from the trade area residents within the northern and eastern portions of the five and ten-mile radius rings where there is less competitive retail than in Round Rock and Lakeline.

The recommended implementation structure for the downtown retail plan is to establish a new Georgetown Downtown Development Corporation (DDC), incorporating efforts by the City, retailers and local property owners to implement short and long-term recommendations and to provide incentives to downtown development.

Downtown would benefit by completion of an overall Master Plan and adoption of Design Guidelines for new development. Without careful urban design and development, the benefit of downtown Georgetown’s historic character will not be maximized. Part of the Downtown Master Plan should include a review of parking requirements and provisions by the City, the County and downtown property owners and retailers.

A range of public and private financial incentives, partnerships and long-term investment strategies should be explored and carried out to encourage implementation of the retail plan. Possibilities include TEA-21 transportation funding, creation of a special tax assessment district (when a majority of property owners support the idea), investment by Southwestern University, access to the Texas Small Business Loan Program, etc.
II. Needs and Possibilities

This section lists ERA’s assessment of Needs and Possibilities in the downtown area, as well as comments on policies and practices that have affected downtown development. It should be noted that some of the Needs/Problems (such as issues regarding consensus on the future of downtown Georgetown) are the purpose of this report and plan. It should also be noted that reaching the Possibilities described below will require cooperation and multiple joint efforts over time between the public and private sectors.

**Downtown Needs and Problems**

a) There is no single point of contact or responsibility for downtown Georgetown – who will coordinate/direct downtown development in the future?

b) Fragmented participation and inconsistency of leadership has sometimes limited downtown development activities between some property owners and retailers

c) There is no apparent consensus on the future role for downtown within the larger community context – this report represents a first step at identifying opportunities and actions; the Comprehensive Plan update will be critical in linking downtown development into Georgetown’s larger community environment and long-term vision.

d) Local growth and planning policies have not protected downtown Georgetown as a retail/commercial center; planning and economic development practices should be put into place to support downtown’s future as a principal commercial center.

e) Capacity and management of downtown parking is a problem that must be addressed by the City and Williamson County – a Downtown Master Plan and development program is needed. The plan could potentially allow for the creation of a City-County sponsored Parking Authority to develop and manage surface lots and structured parking.
f) A retail recruitment program is needed to attract new stores, restaurants and businesses downtown.

g) Redevelopment sites are keys to future downtown commercial growth in Georgetown, but the future of certain locations are unclear from a public policy standpoint.

h) The square represents a large part of Georgetown’s identity, but it is not promoted effectively to potential spenders on I-35.

i) Downtown property values (both perceived and real) are sometimes ahead of retailers’ abilities to achieve necessary sales levels.

j) Both local and regional media can provide more constructive assistance in marketing downtown Georgetown.

k) Landlord expectations for increased rents will drive out some existing tenants, but a system for relocation/retention into ‘second tier’ retail spaces downtown is not available.

l) The City, Williamson County and (over the longer term) Southwestern University are the most likely public sources of funding for downtown development, but the level of capacity for financial commitment by the City is uncertain and Williamson County has not offered financial assistance other than through expansion of its own facilities. Southwestern University has not committed to any type of downtown development investment, either through its endowment or through an alumni-sponsored capital effort.

m) Apparel and accessories offerings are somewhat limited downtown, although selected locally-owned apparel and gift stores appear to serve their markets well.

n) Downtown store hours are not consistently maintained, and are not always in synch with the hours that shoppers want (nights and weekend days).

o) TxDOT’s proposed project to replace the bridges and widen Austin Avenue could have a very detrimental effect on downtown unless planned to mitigate changes in traffic speed, volume and design.
Possibilities/Opportunities

1) The City Council, County Commissioner for downtown Georgetown and local downtown advocacy groups understand that there is a problem, and are seeking solutions through this report and other activities.

2) There is unmet market demand for additional food service and restaurants downtown.

3) At approximately $70,000 per year, average household incomes in Georgetown are relatively high; this combined with regional growth patterns will be attractive to retail recruitment prospects.

4) The local commercial brokerage community is well informed and interested in downtown, and can complement/participate in recruitment activities.

5) There is a core of locally-owned businesses (particularly in the antiques, housewares, and gifts categories) that will validate the leasing base for additional retail and restaurant recruitment.

6) Sun City and other major residential development in the area offer significant market opportunities for downtown, and should be targeted as markets through recruitment of additional stores, restaurants and provision of easy, accessible downtown parking.

7) Renovation of the Palace Theater is an ambitious community project that will bring additional people and spending power downtown; the theater should be programmed as often as possible.

8) Southwestern University is a community asset that should take a greater role downtown, both as consumers of goods and services and potentially as an institutional real estate investor with a stake in downtown Georgetown’s long term stability as an active commercial center.

9) Although the current market and supply of retail space is roughly in balance downtown, the opportunity to better serve specialized market segments such as Southwestern University students and visitors, Sun
City residents, and tourists/visitors from I-35 and the region will be the source of future downtown retail expansion and growth.

10) The traditional character of the downtown area can be enhanced relatively inexpensively and staged over time, as historic area “gateway” elements become affordable. This “gateway” function can be achieved through construction of properly designed urban design elements along Austin Avenue and other major entry roads (according to the Downtown Guidelines recommendations for a Master Plan from the design consultant Noré Winter). The gateway markers could include one or more of the following: made of local Georgetown limestone, introduction of a system of directional signs from I-35 to the square, addition of more pecan trees through the historic neighborhoods, special lighting pole standards, or other elements.

11) The increasing volume of traffic along I-35 is a vast, and relatively untapped market resource. Downtown Georgetown’s charm and historic character, enhanced by a stronger retail/restaurant mix in the future, should be marketed on the highway as a reason to pull off for a visit. The Texas Highway Department should be approached to provide (or cooperatively share the costs of) a series of national-standard brown ‘visitor-oriented’ signs mentioning the historic downtown district and the close distance/off-on proximity at key entry points. The same type of signs should also be added further up and down I-35 to allow drivers to plan a stop before reaching the appropriate exit. This ease of access is not clear today, but can be easily remedied if the Highway Department will cooperate. As an alternative (or complementary) sign strategy, downtown Georgetown retailers may also want to consider promotional billboard signs promoting the historic square as a potential stop not far off the highway.

12) The demographic/marketing story for downtown Georgetown is strong; it can be used to create retail and business recruitment materials to bring in new retailers and restaurants, if properly summarized, packaged and distributed (see Section VII for specific suggestions and recommendations).
III. Retail Market Demand

This section summarizes the context for the downtown retail study and highlights the key findings of the market analysis, merchandising strategy and implementation recommendations for downtown Georgetown.

Georgetown’s Downtown Development Context

All downtown areas go through transitions; like other small towns across the United States, downtown Georgetown’s role as a market center has changed several times since its founding in the 19th century. Through each shift in prosperity and expansion in the regional economy, downtown Georgetown’s historic square and distinctive limestone buildings have provided an architectural link to the past, and have sustained a special pedestrian character that has provided a unique identity. Establishment of the Main Street program almost twenty years ago was a major step at managing change in the downtown, and the small number of vacancies and general attractive appearance of the square and the blocks surrounding it is a credit to both the Main Street office and to the City of Georgetown for maintaining the program. Unlike many other small towns, both in Texas and in other states, Georgetown is located in a rapid growth area that has strained both the planning and utilities infrastructure of the City and Williamson County; it has also shifted traditional development patterns, has introduced substantial amounts of new retail not located in the traditional downtown area around the Square, and has introduced new residents whose shopping habits are not necessarily grounded in shopping downtown – there are many alternative choices that do not direct traffic to downtown Georgetown.

Like other mature Main Street communities in rapid growth areas, the basis for downtown revitalization in Georgetown has evolved beyond a primary focus on marketing and design improvements alone. This program can continue to provide benefits to downtown Georgetown, but the best solution will also involve actions directed at real estate economics and creating incentives to attract a complementary mix of uses, especially if those uses are implemented within the context of a Downtown Master Plan. The realities of changing local markets, more
retail competition and a population base dispersed over a much larger area are an indication to ERA that downtown Georgetown has the opportunity to address three strategies:

1. To identify and better serve downtown’s target customer markets,

2. To carry out an action plan to attract retail and food service uses to bring these markets downtown (or bring customers downtown more often), and

3. To use public policies and private incentives to reposition downtown as part of a larger context.

The population growth moving north along the I-35 corridor has added local and regional real estate development pressure to the mix, as well. Recent increases in rental rates for downtown retail spaces, increased investment in historic buildings and speculation by property owners and investors has stoked the next transition in downtown Georgetown. But unlike past efforts, in which much of the initiative for revitalization was internally generated by volunteers, local property owners and local government, the current transition is in the greater part a reaction to outside forces. In ERA’s view, these outside forces represent both extraordinary opportunities to channel new investment in positive ways, as well as the a more troubling potential to negatively alter the unusual quality that downtown Georgetown possesses. **Without commitments to a clear plan of action, decisive roles for government and the private sector, and an aggressive, ongoing effort to market downtown Georgetown to residents and visitors, ERA is concerned that the current status of the downtown area will decline and be far more difficult to sustain and enhance.** If unplanned growth is allowed to move across the community without a strategy to manage the resulting changes and guarantee that downtown will have a major role to play, the outcome in other locations suggests that downtown will enter a difficult economic decline.

Georgetown is in a transition period now, and the intent of the City of Georgetown and its citizens in commissioning this study, as well as the preparation of the Design Guidelines for the Downtown Business District
by other consultants, is to structure a way to deal with change positively, and to address potential negatives with conscious actions.

**Downtown Retail Expansion Potential:** According to industry standards for retail capture rates of available sales, average sales productivities for viable retail and food service operations, and the expected level of retail performance based on today’s downtown merchandise mix, the amount of space currently used as retail in downtown Georgetown is approximately the amount that the current resident population will support, when alternative shopping areas are considered. This does not, however, mean that there is not any retail growth potential downtown. In ERA’s view, the earliest, most cost effective and most easily achieved growth in retail support will come from visitors and travelers along I-35. This market segment is already passing through Georgetown; they simply need to know what is available downtown to be attracted off the Interstate. This increment of expanded sales will also help resident-based sales; because the growth in spending power from visitors will help support new businesses and restaurants downtown (therefore expanding the overall range of options for retail and food service), downtown will also become more attractive to resident expenditures. The impact of new visitor dollars (and the businesses they help support) will make downtown Georgetown more interesting for residents, as well, and will encourage them to shop downtown more often.

**The initial strategy should be to strengthen and reinforce the retail locations around the square and along Austin Avenue.** These are the stronger retail locations due to exposure and identity (Gold’s Department Store slogan “On the Square in Georgetown” is still a powerful marketing identity for customers over 40 years of age). As additional retailers are recruited downtown and tenants unable to pay top rents need to relocate, **secondary retail locations just off the square should be identified and positioned to absorb these retail relocations and shifts,** rather than losing businesses.

This conclusion suggests that more retail space be added over time, with appropriate changes in the merchandise mix and better marketing toward the I-35 visitor. But in terms of resident-based sales, despite overall population growth and the impact of new developments such as Sun City
Texas, the additional retail development added and planned outside the downtown area in locations along the I-35 east and west access roads, along Williams Drive, toward Round Rock, and Lakeline Mall has absorbed the additional potential demand that might otherwise have supported businesses in downtown Georgetown. Absent an updated Comprehensive Plan and a cooperative effort with Williamson County, this growth market will likely remain difficult to capture downtown.

In ERA’s view, the most immediate growth potential for additional new retail and food service space downtown will come from two sources: increased capture of visitor traffic from the Interstate; and from attracting and retaining a higher percentage of resident-based sales, primarily through addition of more food and beverage operations and new specialty and service retail uses downtown.

New office growth in the downtown area (particularly the County’s expansion and new commercial office space) will also increase retail sales potential. If the appropriate categories of stores and restaurants are available (quick service and table service food, business supplies and services, convenience shopping and some apparel and gifts retailers), each downtown office worker can be assumed to support approximately 7 to 10 square feet of retail space. Described in a different way, every 125 new office employees located in the downtown area represents enough market support for an additional retail business. The City of Georgetown’s current plans to relocate some City departments from the Old Post Office is, in our view, not a problem; the number of employees reported to be under consideration for moving is less than 50, and City Hall will remain downtown on the Square (perhaps in a different configuration or expansion of the current City Hall building), as a destination for meetings, hearings and the administrative center of City Government. The loss of these City employees will be somewhat offset by the planned doubling of the County office facilities west of the square. The overall point is that office workers support retail and food sales, and ERA encourages Georgetown to retain public facilities such as the Library, County offices which attract business and visitors, and City facilities in the downtown area, as they create traffic and generate sales during the week. Evening and weekend sales will be more strongly supported by residents and tourists.
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The County’s plans to expand the jail offer the opportunity to share parking in County facilities with downtown uses and events. Over the short term, construction of the expansion could disrupt traffic flow to and around downtown, and a construction mitigation plan should be developed to minimize the project’s effects during construction. Over the longer-term, the jail expansion project could require growth of County-held properties into locations which would preclude future downtown commercial development. The long-term balance between commercial tax base enhancements should be weighed against near-term needs for a single use building that will not add vitality to downtown Georgetown.

As property values rise downtown, it should be expected that density and development pressures on underutilized buildings and sites will increase. Among the best potential development locations, the Hewlett site is one of the largest and most visible; the Williamson County Academy site and Draeger Motors are equally visible and about the same size. Because the Hewlett site is currently for sale (and presumably could be the first to be redeveloped at a large scale), ERA believes that the manner in which new development is encouraged and designed there will present a significant precedent for future private-sector development in downtown Georgetown. ERA strongly encourages that each of these sites should be targeted for appropriate future commercial development (when warranted by private market and development interests). ERA also suggests that completing and incorporating the new design guidelines for new development in the downtown business district will be a critical tool in managing how new density is added to the current one-to-three story historic building stock. If new buildings do not ‘fit in’ to the character of downtown, the value of the square as a marketing identity for Georgetown will be compromised.

Changes in the Merchandise Mix: The biggest underserved category ERA found downtown was the limited number of food and beverage operations. While Wildfire remains open for lunch and dinner, Geaux Fish has recently transitioned from a full service restaurant to a limited service/events facility. The sale and planned redevelopment of the Masonic Building has also resulted in the closing of the Orient Square restaurant. As a community which serves both residents and
visitors, the limited number of full service restaurants in downtown Georgetown represents a short-term impediment, but a longer term opportunity. **ERA recommends that the earliest stages of Georgetown’s retail recruitment efforts focus on adding at least three new full-service restaurants to other locations on or near the square,** as the remaining downtown operations do not present enough critical mass to market downtown as a dining destination (we would suggest that six to eight downtown restaurants would be a better target number, with at least five open in the evenings). Specific details on how to structure a retail/restaurant recruitment program are explained in the Implementation/Action Plan in Section VII. Experience in other cities has shown that a concentration of food service operations will expand the market, rather than subdividing current sales levels; a downtown restaurant cluster is also highly marketable to I-35 travelers, providing that parking is available. Food service is a retail category that can attract expenditures and draw traffic from all sectors – resident-based sales, business meals, food service tied to entertainment (such as live theater) and tourists/visitors from I-35.

Retrofitting a historic building for restaurant use is complex, and can require costly installation of special venting and exhaust systems. Because the Orient Square Restaurant already has kitchen facilities installed, its leasability as a restaurant is enhanced; the existence of a kitchen facility in the Masonic building is a leasing asset that should be promoted in contacting prospective restaurant tenants. There are a number of other older buildings in downtown Georgetown that could accommodate new kitchens by adding new structures to the rear of the first floor of existing buildings and concentrating kitchen equipment there. The leasing recruitment goal should be to attract enough food service operators to market downtown Georgetown as a destination dining district to residents and visitors alike. The rapid growth in both chain-affiliated and locally owned restaurants in Austin suggests that there may be recruitment targets there. At the regional level, the Austin partnership that owns Hula Hut and Chuy’s restaurants has been very successful in marketing destination locations, and could be approached about opening a branch or new concept in Georgetown. The recent opening of a Chuy’s restaurant on I 35 in the Round Rock area suggests that there is already an awareness of the Georgetown/ I 35 corridor as a
business opportunity; the company should be contacted regarding near-
and long-term expansion plans, presenting Georgetown as a possible
location for either new or established restaurant concepts.

**Key Development Sites:** The most immediate key development site
downtown is the Hewlett site. ERA considers this to be a prominent and
opportune location to encourage new mixed-use development downtown.
But it is not the only opportunity that is available; over the longer term
(and as current priorities change) other key development sites include:

- City-owned properties on and near the Square;
- Underutilized parcels west of the square currently used as surface
  parking;
- The Williamson County Academy Building
- Should the current use ever change, the buildings occupied by Gold’s
  Department Store can be considered a retail development site
- Other one-story industrial buildings and surface parking locations in
  perimeter locations within two blocks of the square;
- Should the dealership ever elect to move, the Draeger Motors site
  offers potential similar to the Hewlett site

ERA also notes that we would not consider conversion of residential
properties to office or retail use to be appropriate as part of the retail
strategy; there is a significant amount of space and land that can absorb
considerable commercial development before the downtown district’s
residential buffers should be changed.

**Implementation Recommendations:** To address these
opportunities, a specific Implementation /Action Plan is described in
Section VII. Because both the City and County have a stake in the future
viability of downtown Georgetown, we recommend that both take a more
active and cooperative role in the Action Plan. The City has the most
direct role, as it controls zoning and economic development policies; but
Williamson County is also part of the problem (problems resulting from
all-day employee parking around the square) as well as part of the
solution (a concentration of county employees that represent a market for downtown goods and services, and professional office occupants who need to be near the County complex); the County is also a potential funding source for public facilities, such as a shared public parking garage.

**Analysis of Market Demand**

The following discussion presents ERA’s findings with respect to the market support for retail in downtown Georgetown. The market demand model provides a method to determine the amount of space which is ultimately supportable downtown and also provides insights regarding which mix of retailers might be most appropriate for downtown Georgetown. An understanding of the market is also critical in developing and carrying out marketing strategies to reinforce downtown as a shopping area.

ERA’s retail market demand model includes the potential retail market support provided by four key segments -- local residents, downtown employees, students at Southwestern University, and visitors from outside of Georgetown (whether tourists who have chosen to visit the town or I-35 motorists who might be attracted to visit Georgetown on impulse, that is for a meal or a drive through in response to highway signs and other marketing and promotional programs.

**Local Resident Markets**

For purposes of our analysis, ERA has defined a resident trade area which encompasses the City of Georgetown, and includes approximately 51,200 residents today. The resident trade area includes the city limits, resident areas within a five-mile radius, as well as selected zip code districts that extend slightly beyond the five-mile radius. A map of the trade area is shown on page 25; a more detailed description of resident demographics is included in the Appendix. The trade area also includes other residents within a 5-10 mile radius, although residents of areas south and west of Georgetown (in Round Rock and in the Lakeline area) would be less likely to shop frequently around the square due to significant amounts of competing retail closer to those population centers. Residents north and east of Georgetown, where there is less
competition can be assumed to be more likely to shop downtown. The trade area definition is based upon the assumption that many of these residents will shop/dine in downtown Georgetown on occasion, given an improved retail mix. The trade area extends approximately five to ten miles from downtown Georgetown (but, again, the area south to Highway 620 reaches into central Round Rock and the large concentration of new retail along I-35, reducing the ability to attract as many sales from southern and southwest Williamson county commercial centers). Obviously residents from outside the trade area will also shop in Georgetown; however, their visits will likely not occur as frequently. ERA’s analysis has accounted for visitation from outside of the trade area as “inflow”. Typically inflow from outside of the trade area accounts for about 25 percent of total sales in a shopping district.

The immediate trade area is anticipated to grow by over 15,000 residents over the next five years – a substantial rate of growth and also an indication that the outward growth from Austin has reached the Georgetown area. The high rate of growth is further verified by the number of residential units proposed for the Georgetown area over the longer term (as shown on the table and map entitled New Residential Development, both of which follow on pages 21 and 23). According to plans provided by the City’s Development Services office, over 16,000 lots are proposed for the surrounding area (over 4,600 have already been platted). Using the 2000 Census average size of 2.82 persons per household, the more-than 16,000 proposed lots could represent an increase over a longer time period of over 45,000 new residents. If the majority of those residents were retirees, a smaller household average size of 1.7 persons per household would suggest an increase of 27,400 new residents. Platted lots would add another 7,900 to over 13,150 new residents (again, depending upon whether residents are retirees and empty-nesters – adults whose children have left home – or families with children living at home). In either case, the impact on potential retail sales over the next ten years will potentially be significant enough that downtown Georgetown can sustain vitality and strong property values, assuming that downtown is positioned and marketed to capture its fair share of total sales.
Significant portions of these lots are located to the north and west in Sun City and Georgetown Village. *This information is critical for potential retailers, as it represents the source of new market support that will be the increment of real growth in potential sales. This type of data should be part of any retail recruitment/marketing packages assembled for use by a broker and/or local leasing team (see Section VII for further data.)*

Total expenditure potential for the resident market is based on the number of households, average disposable income, and typical spending patterns for goods such as apparel, general merchandise and furniture, which is typically about 22 percent of disposable income, based on spending surveys conducted by the US Census.

<table>
<thead>
<tr>
<th>Proposed New Residential Development</th>
<th>Proposed Lots</th>
<th>Platted Lots</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cimmaron Hills</td>
<td>601</td>
<td>141</td>
</tr>
<tr>
<td>Fountainwood Estates</td>
<td>258</td>
<td>258</td>
</tr>
<tr>
<td>Fountainwood Woods</td>
<td>258</td>
<td>258</td>
</tr>
<tr>
<td>Georgetown Village</td>
<td>3,723</td>
<td>258</td>
</tr>
<tr>
<td>Sun City</td>
<td>9,500</td>
<td>3,153</td>
</tr>
<tr>
<td>Berry Creek Reserve</td>
<td>436</td>
<td>73</td>
</tr>
<tr>
<td>Katy Crossing</td>
<td>487</td>
<td>288</td>
</tr>
<tr>
<td>Summer Crest</td>
<td>259</td>
<td>62</td>
</tr>
<tr>
<td>Riverchase</td>
<td>n/a</td>
<td>90</td>
</tr>
<tr>
<td>Escalera</td>
<td>520</td>
<td>44</td>
</tr>
<tr>
<td>Westlake of the Woods</td>
<td>197</td>
<td>41</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>16,239</strong></td>
<td><strong>4,666</strong></td>
</tr>
</tbody>
</table>

*Source: City of Georgetown Development Services, Economics Research Associates*

*NOTE: This list is illustrative, and should not be considered exhaustive or inclusive of all developments under consideration.*
Resident Expenditure Potential

Georgetown, Texas Retail Plan

City of Georgetown Trade Area 1/

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (2000 Census)</td>
<td>51,198</td>
</tr>
<tr>
<td>Number of Households (HH)</td>
<td>17,852</td>
</tr>
<tr>
<td>Average HH Income</td>
<td>$ 74,024</td>
</tr>
<tr>
<td>Total Spending Potential</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>$ 197,692,877</td>
</tr>
<tr>
<td>Meals and Beverages</td>
<td>$ 58,144,964</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE POTENTIAL</td>
<td>$ 255,837,840</td>
</tr>
</tbody>
</table>

1/ Trade area includes incorporated Georgetown (and Sun City) and selected zip codes within the immediate (5-10 mile radius) surrounding area.

Source: Claritas, Economics Research Associates
According to information provided by university representatives, Southwestern University currently has an enrollment of about 1,256 students. Based on a survey conducted by the National Association of Campus Stores, on average, university students in the United States spend approximately $2,000 per year for food and retail purchases off campus. As shown on the table below, this national average translates into a total annual spending potential of about $2.5 million by Southwestern students. The availability of these expenditures does not necessarily mean that downtown Georgetown is attracting most (or even its fair share) of student expenditures, however. The amount and frequency of their spending is determined by the availability of the goods they wish to purchase, the price levels and merchandise preferences they desire (in ERA’s experience, it is more likely that students attending universities and colleges in smaller communities make a higher percentage of their purchases while at home or in nearby larger cities with greater assortments of goods and the opportunity to combine shopping trips with entertainment and other attractions). While several stores in downtown Georgetown draw from Southwestern for employees and for sales (particularly noted during parents’ weekends), ERA believes that there is additional opportunity to attract sales from students at Southwestern, in particular in casual apparel and accessories.

<table>
<thead>
<tr>
<th>STUDENT EXPENDITURE POTENTIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgetown, Texas Retail Plan</td>
</tr>
<tr>
<td>SOUTHWESTERN UNIVERSITY</td>
</tr>
<tr>
<td>Total Student Population</td>
</tr>
<tr>
<td>Average Annual Student Spending</td>
</tr>
<tr>
<td>Retail:</td>
</tr>
<tr>
<td>Meals and Beverages:</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Total Expenditure Potential</td>
</tr>
<tr>
<td>Retail:</td>
</tr>
<tr>
<td>Meals and Beverages:</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Southwestern University, National Association of Campus Stores, Economics Research Associates.
**Downtown Employee Market**

Downtown employment in Georgetown is estimated at approximately 2,000 workers. ERA’s estimate is based on data collected locally, and incorporates the Downtown Business District; the District’s boundaries extend from 2nd Street on the north to Martin Luther King on the west, and from University on the south to Myrtle Street on the east. Employment data was based on employment information available through the census. Because the Georgetown employment market is a dynamic one, it can be expected that these numbers may change slightly as growth and change continue within the city.

Employee spending patterns are similar to student spending. A national survey indicated that downtown office workers spend, on average, about $2,117 annually for various retail goods and food and beverage purchases during business hours in the week. Approximately 45% of the total is spent on retail purchases (specialty retail such as apparel, accessories and shoes and gift items) and service retail (dry cleaners, film development, shoe repairs, etc.). The remaining 55% is spent on food service (breakfast, lunch and snacks). For the 2,000 estimated employees in downtown Georgetown, this translates into approximately $4.2 million of total annual spending potential by workers. It should also be noted that in smaller communities, the amount spent on food away from home may be less than national averages, as some employees are located close enough to go home for lunch. Also, public employees frequently spend less on food away from home than private sector employees. Finally, the amount spent for food and beverage and retail is affected by the number and types of stores and restaurants available for workers.

Downtown office workers represent an important market segment for sales of food and beverage as well as general merchandise. Using average expenditure rates for office workers and typical sales productivity levels for viable businesses ($200 to $300 per square foot per year), each downtown office worker supports about 7-10 square feet of retail space in some location (meaning that the expenditures will happen somewhere, but not necessarily downtown). However, if the goods and services are located conveniently nearby (in the downtown
area) and include enough variety to encourage repeat visitation, the greater proportion of those expenditures will occur downtown. Thus the ‘lost sales’ impact of relocating City and County offices out of the downtown area should be carefully weighed. While it may become necessary to relocate some employees, the loss of their expenditures will be felt by downtown businesses unless replaced by other employees, whether public or private sector.

ERA believes that addition of some new office space on key sites such as the Hewlett site or other larger sites can have a very positive effect on the long-term stability of the downtown retail market. Our reasoning is as follows:

- Because it is currently available, the Hewlett site is both ready for redevelopment and large enough to accommodate a bigger development vision than other small, or more fragmented downtown properties
- The site is already assembled, and development of the entire site could be phased over time
- The Hewlett site and the Draeger sites are immediately proximate to the square and each (as well as the Williamson County Academy site at the corner of University) has great visibility to Austin Avenue, a major vehicular corridor serving downtown
- The current buildings and density levels do not match long-term opportunities to create two or possibly three story commercial buildings and parking that will blend with the character of the square and the historic district

Office users patronize retail and food service primarily during the day, supplementing sales by residents. One of the buyer behaviors that has changed in the U.S. over the past twenty years has been the amount of available time for shopping. Due to personal time constraints/a limited amount of time for resident-based shopping trips, ease of parking and extended store hours become a major part of shopper decisions on where to go. In response, major national retailers and shopping mall developers are open late, seven days a week. Wal-Mart has responded more
dramatically, remaining open 24 hours, seven days a week in many locations, in order to be available to customers whenever they are interested in making a purchase. Of course, this is not possible in downtown areas or for small business owners who cannot be open around the clock or over seven days a week. But as most visitor and resident shopping trips are scheduled in the evenings and on weekends, it will be increasingly important for downtown Georgetown retailers to coordinate store hours (and market when stores will be open and closed) so that shoppers are not disappointed. Because downtowns should strive to serve multiple markets (residents, visitors and workers) ERA suggests that maintaining and serving a stable base of downtown office workers will spread sales more evenly over the week.

<table>
<thead>
<tr>
<th>WORKER EXPENDITURE POTENTIAL</th>
<th>Georgetown, Texas Retail Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
</tr>
<tr>
<td>PRIMARY MARKET 1/</td>
<td></td>
</tr>
<tr>
<td>Total Estimated Employment</td>
<td>2,000</td>
</tr>
<tr>
<td>ANN’L EMPLOYEE SPENDING 2/</td>
<td></td>
</tr>
<tr>
<td>Retail:</td>
<td>$941</td>
</tr>
<tr>
<td>Meals and Beverages:</td>
<td>$1,176</td>
</tr>
<tr>
<td>Total</td>
<td>$2,117</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE POTENTIAL</td>
<td></td>
</tr>
<tr>
<td>Retail:</td>
<td>$1,882,000</td>
</tr>
<tr>
<td>Meals and Beverages:</td>
<td>$2,352,000</td>
</tr>
<tr>
<td>Total</td>
<td>$4,234,000</td>
</tr>
</tbody>
</table>

1/ Primary market defined as the downtown area.
2/ Based on Int’l Council of Shopping Center survey data

Source: Claritas, Economics Research Associates.

Using these sales assumptions, the impact of office workers on downtown retail can also be expressed in another manner. Sales productivity of $250 per square foot (a reasonable basis for operation of a
viable business) applied against the sales potential of approximately 125 new office workers ($2100 times 125 employee spenders) equals sufficient sales support for a 1,000 square foot business. In other words, every 125 new employees brought into downtown Georgetown equals the sales support for an additional retail business.

Visitor Market

As mentioned earlier in this report, Georgetown’s real opportunity for expansion of retail offerings downtown will rely in large part on the downtown area’s ability to attract expenditures from visitors, either those already spending time in Georgetown, or those who can be attracted to plan a trip or make an ‘impulse’ stop while traveling along I-35. This visitor market is sometimes referred to as “inflow”, as it represents spending that might not ordinarily occur in a community.

Based on conversations with various retailers in downtown Georgetown area and our experience in other markets, ERA has estimated that “inflow” from the surrounding areas (e.g. Austin, Dallas, Houston, out-of-state) will account for an additional 25 percent of total sales within the downtown area. In large part this current inflow of sales is attributable to expenditures by visitors to Georgetown. Visitor-based sales include those made by individuals and groups who are either staying in local lodging facilities or are day-trip visitors.

Visitors may also include either business travelers or leisure/vacation travelers. Visiting friends and family guests are known as VFR’s (Parents’ weekend visitors to Southwestern University would fall into this category). Each of these visitor types can reasonably be expected to generate sales in specialty and food and beverage retail categories. Downtown Georgetown’s current high concentration of specialty/gift and antiques and collectables retailers suggest that a higher than average percentage of retail sales are attributable to these various visitor categories, accounting also for the higher than average “inflow” percentage (a more typical inflow for less appealing settings/more limited offerings of visitor-oriented goods would be about 15-20 % of total sales).
The ability to capture visitor expenditures relies on several factors:

- An interesting, different series of retail offerings, providing an alternative to typical strip mall and ‘big box’/discount retail environments; downtown already has many local specialty stores that provide a differentiated shopping experience, which will be strengthened by recruitment of additional specialty retailers and restaurants.

- An easily understood series of directional signs showing how to get to the destination downtown, plus some sense of how far off the path the visitor must travel (downtown Georgetown offers an easy proximity).

- Well marked places for visitors to park must be provided. The ‘perception’ of available street parking is critical for visitors, as is the need for directional signs to off street lots if no street parking is available.

According to 1999 traffic counts by the Texas Department of Transportation (TxDOT), Austin Avenue just north of the square carries approximately 15,000 vehicles per day. This is not an inconsequential number of vehicles, and represents a very good flow of traffic and visibility for the square and the stores along its west side and down Austin (it also highlights the opportunity represented by the Hewlett site, which has both land and exposure to Austin Avenue vehicular traffic).

**But from a market potential point of view, ERA sees the real opportunity is the volume of vehicles passing Georgetown along Interstate 35.** According to the same TXDOT traffic survey, Interstate 35 carried approximately 127,000 vehicles per day, eight and one-half times the volume of cars traveling along Austin Avenue. While too much traffic from I-35 would be detrimental to downtown and its road infrastructure, the sales impact of even a small percentage capture of visitors for food and beverage, for specialty retail or other categories of sales would have a significant effect on achieved sales and supportable square footage downtown.
As an example, if only ½ of 1% of daily traffic along I-35 (approximately 635 cars per day) could be attracted to enter downtown Georgetown and spent an average of a modest $10 per vehicle, additional retail space of over 9,000 square feet would be supportable. That is equivalent to nine new retail businesses (at about 1,000 square feet per store), three new restaurants (at about 3,500 square feet per restaurant), or some combination thereof. The traffic survey has not been updated since 1999, but according to TxDOT, traffic volume on I-35 has increased by 6% over the earlier figure. Using the same approach, this increase in traffic volume would increase supportable space by about 800 square feet, or almost an additional retail business. The importance of capturing a share of I-35 traffic as potential spenders cannot be overstated.

To reinforce the ability to capture a share of this market, downtown Georgetown will need to achieve three goals –

1. to more effectively ‘announce’ downtown through highway signs (preferably brown tourist-oriented signs provided by the Texas Highway Department at suitable exits from I-35 or through privately funded signs at those exits); commercial billboard signs promoting Georgetown’s square as a shopping destination were also mentioned by several retailers as a downtown marketing tool that has succeeded in the past. While these types of signs would most likely be privately funded or through tourism promotion funds, they can provide an effective ‘notifier’ that a specialized visitor experience is present just off I 35. Of course, any signs should be located far enough ahead of the appropriate exits to give drivers time to make the decision to stop, and directional signs from the exit to downtown must also be placed to make it easy for visitors to follow unfamiliar routes to the square. Along major entryways, the ‘gateway elements’ identifying the edges of the downtown area should be considered part of the same graphic system to signal that visitors are entering the central business district.

2. to attract and recruit more restaurants and specialty stores (apparel, quality antiques and gifts, and specialty foods) to highly visible downtown locations (attraction and recruitment issues and strategies are explained in greater detail in Sections IV and VI); and
(3) to market and promote the historic character of the downtown district as part of Georgetown’s overall advertising and public relations efforts (also addressed in greater detail in Section VI).

Visitors want to see and do something that is different from their typical daily experience, and historical areas rank high for older, more affluent travelers as destinations. This can have a direct bearing on the retail future of downtown Georgetown, but it requires that the special historic features downtown be preserved and reinforced as a destination. The character of downtown Georgetown is a marketable commodity representing a quality of life that many visitors and residents find appealing. But unless that character is protected, visitors who exit the highway only to find the same stores and goods they can purchase at home in undifferentiated commercial strip developments will not recommend Georgetown as a suitable stop to others, much less return themselves.

The ‘quality difference’ in Georgetown’s character should be protected and reinforced by the proposed Downtown Design Guidelines to recommend the appropriate scale, detailing and placement of new infill buildings over time, so as not to compromise the character that the downtown has today. This might mean appropriately designed stone gateway signs at the edges of the downtown historic district, reinforcement of residential corridors by requiring planting and/or replacement of Georgetown’s pecan tree-lined residential streets, maintaining sidewalk and building setback lines that reinforce the current streetscape pattern, or other design suggestions. The central point is that downtown deserves special design treatments to signal to visitors and residents alike that they have entered a special area. Marking the edges of the downtown business district, which incorporates the historic district, with signs, symbolic markers or some other design elements is part of the larger package of downtown design interventions that will reinforce the identity and special nature of the town’s historic core. We believe that the most effective way to plan, locate and implement an effort to mark the edges of the downtown business district is to create a Downtown Master Plan. The Master Plan is needed to provide a clear sense of where improvements can be made, how they should be designed and how they might be funded.
Summary of Market Potential by Market Segment and Total Supportable Retail Square Footage

To summarize the relative relationship between the above described market segments, this section illustrates how available sales can be evaluated as a basis for ‘supportable’ square footage of retail space. Market potential can be translated into total supportable retail space by estimating the “capture” of potential spending by the various markets. The capture rate is dependent on several factors such as proximity to the retail district, ease of access, the competitive environment, and the quality and quantity of the offerings within the retail district. The capture of the resident market is significantly lower since the expenditure potential reflects annual spending on all retail goods and shopping options are plentiful for nearby residents (e.g. regional malls, strip centers, etc.). Total captured spending potential by the Southwestern University student market, the current (2000 Census) resident-based market, and the downtown worker market is reflected on the following page. It should be noted that the potential for visitor-based expenditures is not included in this summary, as the increment of growth in visitor expenditure capture will be based on future changes in elements which affect visitor spending decisions – better road signs and directional signs, expanded/improved retail and food offerings and access to available parking.
### TOTAL CAPTURED SPENDING POTENTIAL

*Georgetown, Texas Retail Plan*

<table>
<thead>
<tr>
<th></th>
<th>Expenditure Potential</th>
<th>CAPTURE RATE</th>
<th>POTENTIAL SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Baseline</td>
<td>Optimistic</td>
</tr>
<tr>
<td><strong>SOUTHWESTERN UNIVERSITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>$1,008,317</td>
<td>55.0%</td>
<td>65.0%</td>
</tr>
<tr>
<td>Meals and Beverages</td>
<td>$1,512,475</td>
<td>65.0%</td>
<td>75.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$2,520,792</td>
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<tr>
<td><strong>RESIDENT MARKET</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>$197,692,877</td>
<td>5.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Meals and Beverages</td>
<td>$58,144,964</td>
<td>10.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$255,837,840</td>
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<td></td>
</tr>
<tr>
<td><strong>EMPLOYEE MARKET</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>$1,882,000</td>
<td>60.0%</td>
<td>70.0%</td>
</tr>
<tr>
<td>Meals and Beverages</td>
<td>$2,352,000</td>
<td>70.0%</td>
<td>75.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$4,234,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflow @ 20 percent (visitor market)</td>
<td>$6,670,808</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$26,683,231</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: Assumes that capture rate increases with improved offerings.*

*Source: Economics Research Associates*
Following is an estimate of the breakdown of current market support by market segment. Note that residents continue to represent the most important market segment among the four subcategories:

![Sales Potential by Market](chart)

The amount of total supportable retail space is derived by dividing the total captured sales potential by the estimated average sales productivity (sales per square foot) for the downtown district. Based on the data available for the study period ending in June, 2001, ERA’s estimates show that, based on the potential sales from residents, students and downtown employees, the downtown area can support between 107,000 and 197,000 square feet of productive retail space; potential growth in supportable retail area beyond this range will be attributable to expenditures by additional visitors and I-35 travelers drawn to downtown Georgetown by its stores, restaurants, special events and other attractions which should be promoted along the Interstate via tourist-oriented signs. As the retail offerings in the downtown district improve, individuals will be more likely to shop downtown and the amount of supportable space will approach the upper end of the range.

ERA estimates that there is approximately 180,000 to 200,000 square feet of existing retail space (including service space such as dry cleaners) in downtown Georgetown today. These are estimates based on data provided by the Williamson County Appraisal District, owners, tenants, and property managers. Since complete data is not available regarding accurate retail tenant sizes, some assumptions were made in order to derive the total figure. Also, this figure includes all tenants located in the Downtown Business District. Two designations are included in the
tenant list – those retail businesses located within the nine block historic area as well as retail businesses located within the District. These tenants are noted and listed by retail category in the Appendix of the report.

A commonly accepted retail industry standard is that it takes approximately 200,000 square feet of specialty retail and food service space to create a destination retail district or center. It is assumed that some of the existing space which is either vacant or underperforming (e.g. declining sales, too much of certain retail categories that are over-allocated within the Downtown Business District) will eventually be replaced with more productive retail space. If the market were exclusively defined as residents, students and workers, ERA would not suggest that there is sufficient market demand to accommodate a significant amount of new retail space. Expansion of retail offerings which will draw tourist/visitor expenditures will comprise the increment over the ‘natural’ market.

<table>
<thead>
<tr>
<th>TOTAL SUPPORTABLE SPACE</th>
<th>Georgetown, Texas Retail Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Baseline</td>
</tr>
<tr>
<td><strong>Total Potential Sales</strong></td>
<td>$26,683,231</td>
</tr>
<tr>
<td><strong>Total Supportable Sq Ft</strong></td>
<td></td>
</tr>
<tr>
<td>@$200 per square foot</td>
<td>133,400</td>
</tr>
<tr>
<td>@$250 per square foot</td>
<td>106,700</td>
</tr>
</tbody>
</table>

Source: Economics Research Associates
IV. Potential Niche Strategies/ Leasing Targets

A new discount shopping center, to be anchored by large discount stores such as Super Wal*Mart and Home Depot, is proposed for a site just west of I-35 within the City of Georgetown (the Rivery). This development will obviously have strong implications for downtown. It is critical that retailers in downtown Georgetown continue to differentiate themselves from typical shopping centers anchored by large national tenants. This is possible given the historic character and unique retail offerings (apparel and accessories, household and gift items, antiques and collectibles, unusual dining experiences) of Georgetown. It is very difficult to compete directly with large superstores like Wal*Mart since they can offer deep discounts and can adjust inventories daily based on sales. Although the market is growing, the immediate resident market remains relatively small (many chain affiliated retailers require a base population of at least 100,000 persons within a close driving radius before they will even consider a location). Thus, the ability to attract expenditures by residents and visitors from outside of Georgetown will become increasingly critical in proving the viability of the market, especially to local, regional and national retailers that are recruitment targets.

From a merchandise mix standpoint, it will be important to differentiate downtown Georgetown from surrounding retail development – implying that regional and local (rather than national) tenants are preferable in most cases. It may also prove difficult to attract certain types of national retailers to downtown Georgetown. National retailers are sometimes hesitant to locate in markets that are not already proven (e.g. few national tenants want to be the first to commit to a new area or district unless they believe the financial risk is minimal or there is an unrecognized market opportunity). But the presence of national retailers can represent several important characteristics – confidence in the market, potential to attract additional markets, level of professionalism in store operations, etc. – that can reinforce the overall downtown mix. National tenants may increase landlord expectations for achieved rent levels (since national
chain tenant frequently are accustomed to (can pay higher rents), but there are some positive aspects, as well.

Local retailers are less likely to be able to support the increasing Georgetown rents; national tenants also provide a more stable building occupant, as few new businesses take fewer than three years to eventually turn a profit. Thus, a few key national tenants may provide the added draw necessary to sustain Georgetown into the future. While some local retailers have expressed concern about trying to attract national retailers downtown, it should be remembered that all national retailers are not big box chains. It may be worthwhile to point out the similarities and differences between types of nationally-affiliated stores.

- **Chains** are store categories in which all new business locations are owned by one parent corporation. Management and operating decisions are centralized in the parent company, with the same brand and business formula used in all locations. Profits all go back to the parent corporation, as well.

- **Franchises** also use the same brand and business model, but differ from chains in that the business is owned and operated by a local person or company. The local operator has purchased the right to operate the business under the brand, and receives marketing, brand and distribution support from the “franchisor”, which has made its money selling the rights to use its brand and business practices to a local owner.

- **Cooperatives** are an organized method for individual locally owned businesses to benefit from some centralized services (such as wholesale purchasing and brand identity) for a merchandise category while retaining local ownership and control. This has been particularly useful for locally-owned hardware stores such as Georgetown’s True Value Hardware and Ace Hardware.

- **Consolidators** are national companies that purchase most or all of the equity in a locally owned business, and continue to run the business as if it’s ownership is unchanged. Consolidators retain the name and frequently the management of the business, with the former owners
becoming corporate employees. This approach has been most common among business supply companies and funeral homes.

Therefore, chain-affiliated retailers as True Value Hardware and Walgreens are both ‘national’ and local, as they are owned and operated by Georgetown merchants, but are connected to a national purchasing/brand/distribution network. Franchised stores and licensed operations can be strong members and participants within the retail community, while operating as representatives (or branches) of national retail companies.

As reflected in the chart below, there appears to be a heavy concentration of gift/antique stores within the downtown district. A more diversified tenant mix may create a stronger destination for residents. It is important to remember that any leasing strategy is ultimately dependent upon the physical limitations of available space.

A strong restaurant niche can increase the trade area while increasing repeat visitation by residents. Several successful downtown areas have been able to create a destination by developing a critical mass of restaurants. The small city of Manuyunk, Pennsylvania, located about fifteen miles outside of Philadelphia, has 32 food service establishments – with 23 of them located along the historic Main Street. Although
Philadelphia represents a much larger market than Austin, the Manuyunk example points to the success of creating a restaurant district in an historic downtown setting.

U.S. consumers are currently spending more than ever on food away from home – with the amount of spending for food away from home highly dependent upon average household income levels. The increase in spending for food away from home is notable at and above the threshold household income level of $70,000, which parallels the average income in Georgetown.

The following table points to the large spending potential for food service within the trade area alone. At the time of the analysis, based on estimated total potential food sales of just over $3 million in the downtown district, ERA estimates that downtown Georgetown captured only about 11 percent of the potential available dollars; this amount has reduced further since the closing of Orient Square and shift to limited events catering service at Geaux Fish. In ERA’s view, part of the reason for this shortfall is that there are not enough choices downtown to attract more frequent dining visits, and to market downtown as a dining district.

<table>
<thead>
<tr>
<th>RESTAURANT ANALYSIS</th>
<th>Trade Area</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Georgetown, Texas Retail Plan</strong></td>
<td></td>
</tr>
<tr>
<td>Total households</td>
<td>17,852</td>
</tr>
<tr>
<td>Ave. household annual expenditure - food away from home</td>
<td>$1,921</td>
</tr>
<tr>
<td>Total expenditures – food away from home</td>
<td>$34,293,692</td>
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<tr>
<td>Estimated food service space in downtown Georgetown</td>
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<td>Estimated average sales per sq ft</td>
<td>$250</td>
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<tr>
<td>Total estimated food service sales</td>
<td>$3,750,000</td>
</tr>
</tbody>
</table>

**Capture of Market** 11%

Source: National Restaurant Association, Economics Research Associates
One constraint with respect to creating a restaurant niche is the ability to find appropriate space. Restaurants typically require special space requirements for the kitchen, loading and unloading, etc.

Food service does not imply only restaurants. Food service can also include ice cream shops, bakeries, and specialty food markets such as Whole Foods, based in Austin. If a gourmet market were a desired use within the downtown core, only the Hewlett site presently offers enough land area to accommodate a 50-60,000 square foot gourmet grocery store and its required adjacent surface parking lot. Whole Foods is among the more profitable grocery chains in the country, and as an Austin-based shareholder corporation it has both the geographic proximity and the sophistication to respond to urban streetscapes and architectural design patterns in existing areas, as shown by the Whole Foods complex at 6th and Lamar Boulevard in Austin. While this example should not necessarily be precluded as a potential use, ERA recommends that the Hewlett site would be better used over the long term as a mixed use multi-floor development. A mixed use project would offer better long term returns and contribute more to the downtown tax base than a grocery store.

There is another significant factor that will affect Georgetown’s ability to attract new restaurant operators – the availability of liquor by the drink in downtown restaurants. Successful restaurant operators depend on the profits from liquor sales to sustain overall sales and profitability. A good restaurant operation with a liquor bar would expect to reach 15-20% of total sales for beverages, but about 60 to 70% of the total profits. The current “club membership” system for alcoholic beverage service in Georgetown is workable, but cumbersome for visitors and infrequent diners. From a business standpoint, it is not ideal, and should be replaced by allowing liquor by the drink as part of a food service operation. This recommendation is not based on any moral or political attitudes regarding liquor by the drink – those are decisions that must be made locally. **But ERA does recommend that the liquor-by-the-drink issue be re-opened if the town is serious about recruiting restaurant operators to the downtown retail district.** We believe that Georgetown is undersupplied in food service, and adoption of liquor by the drink
would remove a significant economic obstacle to recruitment of good restaurant operators to locate downtown.

Several retailers expressed concern about the prospects for national tenants locating in downtown Georgetown. In some respects, the arrival of national tenants in downtown would signal that the market has been recognized as a strong one, as national retailers operate on population density and income formulas. In ERA’s view, downtown Georgetown already has an interesting coffee shop in Cianfrani’s. The location on the square in a historic building activates the east side of the square throughout the day and contributes to the life of the street. Should Cianfrani’s decide to discontinue retail coffee shop sales (perhaps switching to wholesale-only activities for their bean roasting business), ERA believes that downtown Georgetown might attract a Starbucks Coffee location or a similar high volume/high margin food product. We would not encourage that a Starbucks be recruited to compete with Cianfrani’s, as viable locally owned small businesses are an asset to any community. A better solution would be to more effectively advertise and promote Cianfrani’s as ‘Georgetown’s downtown coffee house’ to I-35 travelers, as an incentive to take a break off the road.

Experience suggests that the arrival of national tenants would also elevate expectations for achieved rent levels among local property owners. It is difficult to prevent national tenants from locating in an area they want, as this could be construed as restraint of trade. However, ERA believes that Georgetown’s current market size and population density will not draw many national tenants to the downtown area around the square. The more likely leasing targets are regional chains and specialty retailers and restaurateurs, probably from larger cities such as Austin, or from similar central Texas towns with substantial visitor populations such as Salado or Fredericksburg who are already familiar with the type of resident/retiree/visitor market characteristics that exist in Georgetown. The implications of this fact on future recruitment efforts suggest that Georgetown should focus its efforts on recruitment of specialty retailers and operators within Texas and the region.

Nationally, a small number of downtown areas have successfully marketed retail spaces in their central business districts at national leasing conventions such as the International Council of Shopping
Centers (ICSC). The ICSC holds a national gathering in Las Vegas each March as an opportunity for national retail and food tenants to meet developers with space for lease. Until recently, most of the leasing activity at these meetings is directed toward filling space in traditional shopping malls, in part because national chains have considered downtowns to be too fragmented in ownership and management to be considered a better risk than a mall operated by an established developer and retail management company. Traditional mall developers also offer their retail prospects other elements that downtown areas frequently cannot:

- Financial incentives called tenant improvement allowances, or TIA’s (up front money provided to tenants to pay for interior finishes, casework and display cabinets, specialized lighting, floors and wall coverings, etc.)

- Retail industry-standard triple net leases (in which tenants pay costs for utilities, taxes and insurance on a pass through basis); tenants’ willingness to accept these types of leases are an indication that they are confident they can generate enough sales to warrant the higher occupancy costs in malls than in downtown areas. Confidence in the ability to reach higher sales in the mall is based on established patterns of shopper volume that most downtowns cannot demonstrate. When national retailers consider a site, they want to have a reliable base of resident and visitor population and proven shopper traffic levels. In ERA’s view, downtown Georgetown is not yet at the point that these shopper volumes can be proven to most national chains, particularly men’s and women’s apparel and shoe stores.

Mall developers also have another advantage that downtowns cannot offer, in that they can market locations in multiple malls in multiple cities, rather than just locations in one market. National chains are typically more reluctant to consider unproven downtown areas; they respond best if one or two pioneering national operators have tried the downtown area and made it work economically. They are most comfortable with familiar formats (enclosed malls and strip malls owned by developers that they know), rather than downtown areas that may not fit their narrowly defined location criteria. Therefore, ERA
recommends that the most appropriate niche for retail recruitment in downtown Georgetown is regional and Texas-based retailers and restaurant operators who will understand the opportunities presented by proximity to I-35, the unique character of the historic downtown area and the nature of the evolving market in the greater Georgetown area. As the downtown is stabilized and new tenants are recruited, it may become possible to then approach national retailers, but for the near term (the next two to four years) ERA suggests that tenant contacts and promotion be addressed toward prospects already in the region and state.

The prospects should then be provided with market and property materials (based on this report and available spaces documented in the Downtown Property Book) packaged in an attractive loose-leaf leasing information folder, similar to what a visitor’s bureau might send a potential tourist, but with a real estate focus. Then the prospects should be invited to Georgetown to see available sites to meet with property owners and commercial brokers, representatives of the downtown merchants and Downtown Georgetown Association and City leaders. Potential retailers and restaurateurs who are willing to come to Georgetown can be assumed to be seriously interested enough that potential financial or other incentives should be discussed and prepared to be offered as part of a negotiation for a site. These incentives might include offering tenant improvement allowances (TIA’s), which are funds offered to prospective tenants for space improvements, display fixtures and finished, etc. Tenants which invest their own funds for store space improvements might also seek to have some (or all) of their rent payments deferred or cancelled during the early months to allow time to recoup their initial investment in the space.

A key advantage is the current rent rates for space downtown, which, by comparison with even secondary specialty retail locations in Austin, will seem more affordable (this will not apply to Austin’s empty strip mall spaces or class C retail areas).

The initial merchandise categories for recruitment should include:

**Casual dining with bar service** – Austin and San Antonio have well established start-up restaurant communities, and Dallas has more
restaurants per capita than any other major American city. Visiting these cities to seek out successful operators who might consider expansion or opening another concept is the first step. The price levels and menu categories should not be too expensive, and addition of live performance in the later evenings in some venues will help attract a second or third seating.

**Quality Antiques and Art Galleries** – This merchandise category builds on the existing concentration of antiques and collectibles dealers downtown. By focusing on established dealers selling higher price-level goods, Georgetown landlords will be better able to achieve higher rent levels (since rents are a function of sales). The other category is art galleries featuring crafts, paintings and other art forms that show well in historic spaces and seek more affordable space. Just as a cluster of restaurants can be marketed as a dining district, a cluster of galleries can be marketed as a gallery district (a number of California towns with affluent populations like Georgetown’s have successfully cross-marketed a collection of restaurants and galleries as evening resident and tourist destinations).

**Specialty Apparel and Shoes** – Downtown has a limited supply of apparel and shoes for men and younger adults (such as Southwestern University students); women’s apparel and accessories are represented by several good retailers, but the overall mix would benefit by a wider assortment of goods. ERA suggests that it will be individual apparel retailers, not chains, that will be the best prospects for recruitment. The upper price levels for quality casual apparel for men and women would reinforce downtown’s appeal in competing with WalMart and other lower quality level apparel vendors.

**Unique/Destination Specialty Retailers** – The remaining specialty retail category is more broadly defined and harder to recruit, but it is the niche that defines the destination character of successful downtown areas. These are one-of-a-kind retail businesses that serve a narrow customer base that will seek them out – musical instrument craftsmen, hand-crafted furniture makers, artistic crafts presented in a studio/gallery format, custom bootmakers, etc. Attracting these types of tenants is almost completely reliant upon establishing a relationship with an individual that creates a product of the highest level and with a distinctive identity; these
are not tenants who feel comfortable in conventional mall settings, and fit best into traditional downtown areas. In ERA’s view (and because this category of tenants often cannot pay higher rents), these tenants should be recruited for secondary/less expensive spaces off the square. But their presence in Georgetown would add a specialty focus that would bring customers out of their way – these are the types of businesses that specialty customers seek out, often traveling considerable distances to find them. The attraction is the unique character of the products and the skill of the craftspeople who produce them.

In addition to recruiting restaurants and impulse foods (candy, ice cream and coffee), ERA suggests that home furnishings/office furnishings/computers also presents a potential retail niche strategy for downtown Georgetown. This category of uses would build upon the existing concentration of antique dealers and home decorating services located in downtown buildings, but would serve a larger segment of the resident and student markets. Office furnishings/computer service retailers could also service the nearby County Courts and local government offices. Moreover, home offices continue to proliferate as residents increasingly telecommute from home, increasing demand for home office supplies, computers, and home office furniture. The more affordable retail rental rates in Georgetown could be appealing as expansion/leasing opportunities for Austin-based retail operators selling computer equipment/servicing and furniture.

**Impulse Food Service**

**Ice Cream Shop/Dessert Shop:** A small space user which would fit in well with restaurants and the renovated Palace Theater and can increase nighttime and weekend activity in the area. It appears that the relocation of the ice cream shop from Austin Avenue to Main Street has not been sufficiently marketed (or marked with signage from Austin Avenue) to attract the same level of traffic that the shop had before relocation. Part of the shop’s attraction is offering Blue Bell Ice Cream, which has successfully been branded as a *Texas* ice cream product. Should the Blue Bell ice cream concept not be available, a regional operator such as Amy’s Ice Cream from Austin would be another locally recognized brand, as well. Visible sidewalk seating should be part of the
store’s identity, and operating hours should last well into the evening during peak summer months. The best advertising is to see patrons eating ice cream on a bench on the square or in front of the store, preferably from a higher volume traffic street such as Austin Avenue.

**Typical space requirements** – 650 to 1,200 square feet

**Specialty Food Market:** Could include a more upscale food market such as Dean & DeLuca, and could also include take-out/prepared food service. If physically possible, the store should also include spill-out seating along the sidewalk, and will require adjacent parking.

The typical space requirements for these types of stores vary greatly, but generally range from 6,000 to 12,000 square feet.

**Popular-Priced Table Service Restaurants:** The addition of three or more restaurants within the downtown district could help to create a critical mass of restaurants, or downtown destination. Local or national restaurant operators could each be considered, but Texas-based operators should be the initial focus, in our view.

**Typical space requirements** – restaurant sizes vary greatly, but for planning and analysis purposes for Georgetown, it is safe to assume 3,500 to 6,000 square feet per restaurant space is a size range that is appropriate in a downtown setting.

**Services**

Downtown Georgetown competes directly with nearby retail centers, such as Republic Square, which provide a wide array of services (e.g. video stores, dentists, health clubs, etc.). Service businesses can be an effective way to draw local residents to the downtown area on a continuing/recurring basis. Clustering locally owned service businesses, such as camera stores, hardware stores, frame shops, etc. creates a critical mass effect, allowing businesses to develop local followings; this type of cluster can provide a unique destination, differentiating the offerings in a group of downtown shops from large, multi-concept discount stores such as Wal Mart and Lowe’s. The downtown retail recruitment team recommended in Section VII should be established and should
investigate opportunities to recruit existing locally owned operators of these types of service businesses from elsewhere in Georgetown and the region to spaces in the downtown district.

**Office Related Retail Categories**

Computer Software/Office Furnishings (new or used). The recent corrections in the technology industry have created a short term opportunity for re-packagers/re-sellers of office systems and office furnishings no longer needed by downsized or closed dot-com companies. This temporary supply of goods will disappear over time, but for the near term (probably the next one to two years), this may be a potential interim retail use for secondary locations in downtown Georgetown. This tenant category is price sensitive, needs larger floor areas, and easy loading and unloading facilities. ERA suggests that this might be a placeholder/interim tenant that could be replaced as better, stronger tenants can be recruited.
National Chain Tenant Recruitment Parameters

National chain tenants are often hesitant to be the first national chain tenant to locate in an as yet unproven (according to their site selection criteria) market. The Downtown Retail Recruitment Program should canvas several national chain tenants to find out if there is potential interest in locating in downtown Georgetown. Current national retailers turning to Main Street/downtown development projects include stores owned by The Gap (The Gap, Kids Gap, Old Navy and Banana Republic), retail concepts owned by The Limited Chain, such as The Limited, Limited Express, Victoria’s Secret, and Abercrombie and Fitch, major bookstores such as Borders and Barnes and Noble, and Chico’s Women’s Apparel. Big box stores are typically not a good alternative for downtown districts, since they require much larger floor plates and parking facilities. National chain tenants providing food service are also a viable option. The Brinker restaurant chain is headquartered in Dallas, and has pioneered several successful popular priced food concepts such as Chili’s, Eatzi’s, and the Corner Bakery (see below).

As mentioned earlier, another obstacle with respect to recruiting national tenants is Georgetown’s lack of population density. Although the area is growing rapidly, existing resident population densities are lower than the population formulas required by most national retailers. However, although certain densities are targeted, exceptions are made based on other criteria such as high household incomes, etc. The relatively high household incomes in Georgetown should be stressed in marketing the downtown area. Also, given the relatively high percentage of retirees in the market, Georgetown can also market itself as a prototype testing location for national tenants introducing experimental or ‘start-up’ concepts.

The following table highlights potential tenant categories for recruitment. This is not an exhaustive list, but rather a starting point for further discussion.
Sample of Potential National Retail and Food Service Tenants to Contact

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Preferred Size (sq ft)</th>
<th>Target Density</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston Market</td>
<td>3,000</td>
<td>40,000 w/in 3 miles</td>
</tr>
<tr>
<td>Corner Bakery (Brinker International)</td>
<td>4,500</td>
<td>150,000 w/in 5 miles</td>
</tr>
<tr>
<td>Pier 1</td>
<td>9,000 to 10,000</td>
<td>150,000 w/in 5 miles</td>
</tr>
<tr>
<td>Gap</td>
<td>6,000 to 10,000</td>
<td>Depends on store concept and demographics</td>
</tr>
<tr>
<td>Dean and Deluca</td>
<td>2,800 to 3,500</td>
<td>Limited to high population centers and affluent tourist traffic</td>
</tr>
<tr>
<td>Williams Sonoma</td>
<td>5,000 to 6,500</td>
<td>150,000 w/in 5 miles</td>
</tr>
</tbody>
</table>

**Entertainment**

Renovation of the Palace Theater with programming for performances and special events can be expected to draw repeat visit audiences to downtown Georgetown, which will add an entertainment component that is currently missing. There is currently a major transition underway in the cinema industry in the U.S., with the operators of about 20% of all screens in bankruptcy. This will result in consolidation of operators over the next two years, but will make it very difficult for a community Georgetown’s size to attract a cinema theater operator for the near term. The large multiplex cinema complex near Pflugerville likely precludes downtown Georgetown from attracting a major theater operator, but the Palace Theater could serve a special niche venue in presenting both live performance/theater and limited-run/repertory film presentations. Several retailers said they would stay open later on nights when the Palace has an event. We believe that existing (and future) restaurants will also benefit by the traffic the theater will generate. In fact, for many consumers, clusters of restaurants combined with live performance theaters can be considered an entertainment district, in that a package of activities are combined to draw repeat visitation and multiple
entertainment experiences. This is not to say that the square can (or should) be converted to Sixth Street in Austin. That would be inappropriate both in scale and market orientation since Austin includes thousands of students. But expanding the list of current dining and entertainment options will attract business to the square and downtown that the area is not capturing today. ERA suggests that the Palace’s programming and marketing of events should be fully integrated into promoting and marketing downtown Georgetown as an evening and weekend destination. It should also be part of the recruitment package for retailers and restaurants, as its completion represents a commitment to downtown and an asset that will bring potential customers to downtown Georgetown. The greater Austin market is not too far removed to be a target audience for the Palace, particularly for performers with a following in the region. ERA recommends that this new addition to the local entertainment scene be heavily marketed to fill seats in the theater, which will also fill seats in downtown restaurants.
V. Lease Review

A review of lease rates and lease structures among downtown merchants and office tenants in Georgetown reveals the following:

- Downtown Georgetown lease rates reportedly range from about $6 per square foot per year (for older, less improved buildings in less prominent locations) to about $12 per square foot per year (for somewhat renovated historic structures in more visible locations). Selective upper rents above $12 per square foot have been achieved in renovation projects with high quality design, interior finishes and high visibility locations.

- Most of the current lease deals include a base rent plus additional charges for the common area or separately metered utilities, such as electricity. The common area charge reflects tenant subsidy of the landlord’s obligation to maintain and insure the common area, which typically includes hallways and entryways to the building.

- Office rents are generally $3 per square foot higher than lease rates for retail space, approaching $15 at the upper end. This explains why some property owners have converted street-level retail space to professional office uses.

- Displacement of retailers by office uses in street level storefronts is an important point of concern for downtown merchants, as they fear that property owners will increasingly opt for the higher paying office tenants. The best solution will be to provide more office space in secondary locations or on upper floors, while also including retail at the street (and sometimes mezzanine) level. Combining street-level retail with upper floor offices is more complicated to construct and finance than a single use building, but can also provide a better Return On Investment (ROI) and more active streets. Mixed-use projects also generate a higher residual value from the property, whether as a result of re-using underutilized upper floors of existing buildings (since the shell or outside structure is already built), or by combining uses in newly constructed projects in high visibility locations.
parcels (such as the Hewlett site) to achieve a higher income level from each surface foot of the site.

- According to several tenants, property owners, and property managers, retail rents are steadily increasing on the square in Georgetown. In some cases rents have reportedly increased by levels approaching 100 percent over the past several years. The higher rents appear to be moving in parallel with the increase in building purchase prices. Current for-sale costs for downtown Georgetown buildings reportedly ranged from $70 to $152 per square foot during the most recent study period (early summer of 2001).

Most leases also provide for a periodic increase in minimum rent based on the rise in the average increase in the national cost of living, also known as the Consumer Price Index (CPI). In some cases tenants negotiate a cap on the rise in the CPI (e.g. not to exceed 8 percent). The base year for the CPI increases is typically the year the tenant takes occupancy. It is also possible to negotiate the frequency of the adjustment (e.g. smaller amounts of increase each year of the lease term versus a more significant ‘bump’ or increase every three years). A frequently used method is to provide that the increase will go into effect when the tenant exercises an option to extend the term of the lease, which is usually in three, five or ten year intervals.

Another option allowing for more flexible leasing terms is to base the lease rates during the early years of occupancy on a straight percentage of sales until customer traffic builds enough to stabilize business volume. Of course, this requires that the tenant will make the monthly sales records available to the landlord and for annual audit, a common practice in malls between developers and national chains, but less common in downtown areas between property owners and smaller, locally owned businesses. This approach (percentage-only leases) is particularly effective for restaurant tenants, since they normally require several years to build a clientele, and generally incur substantial early investment or debt to finance costly kitchen equipment and furnishings that restricts cashflow.

A summary of existing and proposed retail centers in the Georgetown areas is included in the Appendix of this report. As shown, downtown
lease rates are generally competitive with those in existing Georgetown strip-style retail centers, or about $12 per square foot (exclusive of Common Area Maintenance, also known as CAM charges).
Lease Characteristics
Georgetown, TX

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<thead>
<tr>
<th>Type</th>
<th>Rental Rate</th>
<th>Sq Ft</th>
<th>CAM/other</th>
<th>Term (years)</th>
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<tr>
<td><strong>Recent Lease Deals:</strong></td>
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<tr>
<td>Office</td>
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<tr>
<td></td>
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Source: Local Brokers, Economics Research Associates

Lease Terms Issues Affecting Retail Recruitment

Several issues should be considered in reviewing current and future lease structures as they may affect retail recruitment. ERA’s research suggested that there are many different types of leases in use in downtown Georgetown. The general retail industry standard for leases is what is known as a triple net lease. Often used by property owners with
multiple retail spaces in the same property, under this structure the landlord charges a base rent (an amount that is due every month) plus a ‘pass through’ charge for a series of pro-rated expenses, usually based on square footage of the leased space, including property taxes, insurance and utilities. The term, or amount of time the lease will be in place, depends on several factors:

• *The type of business* -- Retail tenants usually negotiate a five year lease, but food service tenants need more time to amortize their higher expenses for kitchen equipment and finishes, so their leases run up to ten years. Also, some merchandise categories, such as jewelry, can generate higher profits per square foot of leased area, and may be more appealing to landlords than lower-rent paying tenants that want more space (such as furniture). Generally, retail tenants can afford to pay between 6% and 10% of total sales as rent. Food and beverage tenants average about the same range, but (as described earlier), if liquor sales are included, they generate a higher percentage of profit; some restaurant operators support break-even food sales with strong beverage sales. Leases can also be staggered to charge different rent rates based on food and beverage sales (e.g., a base rent of 6% of total food sales and 12-15% of liquor sales). Of course, this means that the landlord has the right to monitor sales register and transaction records, a practice that appears to be uncommon in downtown Georgetown.

• *Level of property owner commitment to a particular tenant* -- Some businesses may not be willing (or able) to commit to a long-term lease, or a landlord may not want to commit a property for a long period. Month-to-month leases usually result in weaker tenants and reduced willingness to commit funds for building improvements by both landlords or tenants. Some of Georgetown’s less improved properties operate on a month-to-month lease basis. Over time, ERA recommends that this structure should be transitioned, either through changes in ownership to those who will make long-term commitments to commercial property ownership and operations or through improved tenants that will make longer term commitments in exchange for longer leases.
• *Who paid for tenant improvements and how much they cost* – If the landlord has granted tenant improvement allowances (TIA’s) as part of the lease negotiation, the tenant’s capital at risk is lower, and they will be willing to take a shorter lease length, pay higher rent or be willing to accept ‘kick-out’ clauses that favor the landlord, since the tenant has less at stake. Also, the amount of tenant improvement allowance may increase the landlord’s incentive to retain a particular tenant in order to avoid tearing out improvements to attract another tenant. Only a few landlords in Georgetown have offered TIA’s to retail tenants, according to our research. This will be a disadvantage in recruitment efforts, particularly for food and beverage operations, which require higher levels of front-end investment to become established and to operate.

• *How desirable the tenant is* – In the shopping mall world, destination uses (such as major department stores, or entertainment destinations such as movie theaters or other concepts) can negotiate more favorable lease terms, because the property owners know that commitment of an ‘anchor’ use will draw other, smaller tenants who will pay higher prices per square foot of space leased. It may be in the landlord’s interest to take a more disadvantageous rental agreement for one space in order to get better leases from other tenants attracted by the “loss leader”. This system only works if the landlord controls multiple spaces, either through ownership of a multi-space building or as part of a master lease of multiple properties.

**What does this mean for future leasing and recruitment? Is master leasing an option?**

Since property ownership in downtown Georgetown is fragmented, and is likely to remain so given current property values, the downtown leasing strategy should be viewed as a multi-faceted approach, balancing the interests and priorities of different property owners, rather than a master-lease situation, in which property control is held by only one or two landlords or managers. ERA’s initial review of options for tenant recruitment considered the possibility of a master lease in which responsibility for leasing, tenant recruitment and management would be
centralized. There are widely differing priorities and investment requirements among Georgetown’s downtown property owners:

- Some are not willing to invest in their properties, can only attract month-to-month tenants, and would reportedly only accept sale prices far above the real value.
- Others have stable relationships with retail tenants and have structured longer-term leases, and would not benefit by giving up leasing control to a third party.
- Others have invested in considerable property rehabilitation, get higher rents and/or have longer term investment horizons, and do not need a master lessor to assure that their retail spaces will be filled.

In ERA’s experience, downtown retail master leases occur either (1) when property owners do not want to bother with leasing for retail spaces in their properties and are willing to transfer that responsibility to a third party (this sometimes happens when the primary use of a property is office or residential and the owner has little retail experience), or (2) when the leasing environment is so difficult that property owners cannot attract any tenants at all (some communities have packaged multiple retail locations simultaneously in a largely vacant downtown area as a means to aggregate enough square footage to interest a developer in a large area of low-priced property). In our view, Georgetown does not fit either profile.

As a general strategy, ERA recommends that downtown Georgetown’s retail recruitment effort should be based on evolution of flat rents, short term and month-to-month leases to longer-term, more conventional triple net leases over five to ten year terms. This evolution implies that landlords will be willing to commit enough investment to warrant a longer lease, and that tenants in more valuable locations (such as those along Austin Avenue and around the square) will be strong enough to generate sales that can support higher rents over a longer term. For those tenants whose merchandising categories and sales volumes cannot support $12 to $15 dollar per foot rents (implying annual sales of around $200 per square foot), secondary locations with lower rents should be considered. The practice of charging retailers flat monthly rents may
appear to be the simplest approach to filling space, but the longer term implications are less stable. Landlord/tenant relationships are often adversarial, rather than growing to partnerships, in which each has something to gain by understanding and meeting the needs of the other partner.

Of course, it is better to retain and relocate tenants downtown than to lose them to unreachable landlord demands. Unlike malls, downtown areas can provide a wider range of asking rents because properties and multiple property owners have different requirements. In some cases, this may also mean that property ownership should change, with part of the revitalization effort focusing on finding new investors to replace reluctant or undercapitalized property owners with those that will better understand retail property management and retail leasing economics. But the asking rents in downtown Georgetown would appear to be less costly and therefore competitive with more expensive new construction projects. Marketing downtown Georgetown as a more ‘affordable’ retail district to tenants with special character and charm for customers will address both business and consumer desires.
VI. Leasing Strategy and Tenant Recruitment Program

Since the retail strategy is the core of the study, this section addresses methods to approach recruitment of new retailers for downtown Georgetown. There are several strategies which downtown advocates in Georgetown can implement in order to encourage the desired leasing direction for new and existing downtown buildings.

1. Continue to Foster Contacts with Property Owners and Brokers

Initial contacts made by local volunteers during this study have resulted in additional focus on downtown retail sites by leading local commercial brokers. Maintaining this type of relationship is important, as commercial brokers are often the first contacts made by out-of-town retail prospects. The Property Book can be a useful tool for information and leasing efforts by the City’s Downtown Development Corporation. By continuing a dialogue with various downtown property owners and brokers the city can work with them to encourage, for example, high quality tenants or tenants which fit in with the leasing strategy identified above. Certain landlords may be reluctant to deal with national chains since the lease negotiations may be more complex, thus if the DDC were involved it might be possible to convince the landlord that the negotiations will ultimately benefit the landlord as well as the entire downtown district.

2. Serve as a Clearinghouse for Prospective Tenants Searching for Space

As mentioned earlier, the Downtown Retail Strategy study has resulted in a downtown Property Book, which centralizes data on commercial retail properties located within the downtown study area. This document has been designed to serve as a tool for future recruitment efforts to attract prospective tenants seeking space in downtown Georgetown. The property book is also available electronically so that changes can be made as needed to the listings. The property listing includes information...
regarding the following:

--property address
--land area and improvements/building size
--value of land and improvement
--current tenants
--year improvements were built
--owner’s name and address

The DDC and its staff should be the central resource for maintaining and updating the Property Book to keep it current as an information tool.

3. **Identify Resident and Visitor Preference through a Random Phone Survey and/or Intercept Survey**

A telephone survey of residents living within the trade area will determine what types of goods and services are typically purchased downtown as well as determine overall impressions of downtown. Telephone surveys are typically brief in order to ensure that a higher percentage of surveys are actually completed. Samples need to be selected to be statistically valid (that is, to reflect an accurate representation and distribution of the community’s age, income and racial mix) and the questions in the survey instrument must be carefully designed and phrased to assure a complete answer. Market research firms exist in Austin which can administer and analyze consumer telephone surveys. Telephone and intercept surveys can be moderately costly (a typical statistically valid sample may run from $5,000 to $10,000), but the data derived is highly useful in marketing downtown to potential tenants, as well as identifying perceived strengths and voids in the current offerings. As an alternative to hiring a professional firm if funding is not available, explore a marketing class project to conduct and analyze the surveys through Southwestern University or the University of Texas at Austin (assuming close involvement with experienced faculty).

Conducting intercept surveys downtown, either on a random basis (on a typical shopping day) or during festivals and events can also offer valuable information about resident and visitor opinions about downtown retail offerings. This type of survey is somewhat less representative of the community as a whole, however, since those interviewed on an
intercept basis have already been motivated to come downtown in the first place; they are customers who are already there. The missing part of this type of survey is the group or groups of potential shoppers who do not come downtown during a typical or events day, or who may not be coming to downtown Georgetown to shop at all. Their opinions about why they do not patronize downtown businesses can be equally revealing, and are equally as important as those already pre-disposed to come downtown; they represent potential future sales, if their wants are met.

4. **Develop an Effective Leasing Brochure for Downtown**

Downtown Georgetown is competing with the I-35 corridor, the Rivery and other commercial developments in the area for retail tenants. Although the historic buildings and character will not appeal to many of the retailers that will consider more suburban-type locations, the downtown area will need a comparable leasing brochure to be considered by serious companies.

The package or brochure should summarize the market information contained within this report, including data on Georgetown’s trade area, demographics and income information on the resident population, information on visitor and tourist volume, highway traffic statistics, and property sheets on the particular site(s) that are available. The property sheets should include a photo of the site or building along with information about its size, age, rent or sales price, income (if a rental property is for sale), available incentives (such as eligibility for tax credits), etc.

The site listing should also include data about access, parking, signage controls, permitting, etc. The leasing package need not be expensive – color copies or computer printed sheets are fine – but should be professionally designed and packaged. Downtown’s leasing brochure should represent the fact that Georgetown has organized itself, understands its market, and has properties available that could work for prospective tenants. ERA suggests that the brochure could be a folder designed to hold general information about the town and its market and a place to enclose property sheets for available locations. These brochures can either be mailed to prospective retailers or their representatives, or
used as ‘leave-behind’ packages by the tenant recruitment teams described below.

Because of the flexibility of the Internet, the data created for the leasing brochure can also be made available on a Downtown Development web site.

5. Establish and Carry Out a Retail Recruitment Program

As an interim step, ERA recommends that the DDC and local brokers should continue to work with local property owners who are trying to lease space, using the downtown property book as a basis for monitoring of available space and future leasing opportunities and as a strategic tool to anticipate where vacancies might occur in time to seek new retailers.

Once the tenant recruitment brochure is complete, the DDC should organize retail teams who would periodically make recruitment visits to other locations to visit unique retail stores and restaurants that would fit into Georgetown’s downtown mix, to talk to retail business owners and to ‘sell’ Georgetown as a potential location/expansion site. When this approach has been used in other commercial districts, recruitment teams have included several different types of participants, each representing a different perspective or question that a prospective tenant might have:

<table>
<thead>
<tr>
<th>Category</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>A retailer</td>
<td>To validate that there is a retailing market</td>
</tr>
<tr>
<td>A banker</td>
<td>To assure that financing is available</td>
</tr>
<tr>
<td>City/Main Street</td>
<td>To show public commitment to downtown, assure a friendly public approvals process and explain public projects and/or incentives</td>
</tr>
<tr>
<td>Broker/Owner</td>
<td>To provide details on available properties</td>
</tr>
<tr>
<td>Planner/DDC</td>
<td>To describe how downtown is changing and what assistance will be available to new retailers, property investors and development projects</td>
</tr>
</tbody>
</table>
The leasing recruitment visits to other communities usually last one to two days (depending on travel distance); ERA recommends that Georgetown’s effort focus on Austin, Salado, Fredericksburg, each of which offer a number of locally owned specialty retailers and restaurants that would complement the downtown mix. It may take several trips cold-calling on retailers to develop serious prospects, but specialty retailers will share information with other businesses that downtown Georgetown is aggressively seeking new recruits. A secondary benefit of these recruitment trips is to build a sense of cooperation among local downtown advocates. Concerns about the future of the square have sometimes resulted in competitive tensions between Georgetown retailers; we see the opportunity to overcome these issues by working together on the goal of retail recruitment and representing the best interests of downtown as a collective effort.

The recruitment packages can also be distributed at market by Georgetown retailers, as buyers and vendors can also pass along that there is space available.

**Attracting National and Regional Retailers**

In our interviews in Georgetown and subsequent discussions, the issue of national retail chains as recruitment targets for downtown has been raised. Some felt that Georgetown should not try to recruit national tenants, as they would inflate rental rates and make it difficult for locally owned businesses to compete. Others (particularly those who want more apparel stores downtown) said that a Gap or a Banana Republic store would be a welcome addition to the mix. ERA believes that, while a few national tenants would add to the attraction value downtown, it will be difficult to attract national retailers, at least in the near term. There are two categories of criteria that retailers (particularly national chain-affiliated retailers) use in determining whether they might be interested in a particular location. The first is based on **numbers**:

- number of residents and visitors in the base population,
- demographic characteristics such as age, educational levels and income,
• growth rates and patterns,

• nature and amount of competitive retail supply and demand,

• vehicular and pedestrian traffic counts, and

• the relationship between prevailing rent levels and property values, (is the property a bargain, etc.).

For the real estate departments of national retail chains, these numbers are a critical threshold: unless there is a base population of at least 100,000 or traffic counts of at least 25,000 vehicles per day past the site, many chain affiliated retailers will not even consider a location for expansion, frequently in spite of strong levels in other areas (demographics, income, etc.). This fact sometimes confounds local recruitment efforts, who feel that their community deserves a special look by nationals. However, in our experience, these formulaic requirements are interpreted by the retailers in a fairly rigid manner. They can be hard to overcome to build interest by tenant prospects. Georgetown’s current population would likely restrict retailers from interest in downtown locations, but they would consider sites within the I35 corridor because of the massive number of vehicles passing by each day.

The second criteria is a combination of differentiating factors:

• Distinctive physical character.

• Concentration of unique specialty retailers that are doing well.

• One-of-a-kind or destination uses and attractions that will draw particular markets to smaller communities, such as a major tourist destination, a large university, high volume recreational amenities, etc. Examples include Colonial Williamsburg, the Shakespeare Festival in Ashland, Oregon, or Penn State University in State College, Pennsylvania.

• An active, involved local government committed to downtown development (slow administrative processes, lack of financial commitment to public infrastructure, and political infighting are ‘red
flags’ for many retailers, who will seek locations they view as more stable and helpful).

- A clear sense of future direction and vision of how to get there (the recent Downtown Design Guidelines and commitment to a new Comprehensive Plan are two strong steps that indicate that Georgetown is moving in a thoughtful way toward the future).

- Excitement and enthusiasm and a realistic economic perspective; these may seem corny or obvious, but retailers can become “infected with enthusiasm” when contacted by local recruitment efforts. The trick is to also have a realistic understanding of their needs (a sense of the market, possible initial financial incentives, affordable space) when they arrive.

The manner in which these differentiating factors are considered is more subjective, and, to a degree, can be used to overcome the limitations of formula-based decisions. They are also more effective in trying to attract individual retail operators and smaller regional chains that do not have the national stores restrictive formula requirements. In ERA’s view, Georgetown has several of these differentiating factors (charm and character on the square, unique specialty shops and restaurants, the re-opened Palace Theater, Southwestern University), but they have not yet been combined into an easily comprehensible marketing package.

ERA recommends that these differentiating factors serve as the basis for an ongoing publicity/PR campaign to constantly remind both the consumers and retailers that Georgetown is worth a visit, and potentially a location. An outline of publicity/PR approaches follows (it should be noted that Georgetown is doing/has done many of these approaches in the past – sustained efforts will pay off in the future):

ERA has outlined two types of approaches – marketing tools and activities that require financial costs, and activities that can be part of larger promotional efforts without adding extra costs.

**Paid Marketing Tools:**

- Downtown Retail Directory Brochures including an attractive map and descriptions of local businesses that will attract people to visit;
these should be placed at the Visitor Center (see below), mailed to potential visitors who contact the town, at highway-oriented restaurants (to encourage people to venture into town), and be posted on a downtown website. Simple brochures can cost from $.05 to $.30 apiece, depending upon the design, number of colors (more colors = more expensive), number printed (more printed = less cost per brochure), and can be subsidized by advertisements and sponsorships.

- Seasonal events brochures, distributed in the same locations, but promoting performance events, festivals (such as Georgetown’s Poppy Festival), etc. These brochures require a carefully planned annual/seasonal schedule of dates and should be published enough in advance to allow visitors and residents to plan ahead, book hotel rooms, etc.

- Creation of new or enhancement of existing events – the Christmas Stroll, a Food Festival, Palace Theater series of events on the square, etc. Residents and visitors will want both continuity and something new, so some events may be eliminated/replaced by new ones to encourage repeat visitation. Costs may include performance talent, free food and beverage, free parking subsidies, publicity, rentals for events facilities (stages and lighting, tents, etc.). Creation of a new performance-based festival would require multi-year funding commitments by the public and private sectors, but could bring large numbers of visitors/spenders to Georgetown. An example is Charleston, South Carolina’s annual Spoleto Festival, which is heavily sponsored by the City and State, as well as local hoteliers, restaurants, corporations, etc.

- As mentioned earlier in this report, commercial Highway billboards and brown ‘Visitor Attraction “ TxDOT signs along I 35 can also be used to market downtown Georgetown as a destination stop.

- Development of an interactive website on the Internet about downtown Georgetown with current and future events, images of Georgetown and its buildings around the square, and scenes from the town to entice visitors to want to come and stay. The costs for this recommendation include design of the website and staff time to maintain and update it, as well as responding to online inquiries.
- Travel Writer Events – Travel writers look for new destinations, new travel experiences, or new events in established locations. Over the years, Georgetown has received substantial publicity in local, regional and national publications, but travel writers can be encouraged to visit (or re-visit) a location if it is part of a special tour and there is a new angle or slant to the story. Story lines could include showcasing the town’s efforts to manage its growth and maintain small town atmosphere, continuing efforts to preserve and protect the historic district, special shopping interests for antiques and decorative items, Georgetown’s Bed and Breakfast lodging facilities, a memorable day trip from within a hundred mile drive, or other subjects can be tested with writers to gauge their interests. Costs for these events can include travel costs, meals and lodging. The objective is to entertain them and show them the best aspects of Georgetown’s hospitality so that they will convey the town’s attractions to potential visitors.

- Finally, the most important paid marketing/PR tool will be to pay to produce a retail marketing brochure package for use in attracting new retailers and restaurants downtown. The components and format of the brochure are described elsewhere in this report, but the key characteristics are that it should be: attractively designed to catch the attention of prospects; simple and flexible (to allow customized packages) including data about the general market, the future vision for downtown as a historic retail center, information about available buildings you wish to market, and contact information for follow up and response.

**Free Marketing Approaches**

- As mentioned elsewhere, it may be possible to involve a University-level business or tourism marketing class to work with Georgetown as a project to develop a media identity and public relations strategy for the town. ERA sees this type of effort as critical in attracting more visitors and tourists, since positive media exposure will influence decisions about trip planning and whether to stop in Georgetown, either as an overnight/weekend destination or on the way to other places. However, until the campaign is in place and has generated additional tourist volume, the PR strategy should be
marketed to retail prospects as one of many activities underway to strengthen downtown.

• News and Human Interest stories about Georgetown buildings, merchants, and residents are also part of the effort to remind people that Georgetown is open for business. Publications like *Texas Monthly* and *Southern Living* often write positive stories or items about interesting towns. The readership of each of these magazines match the upper income, traveling visitor markets that Georgetown can target for its tourist/visitor programs. These stories can often be generated simply by inviting the magazine to come to Georgetown to see it. Similar stories can be placed in television and radio news outlets in the Austin, Dallas and Houston markets, but will need a newsworthy angle (perhaps featuring Georgetown as a case study in evolution of small town Texas).

• Downtown Georgetown representatives should meet with the Texas Restaurant Association in Austin to ask for three types of assistance – contact names among Texas restaurant owners and operators who are looking to expand in growing markets; opportunities to promote Georgetown in state restaurant newsletters and other publications, such as the National Restaurant Association; and possible connections to a culinary school or training program that might consider opening a ‘teaching restaurant’ in downtown Georgetown. The New England Culinary Institute (NECI) is a private, Vermont-based culinary school that has a restaurant on the Church Street Pedestrian Mall in downtown Burlington, Vermont. NECI operates the restaurant and bar as a commercial enterprise, but the kitchen is operated by student chefs working under master chef instructors. This restaurant operates comfortably with other restaurants and cafes in the area, but has the extra advantage of creating skilled workers for other restaurants, and providing a special dining experience for its patrons. These types of contacts cost only the time required by knowledgeable downtown volunteers or staff, and can yield unconventional solutions to market needs.

Finally, it should be acknowledged that public relations and marketing are important, ongoing efforts. Although the direct benefits are sometimes intangible, without pursuing a better image, fresh exposure to
new and existing markets and making the town apparent to the news media for positive stories, Georgetown’s efforts to bring in new businesses and customers will not move ahead as quickly. Marketing and PR should be recognized as part of the job responsibilities of the DDC or other entity responsible for coordination of downtown Georgetown’s continuing renewal, and should be part of the required experience of key staff and/or volunteers.

Responsibility for These Actions

Who should organize, seek funds for and coordinate these leasing and marketing activities? ERA’s experience in Georgetown suggests that none of the current organizations active in the downtown area have the time or funding to fully take on these steps. There is talent and experience in each, but we believe the effort will be best served by creating a new entity that can bring together the interests and knowledge of individuals and organizations committed to downtown.

Tourism development is part of the overall economic development strategy for Georgetown (and tourism should be considered a ‘clean’ industry that creates and supports jobs). The most appropriate solution is to address tourist-shopping needs as well as resident-shopping needs, and to use revenues generated by tourists in Georgetown to sustain a whole series of activities, projects and approaches that will sustain tourism in the future. This is best accomplished by protecting the quality of life that makes the town special for everyone.

The proposed structure and purpose of the organization is described in the first recommendation of the following Section VII, Implementation/Action Plan.
VII. Implementation/Action Plan

This final section summarizes approaches to implementation for the downtown retail strategy and other specific steps to undertake. The first part of the Implementation section recommends actions that should be undertaken by the City of Georgetown, Williamson County, downtown property owners and retailers, downtown advocates and local brokers. The second section outlines our recommended priorities for development activities based on priority sites, options for structuring public/private partnerships and retail recruitment.

The next part of this section is a suggested Action Plan Schedule arrayed over the next eighteen to twenty-four months. The final section, entitled ‘Longer Term Implementation Strategies and Approaches’ explains two approaches to components of the strategic retail plan that are directed at real estate financing for specific projects requiring private funding; these include the potential for a local Real Estate Investment Trust and creation of a Staggered Return Equity-Based Corporation, a new model of public-private partnership currently under development to implement a downtown mixed-use project in Albuquerque, NM. The latter example could be adapted for the Downtown Development Corporation, depending on the DDC’s capacity and implementation powers in Georgetown.

Recommendations

Implementation strategies for downtown Georgetown will require a mixture of public and private initiatives. Neither the City of Georgetown alone nor the private sector alone should have to shoulder the complete responsibility for revitalization. Williamson County government should be participating more fully, as well. The County has both a role and a stake in the future of downtown Georgetown, and in ERA’s view, can initiate several immediate actions to stabilize the downtown retail base. The following summarizes a series of recommendations that will support the downtown retail strategy.
Recommendation 1. Establish a new Georgetown Downtown Development Corporation

One of the problems identified in our analysis of the best strategy for Georgetown’s retail development is that there is no central point of contact or responsibility for the downtown district. In the past, this has resulted in confusion about who decides what should happen, duplication (or absence) of effort addressing complex problems, conflicting actions or fragmentation of responsibility. In our view, this issue can best be addressed by creating a new entity that consolidates and centralizes all the others.

From initiation of the project through the longer term (beyond 2004), ERA recommends that a new Downtown Development Corporation (DDC) be established by the City of Georgetown through the Economic Development Department to focus on key downtown development properties. As a public, non-profit development entity, part of the DDC’s function should be to foster policies and partnerships affecting land use, creation/retention of available space for retail users and future retail expansion, requirements for parking and parking management, and creation of mixed-use sites with complementary uses such as professional offices on upper floors. These activities would be conducted in cooperation with the Mayor and City Council, City Manager, County Judge and Commissioners, the City’s Economic Development Commission, the City’s Planning and Development Services divisions, and other public agencies, but central responsibility and accountability would rest with the DDC. All downtown revitalization programs, initiatives and incentives would be centralized into one point of contact and responsibility, as well. The DDC should function with a separately appointed Board of Directors (depending on how the DDC is organized), including representatives from a range of downtown action and advocacy groups including the Main Street office, the Downtown Georgetown Association, the Georgetown Heritage Society, property owners and brokers, retailers and restaurant owners, City and County government, and other groups. In ERA’s view, this action should be undertaken as soon as administratively possible, and the DDC should act as the
implementation resource for coordination and operation of the remaining actions and recommendations.

### Recommendation 2: Fund and Implement a Downtown Master Plan

ERA recommends that Williamson County’s administration cooperate with the City to jointly fund a downtown Master Plan. Because of the proximity of the Courthouse to the square’s retail concentration and the pending expansion of County Judicial Center facilities west of downtown Georgetown, resolution of overall downtown development will neither be the sole responsibility of the City or the County. As part of the Master Plan, ERA also recommends that a network of available and planned parking be incorporated within the downtown planning context. The most practical way to plan for additional downtown parking facilities, whether surface lots or (eventually) structured parking near prime/higher density sites, will be for the City and County to commit to a jointly-funded cooperative implementation program. These types of facilities (and investments) will best be achieved as a result of a Master Plan that can balance a range of issues – tax base enhancement, opportunities for mixed use development with retail on the ground floor and office or housing on upper floors, provision of public and dedicated parking, streetscape enhancements, planning and development incentives, and other strategies.

### Recommendation 3: Change County Employee Parking Practices on the Square

ERA strongly recommends that the County change its practice of allowing (not discouraging) all day employee parking around the square by establishing a ‘no employee parking on the square’ policy. This does not mean that Williamson County should not have some dedicated spaces on the square for county business. Because of the importance of the Courthouse to downtown activity, ERA suggests that some spaces along the inside of the square be reserved for Short-Term parking by County customers. The solution for all day employees will require a system of enforcement by the City, cooperation by the County and a change in habit by some County employees. All day employee
parking by County employees has been a point of contention for some time between County administration and downtown merchants, and should be corrected as soon as a parking assessment and designated County employee parking locations can be identified under the recommended Parking Master Plan.

As a major property owner downtown, and as consumers of retail goods, food and beverage and parking, Williamson County has a primary role to play in sustaining downtown Georgetown’s stability. But the County’s reluctance to mandate employee parking off the square does not reflect a clear commitment to the downtown retail program.

**Recommendation 4  Extend Downtown’s Identity By Building Gateway Elements at Key Entries to Georgetown’s Historic Core Area**

As sprawl and I-35 corridor continue to alter the edges of Georgetown’s historic identity, it will be increasingly necessary to establish a stronger sense of where the traditional character begins and the newer suburban model ends. The Downtown Design Guidelines should be adopted and carried out as a planning framework for future development within the historic core area of the town. To reinforce that character as a marketing strategy for the downtown shopping and dining area, ERA encourages that gateway elements be constructed at key entries to the historic core. As described earlier, the entry elements should be designed to reflect the scale, materials and detail of Georgetown’s historic context. Although final locations should be determined as part of a larger planning effort, in ERA’s opinion, potential/likely locations for gateway/portal elements on major entry routes include:

- North Austin Avenue at 2nd or 3rd Street, just south of the historic bridges
- South Austin Avenue, at a location somewhere between the intersection with Highway 2243 and Austin and 18th Street and Austin
- West University, somewhere east of the San Gabriel River Bridge, perhaps at MLK
Recommendation 5  Explore, Establish and Implement Funding Sources for Downtown/Retail Development

Both Williamson County and the City of Georgetown can anticipate increased public revenues from local and regional growth, as well as increased budget pressures for infrastructure expansion and increased community services. The decision to keep the Library downtown is an appropriately civic one to maintain a community-wide resource as a downtown asset and activity generator, and past investments in streetscape enhancement have improved the appearance of the square. It is now time to expand the base and package/offer other types of planning, zoning and financial incentives to protect downtown as part of the city’s tax base. Several of these tools are described below:

Funding Options/Incentives to consider in conjunction with implementing projects on priority sites

There are two philosophical approaches to encouraging redevelopment in downtown commercial districts that are potentially applicable to Georgetown. The first is grounded in the public sector, and includes a series of steps that can be undertaken by City government, County government or a non-profit organization focusing on redevelopment efforts in the public realm. These strategies tend to either provide financial incentives taken as losses by the public sponsor to encourage private investment, or are regulatory in nature (property tax abatements, zoning bonuses in exchange for public amenities contributions, etc.). For this approach to succeed requires a commitment of both staff and funding by the public sector (usually local government), which can apply its creditworthiness as a backstop for municipal bonds (such as those used to construct parking structures by public parking authorities) or direct revenue subsidies. In our discussions with City government and Williamson County government about the potential to establish formal programs, neither has been in the position to offer substantial direct funding for commercial development projects in downtown Georgetown. It should be noted, however that both the City Council and the County’s senior administrators are receptive to options which would not cost
much, but could leverage private investment that will result in jobs, property tax enhancements or other benefits to the public sector. It is apparent that the public sector is willing to participate in a relatively low risk partnership role, but that primary leadership and risk should be borne by the private sector, assisted by the public sector in appropriate but limited ways.

The second approach focuses on private sector initiatives (sometimes with more narrowly defined public participation) that can address development opportunities, but on a schedule and internal rate of return on private investment below the 15% to 20% Internal Rates of Return (IRR’s) typically required by commercial developers to justify a project.

The programs and incentives described below are more closely associated with public sector initiatives.

**Historic Rehabilitation Tax Credits:** The rehabilitation tax credit program provides for a 10 percent tax credit for substantial rehabilitation of income-producing buildings over 40 years old and a 20 percent tax credit for substantial rehabilitation of income-producing buildings which are over 50 years old and eligible for, or listed on, the National Register of Historic Buildings. These credits have been used in the past to restore and rehabilitate several historic buildings in downtown Georgetown. The program is administered by the Texas Historical Commission, and involves a two-step approval process. The first approval certifies that the building meets the standards established by the U.S. Department of the Interior for eligibility for the National Register of Historic Places. As a locally certified historic district, a portion of downtown Georgetown already is qualified for the first part of the certification. The second part of the process certifies that the modifications proposed for the rehabilitation will meet the Secretary of Interior’s Standards for Certified Rehabilitation of Certified Historic Structures. These guidelines were established as national standards by the U.S. Department of Interior, and the review of rehabilitation proposals is also conducted by the Texas Historical Commission. The objective of the program is to provide tax incentives for investors to consider renovation of older commercial (rent producing) buildings on an equal basis with new construction. In ERA’s experience, for most investors the tax credits can be an effective tool in rewarding the project developer for completing a renovation that is a
sound real estate project first and foremost. In other words, the project must work in conventional terms first (i.e., rents for the rehabilitated project are in line with appropriate levels of investment and investment returns); the rehabilitation tax credits provide the extra benefit of dollar for dollar income tax credits against future income taxation after project completion.

**TEA-21**: TEA-21 (the Transportation Enhancement Act for the 21st Century) builds on the initiatives provided in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). Guaranteed levels of transportation funds are authorized through the U.S. Government’s Fiscal Year 2003. It is expected that TEA-21 will be proposed for re-authorization in 2002, as the programs have been widely used for a range of transportation-related enhancements. While most of the funds are committed to planning and construction costs for roadways, mass transit system enhancements and other direct transportation projects, both ISTEA and its successor TEA-21 also have provisions for broadly defined transportation enhancements such as:

- Directional signs for visitor attractions and historic sites
- Restoration of transit related buildings such as older train stations
- Creation of heritage trails linking thematically related sites
- Hike and bike trails as alternatives to automobiles
- Local shuttle systems that will reduce traffic and parking demands
- Streetscape enhancements for pedestrians
- Parking facilities

ERA recommends that Georgetown consider pursuing TEA-21 funds for several suggested projects. These include:

- Wayfinding signs directing visitors from I-35 into the downtown historic district
- Funds to pay for gateway signs and design elements at the edges of the downtown historic district
• Funding to establish and operate a shuttle service from Southwestern University, from Sun City or other locations into the downtown area to reduce parking demand and encourage foot traffic downtown without necessarily adding new cars.

• Funds to cover part of the costs of maps and visitor center operations to direct people through Georgetown’s sites in an efficient and focused manner (this type of project has been funded elsewhere as a means of ‘intelligent transportation’ management)

• Possible funding for structured parking as part of new development on sites such as the Hewlett Property.

TEA-21 funds are typically distributed through each state’s Department of Transportation. Requests are submitted annually according to specific deadlines, and funding is competitively distributed. Innovative projects and demonstrations with broader applicability are usually considered competitive, and geographic distribution is an advantage. The Capital Region Transportation District should be able to work with the City of Georgetown, with the County and with the Main Street Program or other special program to structure an application to TxDOT. ERA suggests that the funds are relevant to Georgetown since dollars are available for such a broad range of project types to improve directional signs, for transportation-related facilities and to enhance safety for bicycles and pedestrians, including pedestrian walkways.

**Special Tax Assessment District:** Many mature downtown revitalization programs have evolved into Special Tax Assessment Districts, in which property owners (and sometimes tenants) agree to a ‘self-tax’ in addition to standard property taxes paid to the City. These special tax assessments are controlled by the property owners and can be used for capital improvements, streetscape enhancements, marketing and promotional programs, loan funds for façade improvements or other assistance. This type of program would require building a consensus among downtown Georgetown’s property owners and cooperation by the City in collecting and distributing such a surtax. ERA is not yet certain that the economic or public consensus exists today to organize such a program, but as development downtown increases, it may be worth considering in the future; this could also be a potential operating cost.
Offer Incentives to Building Owners to Ensure Retail Tenants are Retained at Street Level:

- Property tax abatements in exchange for subsidized rents – this approach has been used in Boston and selected other large cities as a public incentive to encourage property owners to maintain affordable rents for retail tenants. Specific screening criteria apply to the selection process for eligible tenants and properties.

- Assistance with Tenant Recruitment – Recruiting new retailers for downtown districts is best achieved by a combined effort between local commercial brokers (who are generally best informed about available properties) and a team of “volunteer recruiters”, including a downtown merchant or restaurateur (to verify that there is a market and that new retailers are welcome), a representative of local government or a City-sponsored Main Street program (to represent an organized approach and to discuss needs for expedited permitting and approvals), a representative from the financial community (to offer available financing), and a broker (to package lease offers). This effort frequently results in both new tenant recruits as well as a heightened sense of partnership by downtown advocates. ERA believes that Georgetown could benefit from both of these results of a recruitment team effort.

- Cooperative Marketing Initiatives – The property book listing all downtown retail properties in Georgetown can serve as a tool for cooperative marketing initiatives between property owners and tenants, in integrated efforts to draw tourists and visitors, and in addressing downtown development as an economic development/jobs creation strategy.

Matching Fund Program: In order to facilitate various façade improvements, a matching fund or low interest loan program could be established whereby a public agency or local development corporation.
could provide a dollar-for-dollar match for approved façade improvements or interior improvements, up to a specified maximum amount. Improvements should be subject to review and consistency with Georgetown’s pending Downtown Design Guidelines. Eligible activities might include repair to exterior facades, masonry repair, cleaning of the exterior of the building, and exterior painting, sign removal or replacement, conversion of underutilized spaces to productive uses, or replacement of roofs and HVAC equipment. These types of loans are often combined with rehabilitation tax credits to maximize the tax benefits of renovation.

**State Loan Program for Small Businesses:** The Texas Capital Access Fund was established to increase the availability of financing for small businesses that have difficulty in accessing capital (start-ups sometimes fall outside the guidelines of conventional financing). The loans may be used for working capital or the purchase, construction or lease of capital assets, including buildings and equipment. Loans are made and administered through local banks, and are generally available at reduced interest rates. Loan amounts are capped annually, but qualified borrowers can take out up to two additional loans after proving creditworthiness. ERA suggests that this program could be coordinated and administered through the City’s Economic Development Office.

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<th>Recommendation 6</th>
<th>Encourage and Protect Commercial Development Opportunities on Priority Development Sites</th>
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For the near term, ERA considers the greatest opportunity for action by the City (and eventually the DDC) to be a very important redevelopment site in downtown Georgetown -- the Hewlett site.

The Hewlett site is currently for sale and includes approximately 23,000 square feet of showroom and service area space. The site also includes head-in parking for 28 spaces. This portion of the site includes .54 acres of land.

Just east of the above site is the vehicle sales lot, which is also for sale. The site includes 1.32 acres and the existing 12,000 square foot building will be taken down as a condition of the sale. The asking price for both
The strategic retail plan for the City of Georgetown, Texas, identifies the Hewlett site as the most significant property in downtown available for redevelopment. Over the past fifteen years across the United States, auto dealerships have relocated from their former locations to less valuable sites, typically located along major highways. Development of the Auto Dealership park south of Georgetown on I-35 typifies this pattern. The issue of how to redevelop former dealership sites is more market specific.

As a redevelopment opportunity, the Hewlett site offers a number of advantages:

- The property is well located, 1 ½ blocks off the square, with a prominent half block of frontage along Austin Avenue and approximately one and a half square city blocks of developable area on two adjacent blocks.

- The site is already assembled, making larger projects possible without the economic burden of assembly. The fact that the site is already assembled makes it potentially more valuable than a series of multiple owner parcels on the same block.

- The structures on the property are not historic, and could be demolished to make room for appropriately designed, more intensive land use development. ERA would suggest that an urban mixed-use project (office or residential on upper floors with retail and parking at street level), designed to be consistent with the Downtown Design Guidelines parameters for building heights, materials, etc., should be the target use for the Hewlett site.

- As the Hewlett properties are located on two different blocks, the developable parcels lend themselves to either one single project or a multiple phase project.

- The largest Hewlett parcel (between 9th and 10th along Main Street) has sufficient space for an optimally sized parking structure (approximately 130 feet by 200 feet), as well as for two to three floors of commercial development space.
• At $22 per square foot, the land costs are relatively modest compared to more urban examples. If a three story development is assumed, the land cost per Floor Area Ratio (FAR) foot is about $7.

It is reported that the Hewlett site has also been considered as a potential parking lot and recreation services site for the adjacent Baptist Church. While ERA applauds retention of churches in downtown areas for the stability and weekend traffic they provide, we would not encourage transfer of the Hewlett site to a church-related use (whether for parking, recreation buildings or other activities). Since downtown and its economic future are primarily commercial, transfer of the site to the church would not represent the “highest and best” economic use for the property. For the long term, acquisition and use by the Baptist Church would preclude the opportunity to encourage development of commercial uses that could activate downtown all week long, and provide new expansion areas for retail/office (and potentially upper floor housing) in a location that would expand and reinforce the square as a retail destination. In ERA’s view, the Hewlett site should remain in commercial use as part of downtown’s property tax base, and should be used at a higher level of intensity than either an automobile sales location or a Sunday-oriented church facility would provide. However, if the purchase by the church should take place, ERA recommends that any current and future development should be designed to blend the project with architecture of the downtown commercial district, according to the Downtown Design Guidelines, so that the overall character of downtown will be reinforced appropriately.

ERA would suggest that a combination of retail on the ground floor (at about $18-20 per square foot in rent) with two floors of housing above could work if some financial incentives (such as property tax abatement or financing cost write-downs by the City) could be structured into the deal. At that land cost, residential rentals would require about $1.35 per square foot in rent, or about $1,000 for an 800 square foot apartment. This is above current rental rates in Georgetown, but over time and if suitably designed and appointed, we believe that a limited number of units would be supportable in this configuration. Class A Commercial office space would also be a possibility for upper floor use (instead of rental housing), but would likely require a build-to-suit tenant looking to
achieve rents below Austin rates. Achieved rents of $15 to 18 per square foot for office space are slightly higher than those currently reported in downtown Georgetown, although street level storefront office space is reportedly achieving rents at approximately $3 over retail rents (or about $15 per square foot). Based on this information, it appears that over time the project should prove viable. It will take a visionary developer, interested tenants and assistance by the public sector to make the project work, but the economic and design benefits for downtown Georgetown would be substantial.

The economics that determine decisions for conventional real estate projects are relatively straightforward – if the amount of rent generated by the project will not cover the costs of development (land, site preparation, building construction, project financing, tenant incentives and required profits for the developer), the project will not be viable financially. Another way to describe the issue is that, if all the costs generated to develop and construct a project require rents higher than the local tenant market can reach, the project would not be considered a reasonable investment.

During ERA’s research in Georgetown, it was asked whether housing or office development was a greater contributor to downtown retail. Assuming that market demand is available for both uses, the answer is complex. On a social level; housing provides 24 hour animation to downtown areas, but is more costly to construct and manage than office space. Office development typically requires more parking than residential uses, but costs less to construct and generates higher rents per square foot. Based on what we learned about current property values and market trends, it appears that, assuming that office tenants are interested in downtown Georgetown, the basic economics of developing a multi-use office project of some scale are workable on a downtown site, preferably the Hewlett site.

It will be increasingly important that retail continuity be maintained around the square and on the adjoining blocks to offer potential for new growth over time. ERA’s recommended mixture of uses for key redevelopment sites offers an example of a solution by which Georgetown can both sustain retail animation along the streetscapes
while also accommodating office expansion demand in alternative/upper floor configurations.

ERA recommends that the scale of any project constructed on the Hewlett properties should be designed for two to three floors. The ability to access high speed internet service on this site (either through hard wired capacity or broadband) would increase its marketability for office use, and the lower rent levels in downtown Georgetown would be a marketing advantage for north Austin tenants, once the technology economy stabilizes.

**Other Priority Sites**

As described earlier, ERA does not consider the Hewlett site to be the only priority development opportunity in downtown Georgetown. Over the longer term, other sites downtown should be considered for redevelopment. Generally, these sites include underutilized land (such as surface parking lots) whose values should appreciate to levels higher than parking would justify, properties whose current uses may be better located in other parts of Georgetown due to proximity to markets or transportation, or less valuable real estate (light industrial, warehousing and auto sales), or single story non-historic buildings whose uses might be better served in other locations or in higher density development. These sites include:

- *City-owned properties on the square –*

ERA suggests that the current City Hall building may need to expand into a larger space at some point in the future, or may consolidate certain City offices into one downtown location. If so, the single story building and its adjacent surface parking lots could provide a development site for a multi-floor building, potentially including office uses on upper floors and retail or food service at street level. Reuse of the City Hall (either consolidation within the existing building or potential to add a second floor) is currently under consideration.

- *Underutilized parcels west of the square currently used as surface parking –*
These lots could offer future development sites for structured parking and/or commercial development, as the market grows over time. For the immediate future (likely the next three to five years), they can continue to provide accessible parking for the County staff and for downtown shoppers and workers. Future uses, densities and development parameters should be addressed in a new comprehensive Plan (The Century Plan) to accommodate parking requirements (which will eventually be provided in parking structures), consistency with the Downtown Design Guidelines, and appropriate transitions to the surrounding residential neighborhoods.

- **Gold’s Department Store** –

Gold’s has been a presence “On the Square in Georgetown” for decades, and it is hoped that it will continue to function as such into the foreseeable future. If however, the current use as a department store should ever change, ERA recommends that these three buildings be a focal site for retail re-development. If a single retail user is not available, the buildings can be subdivided into multiple retail or food service locations.

- **Draeger Motors**

If Draeger Motors should ever elect to relocate outside of the current downtown location, the site offers redevelopment potential similar (size, proximity and visibility to Austin Avenue, proximity to the square) to the Hewlett site for retail/mixed-use as three story office or housing on upper floors with street-related retail below. The dealership’s location flanking Austin Avenue north of the square is a key gateway location that should provide a transition from the residential/County Government areas to the north and west into the downtown commercial district.

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<th>Recommendation 7</th>
<th>Protect Key Retailers already in Place</th>
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The retail strategy should offer some degree of protection for existing key retailers, such as the local bookstore, women’s apparel, household products and unusual gifts by not recruiting future retailers that will duplicate current inventory. This does not mean that there is not room for other specialty stores selling compatible items; the critical mass effect
of having several apparel stores, for example, would increase the drawing power downtown, since more shopping options would exist. Georgetown will compete more effectively against nearby big box and discount store developments by reinforcing the range and assortment of specialty stores that offer a distinct retail ‘point of view’, or merchandising concept of the owner. Large discount stores do not have a particular concept other than volume sales and lower prices. Georgetown’s downtown merchants offer the alternative to undifferentiated suburban discount stores, but the mix (supported by both resident-based and an increase in capture of visitor-based sales) needs more offerings. The downtown revitalization effort can contribute to the success of these retailers through some of the initiatives mentioned above, such as cooperative marketing efforts. The City government and/or the DDC could offer financial incentives if certain key retailers are considering /being forced to relocate to another site as an inducement for them to remain in downtown locations. If politically tenable, the City could consider allowing abatement of property taxes (or some percentage of them) to allow investors to recoup their property investments during the first years after completion. Finally, simply organizing a system of expedited public review and approvals for downtown locations (as part of the public/private retail development strategy) would ease the transition for existing and new retailers to consider downtown as an option.

| Recommendation 8 | Seek Downtown Partnership Opportunities with Southwestern University |

ERA suggests that Southwestern University is potentially a much stronger asset for downtown retail and redevelopment than is currently in practice. At the most fundamental level, only a few stores appear to target Southwestern students and family visitors as customers, either with student-oriented merchandise or with University-oriented marketing efforts. As described in the Market Demand Analysis in Section III, Southwestern Students can provide significantly greater market support if retailers provide the merchandise and food service options they want. Improving access to downtown through a transportation shuttle system (even if originally tested as an experiment) would increase opportunities to connect Southwestern students with the goods and services available
downtown. Some stores offer student discount coupons or special promotions at back to school time and during Parents’ Weekends. Increasing collective marketing efforts for downtown businesses, extending store hours at times or seasons suitable for students, hiring students (since they will attract other students as shoppers) or other sales-oriented strategies can be employed to build and reinforce student traffic downtown.

On a longer-term level, ERA also recommends that Southwestern be approached by the DDC or other downtown activists about becoming a downtown property owner or investor in real estate. Dartmouth College has an extensive series of local real estate holdings as part of its program related investments from the College’s endowment funds. The College has established a real estate division to develop student and faculty rental housing, retail/commercial space, and consumer service projects to provide services to its students and staff. Other Universities have committed student or faculty housing allocations to off-campus locations, effectively guaranteeing that conventional financing will be available by providing a ‘built-in’ tenant base. Non-campus location sensitive University offices can also be located on upper floors in downtown buildings (such as administrative back-of-house facilities) as another ‘guaranteed’ tenant approach that will both fill space and offer long term revenue for private developers.

A number of smaller colleges and universities are now investing in local real estate projects (particularly if they serve their students, staff and visitors) as part of their endowment programs. This is occurring not only because their commitment builds closer ties to their home communities, but also because they sometimes require lower levels of investment return (Universities average between about 8% and 12% return on equity from their endowments; charitable foundations earn less, on average) and can foster joint venture investments in real estate with local developers or alumni groups. Whether viewed strictly as consumers, or potentially as investment partners, Southwestern University can be better integrated into the economic life of the downtown area in Georgetown. ERA suggests that a meeting with the University President, senior administrators and alumni involved in real estate development and
investment should be explored within the first few months of the downtown retail project.

### Recommendation 9: Maintain Downtown Access through Coordination with TxDOT

The Texas Department of Transportation (TxDOT) has undertaken several massive capital projects that have had, or will have a significant impact on downtown Georgetown. ERA participated in public hearings on replacement or repair of the Austin Avenue Bridge north of downtown, and the widening of I-35 has caused disruption of access to interchanges, largely without any signs routing travelers to downtown Georgetown. In Texas as in many other states, transportation planning has not often been based upon, nor has it adequately addressed the impact on traditional downtown areas of major increases in road capacity, traffic volume or placement of by-pass roads. Due to their potential negative impacts on downtown Georgetown, ERA recommends the following:

- That the City and citizens oppose widening of Austin Avenue through the downtown area and along the square;

- That replacement of the North Austin Avenue bridges with larger, higher capacity/speed bridges, or replacement of the bridges with a design that is inconsistent with the character of the historic core should not be considered acceptable, and a more design-responsive solution be found; and

- That TxDOT reconsider Georgetown as a prototype for TEA-21 Heritage Area funding to pay for a series of signs, markers and other urban design elements to reinforce the downtown’s historic character.

### Recommendation 10: Develop a Leasing Brochure for Downtown Retail Properties
Just as shopping malls create leasing brochures to market properties and attract retail tenants, ERA recommends that Georgetown develop an effective leasing brochure for downtown retail properties. The purpose of the brochure is to ‘sell’ downtown as a potential retail location, most likely to prospective tenants who may not be familiar with the specifics of the market. As mentioned earlier, ERA recommends that the brochure package should include a summary of information extracted from this report, including general data on Georgetown’s demographics, the regional trade area characteristics, income information on the resident population, visitor and tourist volume, highway traffic statistics, and property taxes and values.

The brochure package should be flexible enough in format to accommodate individual property sheets on specific sites or locations that are available/are being marketed. Property sheets should include photo of the site or building, information on its size, age and condition, rent levels or asking sales price, current income (if the property is for sale), available incentives (such as availability of tax credits, tenant allowances or other owner contributions), and contact information for the broker or building owner. The leasing brochure can be a powerful tool in presenting opportunities in downtown Georgetown, and should be formatted for easy updating or customized packaging (for example, including retail buildings for those interested in storefront space, historic structures for those interested in older properties, light industrial or warehousing properties for those interested in redevelopment, etc.

The leasing brochure can also become part of a larger, ongoing advertising campaign for downtown Georgetown to promote shopping and tourism to targeted markets such as urban dwellers in Dallas and Houston as well as signs along I-35 to draw pass-through traffic to downtown attractions.
Recommended Action Plan Schedule

The following recommendations are based on the Needs and Possibilities described in Section II, as well as ERA’s assessment of potential local resources, commitment to the downtown retail development program, and market opportunities.

Months 1-6

- Establish a non-profit Georgetown Downtown Development Corporation
- Use the Property Book to identify and target priority and second tier retail locations downtown for recruitment of new retailers and to plan for relocation/retention of current tenants needing new locations
- Seek and establish special funding incentives to assist retailers in locating/relocating to downtown properties – TEA 21 with TxDOT, Texas Small Business Loan Programs, etc.
- Fund and complete a Downtown Master Plan
- After locating alternative locations for County employee parking, enforce a no-all-day-parking on the square policy
- Design the gateway elements and investigate specific site locations, costs, sponsorship opportunities, etc.
- Revisit Liquor By the Drink as a public referendum to encourage downtown restaurant development
- As the Century Plan update evolves, make revitalization/stabilization of downtown a top planning and development priority
- Structure and conduct telephone and visitor surveys, and save into a database for future review and updates
- Meet with TxDOT to coordinate I-35 construction, proposed bridge repairs and replacements and other projects which will have an impact on downtown to minimize negative effects
• Develop the Leasing/Recruitment brochure and begin the recruitment program; structure the retail recruitment team and complete at least one visit to another community seeking retailers

• Initiate discussions with Southwestern University to explore needs, opportunities and structure of one or more potential University investments in downtown Georgetown

• Make the Hewlett site a priority for downtown mixed-use commercial development

*Months 7-18 and Beyond*

• Seek a developer or development team to create the Hewlett site retail/mixed use project

• Pursue retail development/redevelopment of other priority sites, as they are available

• Purchase or redevelop additional parking in the downtown area for retail customers

• Construct gateway elements at key entry points

• Program events and performances at the Palace Theater to bring new audiences and customers downtown and market these events along with other activities to attract overnight visitors to Georgetown

• Recruit two to three new restaurants downtown to complement Wildfire, catered events at Geaux Fish, and others and create a dining district that can be promoted along I-35 as an alternative to fast food along the access roads

• Continue media outreach (Williamson County Sun; Austin American-Statesman and other major city newspapers, *Texas Monthly*, *Southern Living*, etc.) to keep Georgetown visible, both to retailers and shoppers

• Establish coordinated opening hours for downtown stores to create some level of consistency and predictability for customers
• Focus marketing, events and special activities on Sun City residents, visitors traveling along I-35 and Southwestern University students; to differing degrees, they each represent a large (and largely untapped, at least by the downtown area) potential market that can fuel expansion of downtown retail offerings.

• If the capacity and authority of the DDC is limited (rather than expansive), explore and modify/create alternative public/private development entities to encourage retail and revitalization in downtown Georgetown.

*Without a plan and serious commitment to these and other recommended actions, ERA suggests that downtown will continue to decline as a retail destination and a significant overall contributor to the local tax base.*

The following concluding section describes two approaches to downtown development implementation structures that could work for Georgetown’s downtown retail redevelopment strategy.
Longer Term Implementation Strategies and Approaches

The following two development scenarios are more oriented toward private initiatives, and would require substantial commitment by private interests to be created. Both approaches are intended to focus on the gap between conventional financing requirements and the available cash flow from rents that often make downtown/mixed-use projects more complicated to fund than single-use strip development. Each approach is based on established implementation practices (such as Real Estate Investment Trusts, which have been used for over four decades), but the particular combinations of components with a specific downtown focus are relatively new and untested. However, ERA also believes that either approach could offer promise for Georgetown if the right investors and investment priorities can be organized to address opportunities in the downtown’s retail district.

Establishment of a Local Real Estate Investment Trust (REIT):

One option would be to establish a locally organized Real Estate Investment Trust or REIT. It should be noted that creating a REIT requires specific legal and financial expertise, and should be pursued with the involvement of specialists.

Background History

Real Estate Investment Trusts (REIT’s) were established by law in 1960 under the Eisenhower administration as a means to encourage investment in real estate properties and project development by a diverse range of investors. Over the past 40 years, REIT’s have grown to a $120 Billion industry. While a number of changes and refinements of the initial enabling legislation have occurred since REIT’s were established, the basic structure and purpose has remained in place since 1960. Some of the most relevant changes since REIT’s were established include the following:

- the shift from real estate investment motivated by the potential for tax shelter (particularly under the Tax Reform Acts of 1976 and 1986) to real estate investments motivated by more traditional fundamentals of
income and appreciation strengthened the credibility of REIT’s as an investment and development vehicle in the capital markets and among smaller investors.

- the Tax Reform Act of 1986 changed the operating structure of REIT’s to allow them to manage their investment properties directly, placing greater control in the hands of the trustees or directors as well as a greater responsibility to shareholders to invest and manage for profitability

- a tax policy change in 1993 removed a significant barrier to pension plan investment in REIT’s, opening a significant new capital source to REIT projects and resulting in expansion of both the number and size of REIT’s in the U.S.

- provisions enacted in 1997 simplified aspects of REIT operations

*What is a REIT?*

A REIT is a corporation or business trust that receives and uses investment capital from many sources and investor types to acquire, develop, manage or provide financing for all forms of real estate. REIT’s function much like mutual funds for real estate, in that investors can participate in a diverse portfolio of buildings or real estate product types under professional management. Shares in REIT’s are freely traded; many REIT’s are available on the major stock exchanges.

Corporations or trusts that qualify as REIT’s generally do not pay corporate income tax to the IRS, a unique investment feature shared only with mutual funds; this is one of the most attractive aspects of REIT’s. Most state tax policies follow the Federal exclusion, and also do not require REIT’s to pay state income taxes. This means that nearly all of a REIT’s income can be distributed to shareholders, and there is no double taxation of income to the shareholders (e.g., while REIT dividends are taxable as personal income, a greater portion of net revenue is available, and not taxed at the corporate level prior to investor distributions). Unlike a partnership (another structure frequently used for small scale real estate development projects), REIT’s cannot pass its tax losses to
investors. This difference results in a simpler tax reporting system for REIT’s.

To qualify as a REIT, a corporation or trust must comply with certain provisions within the Internal Revenue Code. As required by the Code, a REIT must:

- be a corporation, business trust or similar association
- be managed by a board of directors or trustees
- have shares that are fully transferable
- have a minimum of 100 shareholders
- have no more than 50 percent of the shares held by five or fewer individuals during the last half of each taxable year
- invest at least 75 percent of the total assets in real estate assets
- derive at least 75 percent of gross income from rents from real property or interest from mortgages on real property
- pay dividends of at least 90 percent of REIT taxable income each year

The number and types of investors in REIT’s are varied and diverse. Shares in REIT’s are held by private investors (U.S. residents as well as overseas investors), pension funds, endowment funds, insurance companies, bank trust departments and mutual funds. Private individuals who invest in REIT’s are usually attracted by three characteristics:

- REIT’s pay annual income distributions, so (assuming that the investment property portfolio is generating net income) investors receive income each year
- Because real estate tends to retain its value more effectively than other types of depreciable assets (inventory or machinery, for example), well-selected properties in the portfolio can offer appreciation in value, increasing the value of the shares
Unlike other types of real estate investment, REIT’s offer liquidity to investors, as they can be traded or sold like other public equities, and with no minimum purchase required.

*How Are REIT’s Different from Limited Partnerships?*

- REIT’s are organized and operate differently than limited partnerships. As a publicly traded financial instrument, the general oversight and governance of REIT’s is more open to public scrutiny and review than are limited partnerships. For individual investors, the annual tax information from REIT’s is reported as an IRS form 1099. For limited partnerships, the reporting format is a K-1 form, more complex than 1099’s.

- Limited partnerships may include any number of limited and general partners, with the general partner having the greatest controlling interest. REIT’s require at least 100 shareholders, and the investors elect the Board of Directors for the REIT.

- Limited partnerships can pass along losses to investors, while REIT’s do not.

- REIT’s can be used for 401(k)’s and Individual Retirement Account (IRA) investments, while limited partnerships cannot.

There are hundreds of REIT’s operating in the U.S.; over 90% of these are Equity REIT’s, which are organized to own real estate. Revenues of Equity REIT’s come principally from rental income, and therefore require that owned properties be purchased at reasonable prices, and that tenants are able to pay market rents. This accounts for the significant level of investment by Equity REIT’s in shopping malls occupied by credit worthy tenants, as opposed to downtown retail/commercial buildings in small towns. It is possible, however that a locally owned REIT could be structured to provide a lower rate of return to investors, should they agree to accept a less than maximized IRR (internal rate of return). While this may seem counter intuitive, it is possible that some investors would consider an acceptable level of return (say 6%-8% return, somewhat over conventional savings rates) but below a maximum return required by many real estate investors (which generally yield a 15-
20% return). This approach might also be described as a ‘public interest’ REIT.

**Staggered Return Equity Based Development Corporation**

The second potential development structure which might be created in Georgetown addresses the requirements of real estate investors from a different perspective. Many real estate investments are made based on the basis of a short term, high yield requirement, often with the goal of selling or flipping the project within seven to nine years. The real value return on quality real estate, however, comes after many years, often when the financing is paid off. With the exception of reinvestment for maintenance and repairs, all other rental revenues are profit. Given the short-term requirements of the financial markets, it is often difficult to find what is sometimes called “patient money”, or investors who can wait for twenty or more years to receive a strong return on investment.

A new model for this type of project is currently under development in Albuquerque, New Mexico. The project combines historic structures and new infill development adjacent to a historic train station and includes retail, entertainment, residential and office components.

The structure of the project’s financing is innovative in that it addresses the different priorities of different types of investors at different times in the development schedule. Initial equity for the project came from three sources:

Conventional financial sources (banks and institutional investors) provided short term financing with the understanding that they would be taken out after 7-9 years at pre-agreed rates and returns. In exchange, the short term investors also agreed to take a predetermined equity buy-out at a rate acceptable and meeting their loan criteria. In other words, the short-term money can get in and get out of the project under terms they find acceptable, but they relinquish long-term equity appreciation.

The mid-term financing was provided by a charitable foundation as an investment of its capital endowment – an investment that does not require maximum returns but does require a stabilized return of 6-8%. The
foundation’s equity contribution reduces overall financing costs to the project’s long-term investors, but does guarantee a share of cash flow after the project has stabilized its revenues at a level acceptable to the foundation’s requirements. Revenues from the endowment investment will then be used for the foundation’s charitable purposes. The financing for the mid term will carry the project through its middle stages, from years eight through sixteen. At the end of the mid-term investment phase, the Foundation can review its equity performance, appreciation of the project and other market factors to determine how its investment will be modified (outright purchase of the project, reduction of its share of equity for increased cash flow or buy-out by other partners).

The final (and smallest) part of the project’s equity was contributed by members of the project’s development team that are willing to accept low returns during the early stages of the development cycle, and to wait for far higher returns on their investments over fifteen years or more. Their belief is that the project is a long-term investment, and their relative share will be worth far more over time than the short-term returns would yield to investors with shorter-term priorities. This part of the investment group is the most “patient” of the three, but has the largest stake in the long-term success of the project.

Of course, for this structure to work in Georgetown, several important elements will be required. First, there must be a viable project of sufficient scale to warrant such a complex financing structure and schedule. A forty to fifty year investment building constructed on the Hewlett site, for example, could meet this standard. The project would need to meet conventional financing requirements for the first part of the cycle (a viable balance between construction costs and achievable rental rates, for example, and a belief that property values and owner confidence will remain strong in downtown Georgetown), and be able to attract funding from short-term investors who will want to get out of the project after seven or more years.

The second critical element is a charitable foundation or other entity with the resources and willingness to commit part of its endowment to the project as a long-term equity investor. While ERA has not identified such a source, we believe that there are potential charitable organizations that could provide such funds.
Finally, the project would require a developer or development team that can contribute both time and funds committed over the long run, but whose confidence in the project’s potential over one or two decades will warrant this degree of patience in exchange for a far higher return on investment in the outlying years. The complexity and coordination required to carry out this approach are unusually well suited to downtown mixed use projects, as they tend to take a longer time to organize, finance, get approved, construct and lease. But this model is being carried out today, and ERA suggests that it could work in Georgetown, as well, should the right mix of public and private entities come together.

Not all investors see projects as the maximum amount of money that can be generated in immediate returns alone.

ERA considers the future potential for downtown Georgetown to be significant enough to warrant exploration of this type of structure as a basis for new commitments to the stability of the town over time. It is a deal structure that acknowledges the requirements of immediate investors, but looks beyond conventional investment horizons as well. This approach offers a private incentive and a public benefit to its charitable partners, and (assuming a quality project and good construction) profitability at each step in the cycle. In Georgetown’s case, it is possible that Southwestern University could fulfill the role of the ‘patient money’ funding source, either as a program related investment from the University's endowment funds (an approach undertaken by Harvard University, Dartmouth, the University of Cincinnati and others), or could be a focus of investment by Southwestern alumni who would consider investing in downtown Georgetown’s future as a long-term return gesture toward maintaining an attractive environment for the University and its students.
VIII. Addendum

This Addendum has been added subsequent to the terrorist attacks in New York and Washington, and is offered with two purposes. The first is to suggest near-term tactical steps for downtown Georgetown in response to short-term changes in the national and regional economies, temporary shifts in the spending behaviors of residents, and significant (although not permanent) changes in the tourism and visitor attraction industries as they might affect allocations of time, money and effort to bring new businesses downtown.

ERA suggests that each of these will affect both the tactics and the timing of certain activities to support continuing downtown renewal, but they do not mean that the downtown renewal effort should stop or be substantially redirected – rather we see several opportunities for Georgetown that the first part of this section describes. It should be remembered that tactics are specific actions, but they can fit within a larger strategy. For Georgetown, we suggest that in all activities, recruitment efforts and programs, emphasis on the “memory of the market”, which often favors familiar downtown settings over malls and strip shopping centers, should be emphasized.

The second part of the Addendum reviews the David Love Building as a case study in how the vacant structure should be analyzed and marketed to recruit new tenants for its retail, office and residential components.

_Tactical Steps for Near Term Action_

The immediate effects of the terrorist attacks on Washington and New York on September 11, 2001 have rippled through a number of industry sectors affecting Texas and the nation. Perhaps the most seriously affected is the travel and hospitality
industry, which, although it sounds less significant than finance or manufacturing, is in fact, the third largest industry in the U.S. Major reductions in both business and leisure travel have resulted in mostly empty planes and hotels, and in reduced sales in traveler-dependent restaurants and businesses. Visitation to museums, attractions and destination sites is off by up to 75%, and, in the two weeks since the attacks, retail sales (including food and beverage) have dropped, indicating reduced consumer confidence, at least for the near term.

The timing of these factors are of particular concern to retailers, as the approaching holiday season would normally account for one-third to one-half of total annual sales for many stores. The impact of this slowdown on Georgetown could parallel national trends, with reduced tourist/visitor customer traffic and slower holiday sales. However, while this is a time for caution and careful framing of expectations, ERA believe that a limited rebound (not to pre-attack levels) is pending, and that there are opportunities that Georgetown can address over the next six months while the economic picture stabilizes. We suggest that the following opportunities be pursued:

- **First, develop a realistic assessment of what will be available in human and financial resources.** Will the proposed DDC have sufficient funding to hire one or more staff, or will its establishment be deferred temporarily and responsibilities for downtown renewal be allocated among current staff and volunteers? Determine how hotel occupancies might affect hotel/motel tax revenues used for tourism promotion, and how they might be supplemented.

- **Then, allocate the costs to prepare the downtown retail leasing materials,** even if the initial number created is small. Without a professional appearing leasing brochure/package, ERA believes that Georgetown will have a more difficult time establishing credibility with prospective tenants.
• **Protect the role of downtown in completing the Comprehensive Plan Update.** A slowdown in the national and regional economy will likely result in postponement/delay of some pending projects that would create new competition for downtown Georgetown. In ERA’s opinion, it is both prudent and appropriate to weigh the relative costs and benefits of extending systems and infrastructure to competitive retail locations *if those locations would diminish downtown’s contribution to Georgetown’s tax base.* In an ironic way, a slowdown could be an opportunity to complete sensible growth planning without the pressure to approve and develop new projects quickly.

• **Focus on the coming Holiday Season** as a time to celebrate “Hometown Values” in downtown Georgetown. Add special events that will bring more people downtown – singing, performances, a holiday street fair or other opportunity for local residents to come together in a familiar setting. Americans are looking for links to stability, and, at some level, the presence of the traditional downtown setting will be comforting to many consumers. Make Georgetown the scene of an old fashioned Holiday season. Also, until long-distance leisure travel begins to recover, there is an opportunity to draw auto-based visitors and tourism for locations within easy driving distances of large population centers. Georgetown is well placed geographically to draw people from Austin, Dallas-Fort Worth and Houston, assuming that there is a good two-hour to full-day experience waiting for them when they arrive or pass through. As a defense against decreased sales, it will be important to attract as many different types of shoppers to the downtown area as possible. The longer-term objective should be to increase the number of overnight visitors, as the greater amount of time spend in Georgetown will correlate to greater amounts of money spent (shopping, events, lodging, meals, etc.).

• **Add extra customer services** such as gift wrapping, shipping for out-of-town shoppers or shopping assistance for
Southwestern students to reinforce downtown Georgetown’s image and role as a place that takes care of its customers. In other locations, gift wrapping services can be coordinated on a downtown-wide basis, and could be used as a fund raising method for one of the recently established national disaster charities, a local church or other volunteer organization. These types of enhanced services can re-build customer loyalty, a behavior that is consistent with appreciation of the character of older downtown areas – the emotional connection to what is viewed as a simpler, better time.

- In response to the closure and relocation of the Orient Square restaurant out of the Masonic Building and the conversion of Geaux Fish to a catering/events venue, ERA recommends that restaurant recruitment should take the top priority in the coming weeks and months. Despite economic downturns, we believe that residents and visitors will still want to eat out. The fact that Orient Square had a working kitchen in it is a leasing advantage for another restaurant, as there are already equipment hook-ups, ventilation and exhaust systems, and perhaps re-usable kitchen equipment for another operator. Any equipment or other systems that are already in place will reduce the need for initial investment and make it easier for an operator to consider the space. ERA also recommends that the larger restaurant recruitment strategy include Geaux Fish as a potential location. While it is positive that the building is still in use for catering and events, the best solution will be to increase the assortment of full time restaurants downtown and market the area as a destination dining district.

- If previous national conflicts offer an indication of how Americans will alter their leisure travel plans, it might be expected that major long-distance vacations will be cancelled postponed, but that the number of short, close-to-home trips will likely increase. Georgetown should use the “Close to Home/Easy to reach by Car” themes in marketing events, shopping days or weekends and packages with B &
B’s as an interim tourism recruitment effort (once again, expanding the limited number of restaurants would help).

- **Coordinated, extended store hours** should be arranged between downtown businesses, especially during the coming holiday season. The potential for slower sales should be considered a wake-up call to merchants who have resisted extended evening hours on one or more nights each week. Unless the stores are open when customers are available, the sales will go elsewhere. It would be better to have stores open later and remain open later (on a coordinated basis) than to have inconsistent hours between businesses on the same nights. Evening hours (advertised and promoted in the media) would also allow more on-street parking until the issue of Courthouse employees parking around the square during the daytime is resolved.

- The timing for the nation’s (and Texas’) economic recovery is unknown; in the interim, downtown Georgetown advocates may wish to defer some of the initial activities outlined in Section VI. Implementation. But, in our view, pursuing **establishment of a DDC should not be delayed.** The question of funding it through a BID (Business Improvement District) or PID (Public Improvement District) should be explored, based on the amount of money that can be raised from existing uses. Most big city BID’s, such as the one established in downtown Austin, receive the greater percentage of their revenues from office space users, which subsidize the smaller amount collected from retailers. Because Georgetown does not have a major concentration of office space downtown (and should remain low-scaled in future development), ERA suggests that relying on a ‘self tax’ (through BID or PID funding alone) may need supplemental funding to approach the scale of the downtown renewal project.
The David Love Building

This Addendum section provides a methodology and case study on how the recommended leasing strategy and downtown development recommendations might be applied to a building in Georgetown. The purpose of the Addendum is to clarify the process by which property owners and retail tenants can each understand the economic priorities faced by the other. Commercial buildings in downtown Georgetown vary in size, height and use. Some are one-story structures containing only retail on the street level, while others are two and three story buildings which have retail space on the street level and upper floors that contain (or could be renovated to contain) office and/or residential uses. Rents charged for retail spaces also vary depending on the condition of the building, the suitability of street-level space for retail uses and the willingness of the landlord to provide incentive funds for tenant space improvements, to structure fair leases, or other practices that will reduce the level of initial financial risk for retail tenants. Differences in expectations about what retail space is worth have resulted from (1) a misunderstanding by landlords about how much rent their retail tenants can afford to pay, (2) inability of retail tenants to generate sufficient sales to justify higher rents for strong locations or high quality space, (3) property owners paying too much for a building, and then expecting retail space rental revenues to carry all of their investment costs for debt and operations, or (4) property owners attempting to charge more rent than their spaces are worth (due to lack of investment, deferred maintenance, or other deterioration). A single use retail building therefore places a burden on its tenant, as the landlord has no other means to generate revenues than the retail rent. Each of these scenarios was mentioned to ERA in our interviews, so misunderstandings and unrealistic expectations about what constitutes a reasonable rent are clearly an issue in Georgetown.
To illustrate how property economics and trade-offs can vary, the David Love Building was selected as a prototype. The David Love Building is an attractive historic structure on the west side of the square that was one of the first historically renovated buildings in downtown Georgetown during the early 1980’s. The David Love Building offers a key advantage over some other buildings around the square and downtown, as it includes more than just retail space. The building is an appropriate example for several reasons; each could also be considered a leasing characteristic and/or advantage in marketing the space:

- It is in a key location on Austin Avenue, with superb visibility from the square for both visitors and resident shoppers.
- The building includes retail space at the street level, as well as office space and a residential apartment on the upper floor.
- The building is currently vacant, and available for lease.
- The size and configuration of the retail space is appropriate for many different categories of specialty retail products – furniture, housewares and decorative items, apparel, specialty gifts, an art gallery, or other retail or consumer services. It also could be configured differently if the size is too large (at 1,941 square feet of retail space) to accommodate a new retail tenant.

The approach to marketing will be shaped by several factors that are real estate-based:

(1.) **What is the amount of rental revenue required by the owner?**

Can the retail space alone cover its share/more than its share of the carrying cost of the building? In other words, can the retail rent cover debt service and most of the utilities, etc., or will rent be required from office space and the apartment upstairs in order to cover basic costs? The higher the ‘sunk costs’ carried by the property owner (renovation costs
required to prepare the space for a new tenant, mortgage debt, required return on equity, insurance and utilities, property taxes, etc.) per square foot, the greater the burden on the tenant to produce higher sales. As an example, if the asking rent on the space is $15 per square foot (per year), the annual required rent is just over $29,000, plus any pass-through costs for taxes, insurance and utilities (at this rent level, these extras can add $4-7 per square foot on top of the base rent). To make a reasonable profit from the retail business, the retailer would conservatively need to generate between $375,000 and $450,000 per year in sales in order to justify the required rent level. These sales levels (carried over 1,941 square feet of leased retail area) indicate average sales ranges of about $190 to $230 per square foot would be necessary for the tenant to be able to survive.

But if the carrying cost on the building could be supported, at least in part by a small office tenant (for purposes of this analysis, we will assume about 800 square feet of office space is available) at an office rent level of $15 per square foot (discounted from recent asking rents for street level office spaces, due to more limited access and visibility in this location), the additional $12,000 per year in income for the property owner is the equivalent of about $6 per square foot revenue for the 1,941 square foot store. An additional rental income from the apartment (for purposes of analysis, we will assume $950 per month in rent) would reduce the required rent burden on the retail space by another $4-5 per foot, to allow the property owner to stay even against the required carrying costs. Of course, there would be additional expenses associated with improvements for the full 2,426 square feet of retail, office and residential space, but the owner (or a potential investor) could provide more tenant amenities for all three tenants, assuming that the purchase price/carrying costs are in line with supportable debt and equity.

The point of this preliminary analysis is to demonstrate that commercial real estate is an investment, and the financial/financing realities of purchase, ownership and maintenance and any required renovation all factor into both the business plan for the owner and required rents from tenants. Undercapitalized tenants or those whose merchandise lines cannot generate sufficient sales to meet required rents cannot be sustained. On the other hand, by having retail, office and residential uses...
in the building, the financial risk for the property owner is spread over several uses, and the combined gross rents can support a higher value or purchase price than the retail rent alone could cover.

(2.) What types and mix of tenants would best fit in this space?

In the current market context, ERA suggests that, given the higher rent levels that can be generated by office space and the fairly large selling area at the street level, the owner of the building should be willing to consider reconfiguration of the net selling area to accommodate a tenant requiring about 1,250 square feet, approximately 65% of the current leasable retail area. The reconfiguration should not create a permanent disfiguration of the retail interior, but should be removable to allow for larger tenants who might want the space in the future. The remaining space can then be leased to an office tenant, probably a small professional services firm, such as an accountant or attorney, which wants to pay at or below market rents but wants a downtown location. Costs for the reconfiguration will be covered by an initial investment by the owner, and repaid (as part of the rent) by the tenants over the term of the leases. The apartment should be marketable to a professional or others in the area seeking an interesting location and an unusual dwelling downtown (as opposed to more conventional apartments in other parts of Georgetown).

In trying to identify prospective retail tenant categories, it should be remembered that, unlike shopping malls, there is no standard mix of uses for downtowns based on a percentage of use types. While enclosed malls might seek to lease 50% of the Gross Leasible Area (GLA) to apparel, 5% to jewelry, 15% to shoes, 15% to food and 15% to gifts and general consumer goods (for example), there is no magic mix allocation for downtowns. Typically, downtowns have higher percentages of consumer service businesses, lower numbers of apparel stores (since most chains want to locate in the mall) and a higher percentage of space allocated to entertainment and food service. As described earlier, the right mix of uses for downtown Georgetown, in ERA’s estimation, should encourage more food service, at least for the next few years. The David Love Building is not suggested for conversion to food service because it
cannot accommodate modifications for the addition of a commercial kitchen as easily as some other buildings downtown.

(3.) How should the building be marketed?

First, the property sheet for the David Love Building should be updated with current asking rents (assuming they are in line with the price paid for the building) and balanced against other comparable achieved rents downtown. This data can then be distributed in several ways:

A. As part of contacts to local commercial brokers and realtors who know about prospective tenants;

B. As part of a downtown leasing brochure package detailing available buildings. The package should include property data and photographs, and the leasing package be sent to brokers in Austin and beyond who might know of tenants interested in the Georgetown market, but who have not yet sought space there; a local broker should be used to cooperatively lease the space and share the brokerage fee with out-of-town brokers or realtors; or

C. As part of any media publicity about Georgetown distributed locally and outside the area; potential tenants may become interested when they see the unique character of the building and its leasable units.

(4.) Is the building eligible for any tax incentives?

Although the David Love Building is in generally good condition, and probably would not qualify for rehabilitation tax credits (which require that an amount equal to the adjusted basis of the property – value of improvements, not including land – must be spent on rehabilitation), if the example had not already been substantially improved, the availability of tax credits for rehabilitation could also be a marketing tool for potential investors (tenants cannot receive the credit unless there is a very long-term lease).
The building should also be included in recruitment brochure materials used by retail recruitment teams going from Georgetown to other cities (see earlier section of report) to meet with prospective retailers. Since the space is available now, the recruitment team should emphasize a motivated landlord and that a lease agreement could be expedited.

(5.) What type of lease structures make sense?

The approach to the lease structure for the building should be flexible, with the landlord able to consider a longer-term lease, at a guaranteed rate, that includes a lower minimum rent plus a percentage of sales after a break point or average level of sales for that type of retail. Under this type of lease, the tenant is obligated to share sales information on an ongoing basis with the landlord in exchange for the landlord granting a lower base rent level. In this way, if sales do not meet projections covering a higher rent, the landlord shares in the risk by keeping the base rent lower. If, however, the retailer is very successful and sales increase beyond the base rent, the landlord is also able to share in the high performance levels. The landlord structures the lease to share the risk with the retail tenant in case of weaker performance, but also to share in the upside in case of successful performance. Rents for the office and residential spaces should each be charged on a flat monthly basis. All three leases should be negotiated to include a requirement for annual increases based on the Consumer Price Index, or other inflation-related measures.

(6.) What if it doesn’t lease soon?

At this point, prevailing market forces intervene, and it is likely that the landlord may need to reconsider the asking rents, required profitability or refinancing the property to reduce fixed financing costs in order to get required rents down.
# APPENDICES

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Retail Locations – Georgetown, Texas

1. River Oaks - 1100 South IH-35 (northeast corner of IH-35 and Hwy. 29)

Current Tenants/Owners

H.E.B. - 55,000 sq. ft.
Hollywood Video - 8,560 sq. ft.
Taco Bell - 2,500 sq. ft.
Wal-Mart - 76,000 sq. ft.
Tractor Supply Company - 18,750 sq. ft.

Total Size: 161,000 sq. ft.
Occupancy: 100%
Rental Rates: N/A
Comments: All sites are owned.

2. San Gabriel Village - 250 South IH-35

Current Tenants/Owners

Applebee’s
Chili’s
Luby’s
Burger King
Schlotzsky’s
Midas

Total Size: 52 acres
Occupancy: N/A
Comments: All sites are owned.

Retail and office sites for sale - 4.32 acres under contract
Lots fronting on IH-5 sold for $5-$10 per sq. ft. for 1-4 acre lots.
3. Republic Square - 902 Austin Avenue (corner of Austin Ave., Williams Dr. and IH-35)

**Current Tenants/Owners**

- Beltone
- Blockbuster Video
- Budget Optical
- Chiropractor
- Daylight Donuts
- Dentist
- Eckerd’s
- Georgetown Sporting Goods
- Goodwill
- Lease Town
- Mail Fast Forward
- Medical Equipment Supply

- Merrill Lynch
- My First Gym
- Optometrist
- Physicians Associates
- Pizza Hut
- Radio Shack
- Rick’s Cleaners
- Style America
- Subway
- Teacher’s Credit Union
- Vacant - 9222-D
- Vacant (Goodyear)

**Total Size:** 116,000 sq. ft.

**Occupancy:** 93% - 6,000 sq. ft. vacant (old Goodyear Store), 2,189 sq. ft.

**Rental Rates:**
- 6,000 sq. ft. - $17.00 plus $2.21 C.A.M.
- 2,189 sq. ft. - $14.00 plus $2.21 C.A.M.

**Comments** Nice center - direct competition to Downtown

4. Southwestern Plaza - 903 Austin Avenue (directly across from Republic Square)

**Current Tenants/Owners**

- Quizno’s
- Catholic Book Store
- Fox Auto Parts

**Total Size:** 10,000 sq. ft.

**Occupancy:** 100%

**Rental Rates:** 2,000 sq. ft. - $12.00 plus $2.40 C.A.M. Fees

**Comments:** Vacant space available through Brashear Properties
5. **Old H.E.B site - 401 University Avenue**

**Current Tenants/Owners**

H&R Block  
Divine Desserts  
Beautiful Nails  
Rent To Own  
Family Dollar  
Chisholm Trail Pediatrics

Total Size: 40,000 sq. ft.  
Occupancy: 85% - 6,000 sq. ft. vacant  
Rental Rates: $11.50 plus $2.00 C.A.M. fees  
Comments: Recently renovated

6. **Lake Aire Shopping Center - 2415 Williams Drive**

**Current Tenants/Owners**

7-11  
David Hennington, D.D.S.  
Domino’s Pizza  
Georgetown Music Assoc.  
Jeff Kirby, Chiropractor  
Karate  
Lone Star Smoothies  
Mary’s and Ralph’s Pharmacy  
New Images  
Quimby’s Cleaners  
Szechuan Chinese Restaurant  
The Herbery  
The Pit Barbeque  
Vacant  
Walburg State Bank

Total Size: 80,000 sq. ft.  
Occupancy: 44% - 45,000 sq. ft. vacant  
Rental Rates: $10.20 - $12.00 plus $2.20 C.A.M. fees  
Comments: Being renovated with parking lot lights, outside façade, etc.
7. **Williamsburg Village - 3010 Williams Drive** (corner of Williams Drive and Booty’s Crossing)

**Current Tenants/Owners**

- Amer. Wholesale Mattress
- Arrive and Contain
- Brookshire Brothers
- Central TX Safety School
- CPA
- Crown Mortgage
- D&L Western Wear
- David’s Barbershop
- Dermatology Clinic
- DeWitt Jewelers
- Farmer’s Insurance
- Foxy Ladies
- Frames and Art Innovations
- Georgetown Vacuum Center
- Hallmark
- Java Net
- Kelley Moore Paints
- Laurie’s
- Lovoi Travel
- Mr. Gatti’s Pittman’s Cleaners
- Sew and Quilt
- Shoe Steps
- Take A Break
- Teamsource
- Texas Workforce Center

**Total Size:** 110,000 sq. ft.

**Occupancy:** 94%

**Vacancies:**
- 1,815 sq. ft. - $11.04 plus $1.80 C.A.M. fees
- 3,600 sq. ft. - $11.04 plus $1.80 C.A.M. fees
- 1,800 sq. ft. - $12.00 plus $1.80 C.A.M. fees

**Comments:** Attractive center - recently sold.
Proposed Retail Locations – Georgetown, Texas

8. The Rivery
   - 125 acres of retail, restaurant and multi-family
   - 89 acres of retail and restaurant
   - 39 acres - multi-family housing

At this time, no rental rates are being quoted. There are three large box spaces being proposed - 220,000 sq. ft., 142,000 sq. ft. and 40,000 sq. ft. Tenant interest is strong from Wal-Mart, Lowes, Home Depot, etc.

9. H.E.B. - 21 acres - Williams and Shell Road
   - H.E.B. - 83,500 square feet
   - 23,450 square feet additional retail

Quoted at $22 per square foot/ year + C.A.M. (estimated at $6 per square foot/ year)

(Please Note: The HEB Grocery-anchored center opened in November, 2001)
Inventory of Commercial Space by Category
### Trade Area Demographics
Georgetown, Texas

#### Population (2000):
- Population: 51,198
- Total Employees: 15,328
- Persons in Group Quarters: 1,396

#### Population (2005):
- Population: 66,303
- Persons in Group Quarters: 43,072

#### Households (2000):
- Households: 17,852
- Households Families: 13,276
- Average Household Size: 2.79

#### Households (2005):
- Households: 23,231
- Households Families: 16,940
- Average Household Size: 2.79

#### Race (2000):
- White: 44,832
- Black: 2,252
- American Indian, Eskimo, or Aleut: 211
- Asian or Pacific Islander: 523
- Other: 3,380
- Hispanic Origin: 10,528

#### Race (2005):
- White: 57,222
- Black: 3,100
- American Indian, Eskimo, or Aleut: 288
- Asian or Pacific Islander: 832
- Other: 4,861
- Hispanic Origin: 15,399

#### Age & Gender (2000):
- Population Age <18: 15,042
- Population Age 65+: 4,836
- Population Male: 25,058
Population Female 26,140

**Age & Gender (2005):**
- Population Age <18 18,814
- Population Age 65+ 6,457
- Population Male 32,501
- Population Female 33,802

**Population by Age (2000):**
- 0-4 3,881
- 5-9 4,113
- 10-14 4,193
- 15-19 4,708
- 20-24 3,917
- 25-29 2,586
- 30-34 2,810
- 35-39 4,193
- 40-44 4,778
- 45-49 4,100
- 50-54 3,205
- 55-59 2,197
- 60-64 1,681
- 65-69 1,271
- 70-74 1,099
- 75-79 1,035
- 80-84 670
- 85+ 761

**Population by Age (2005):**
- 0-4 4,863
- 5-9 4,896
- 10-14 5,357
- 15-19 6,133
- 20-24 5,323
- 25-29 3,297
- 30-34 3,292
- 35-39 4,651
- 40-44 5,899
- 45-49 5,657
- 50-54 4,502
Strategic Retail Plan
City of Georgetown, Texas

<table>
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<tr>
<th>Age Group</th>
<th>Population</th>
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<td>55-59</td>
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<tr>
<td>60-64</td>
<td>2,532</td>
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<td>65-69</td>
<td>1,712</td>
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<td>70-74</td>
<td>1,326</td>
</tr>
<tr>
<td>75-79</td>
<td>1,316</td>
</tr>
<tr>
<td>80-84</td>
<td>965</td>
</tr>
<tr>
<td>85+</td>
<td>1,138</td>
</tr>
</tbody>
</table>

**Income (2000):**
- Median Household Income: $58,499
- Average Household Income: $74,024
- Median Family Income: $66,503
- Average Family Income: $81,065
- Per Capita Income: $25,993
- Median Disposable Income: $45,272
- Average Disposable Income: $54,211

**Net Worth (2000):**
- Median Net Worth: $75,492
- Average Net Worth: $148,539

**Income (2005):**
- Median Household Income: $73,289
- Average Household Income: $101,030
- Median Family Income: $84,944
- Average Family Income: $109,964
- Per Capita Income: $35,554

**Housing Units (2000):**
- Owner-occupied: 11,633
- Renter-occupied: 6,219

**Housing Units (2005):**
- Owner-occupied: 15,197
- Renter-occupied: 8,034

*Source: CACI, Economics Research Associates*