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SANTA MONICA'S THIRD STREET PROMENADE UNDERGOES ITS LATEST TRANSFORMATION

Third Street Promenade has faced challenges and triumphs over the years. Its latest transformation hopes to result in the latter.

By Andrew Thomas

Third Street Promenade has been the heart of downtown Santa Monica since the late 1880s, evolving from a commercial hub into an iconic pedestrian esplanade. As today's retail trends evolve, the Promenade has faced fresh challenges… but also opportunities for reinvention and relevancy. To achieve this, it must adapt to consumers' changing needs. The Promenade's latest transformation aims to preserve the area's cultural vibrancy and secure its vital role in downtown Santa Monica's economy.

A National Trend Toward Experiential Retail

The challenges confronting the Third Street Promenade are part of a broader national trend reshaping retail. Ecommerce accounted for nearly 15 percent of retail sales in 2023, per the Census Bureau, and this figure continues to grow. With consumers increasingly turning to online shopping, brick-and-mortar retailers must innovate, offering experiences rather than simply products.

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The refreshed iteration of Third Street Promenade included created engaging and immersive experiences through interactive events, art installations and community-oriented activities that strengthen local ties.

LANDLORDS LEARN TO REDUCE THEIR RISKS

There are tips and strategies out there that can help a landlord limit their risk exposure in commercial leases.

By Rebecca Miltenberger and Brooke Holmes

Commercial leasing inherently involves unique challenges and risks. Landlords can thoughtfully manage their risk exposure, however, through careful planning and a proactive approach to lease negotiations. The landscape in commercial leasing has shifted – largely due to the pandemic – while trends are changing due to evolving economic and market conditions.

Businesses have, for example, accelerated their online presence, digital platforms and flexibility in reaching consumers (i.e., next-day delivery, curbside pickup, buy online and pick up in store) out of necessity. With these adapted business models, the demand for space and utilization rates have shifted.

Landlords must adapt, too, and that includes limiting their risk exposure in the commercial leasing sector. There are a few strategies that may help them do so.

Create Flexibility

Parties are now looking at recalibrating their risk assessments and should consider maintaining flexibility to capture market demand while reducing risk exposure. Use restrictions or exclusivity provisions can create obstacles for leasing vacant spaces as market conditions change. These restrictions limit a landlord's ability to relet spaces or diversify the development with new prospective tenants. Landlords should carefully consider these restrictions when negotiating a lease.

Be specific and narrowly tailor such restrictions and exclusivity rights to limit the "reach" of these restrictions. With fewer restrictions, landlords can gain flexibility by reletting vacancies, allowing new commercial uses or tenants, adjusting to new market-driven businesses and demands, and allowing for redevelopment of existing properties.

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lifting restrictions on alcohol service and easing requirements for changing property use – Downtown Santa Monica, Inc., has created an environment that encourages innovation and entrepreneurship. These regulatory updates are not only simplifying the process for new businesses to establish themselves, but are helping existing businesses adapt and grow.

As a result, we are witnessing a resurgence of diverse offerings that cater to locals and visitors. The new zoning ordinance makes it easier for businesses to experiment with their concepts, leading to a lively retail environment that aligns with the shift toward experiential offerings. This, in turn, attracts innovative companies to the downtown district, enhancing the overall appeal of the Promenade.

Revitalizing the Third Street Promenade is not just about keeping pace with retail trends; it's about laying the groundwork for a sustainable economic future driven by a vibrant mix of cultural experiences and flexible business opportunities.

Andrew Thomas, CEO of Downtown Santa Monica, Inc.

Interactive art installations and pop-up events bring new energy to the promenade, attracting visitors beyond traditional shopping.

LANDLORDS LEARN TO REDUCE THEIR RISKS

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Lenders will also carefully consider the flexibility of a development when mortgaging a property. With diversity in rental revenue and flexible leasing terms, a development will be more resilient to economic impacts. Flexibility is key during challenging times.

Plan for the Future

With the shift in market trends and fluctuations in market forces, landlords need to anticipate "what-ifs" and reduce risk by being proactive in prescient planning. In essence, plan for the unplanned. New market risks continue to emerge, with inimical effects on market stability. These include things like fluctuations in interest rates, inflation, construction and renovation costs, material costs, vacancy rates, utilization rates, demand for space and turnover.

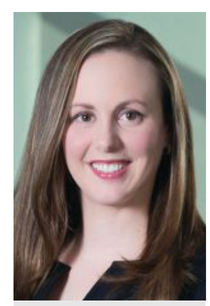
Given uncertainty with market conditions, parties should plan for transition and potential impacts. Considering potential early termination or relocation rights where feasible, for example, will allow for added optionality. This will help rejuvenate a landlord's development, including transitioning new tenants into a development and capturing increased rental rates. It will also increase the marketability of a property for prospective buyers or allow for a complete redevelopment of the site.

Hedge Your Risk

Risks evolve as businesses evolve. This makes it essential to manage risk exposure by incorporating risk management policies and protections. Commercial leases typically require basic insurance requirements, such as general liability coverage and property damage coverage. More recently, landlords should consider insurance policies that provide coverage for business interruption, cyber liability, environmental hazards and even pandemic-related risk coverage.

Parties should consider obtaining additional insurance coverage and requiring tenants to carry applicable policies for such new risks. Delineate the specific types and amounts of coverage with proof of coverage prior to the commencement of the tenancy. Landlords should also consider requiring additional coverage or modifications to existing coverage during the term to better address the need for new coverage, additional coverage or to mitigate new unforeseen risks.

"Standard provisions" should now be challenged with a greater priority in lease negotiations. A well-negotiated commercial lease can reduce your risk to a number of market forces. Implementing risk-reduction strategies at the onset, including flexibility in terms, prescient planning and requiring additional insurance coverage, will help with the overall success of your business.



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