

THE FUTURE OF CITIES

**Adapting to Changes
in the Retail Landscape**





CENTER FOR CITY SOLUTIONS

About the National League of Cities

The National League of Cities (NLC) is the voice of America's cities, towns and villages, representing more than 200 million people. NLC works to strengthen local leadership, influence federal policy and drive innovative solutions.

About the Center for Municipal Practice

NLC's Center for Municipal Practice provides technical assistance and resources on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues, and opportunities for city leaders to connect with peers, share experiences and learn about innovative approaches.

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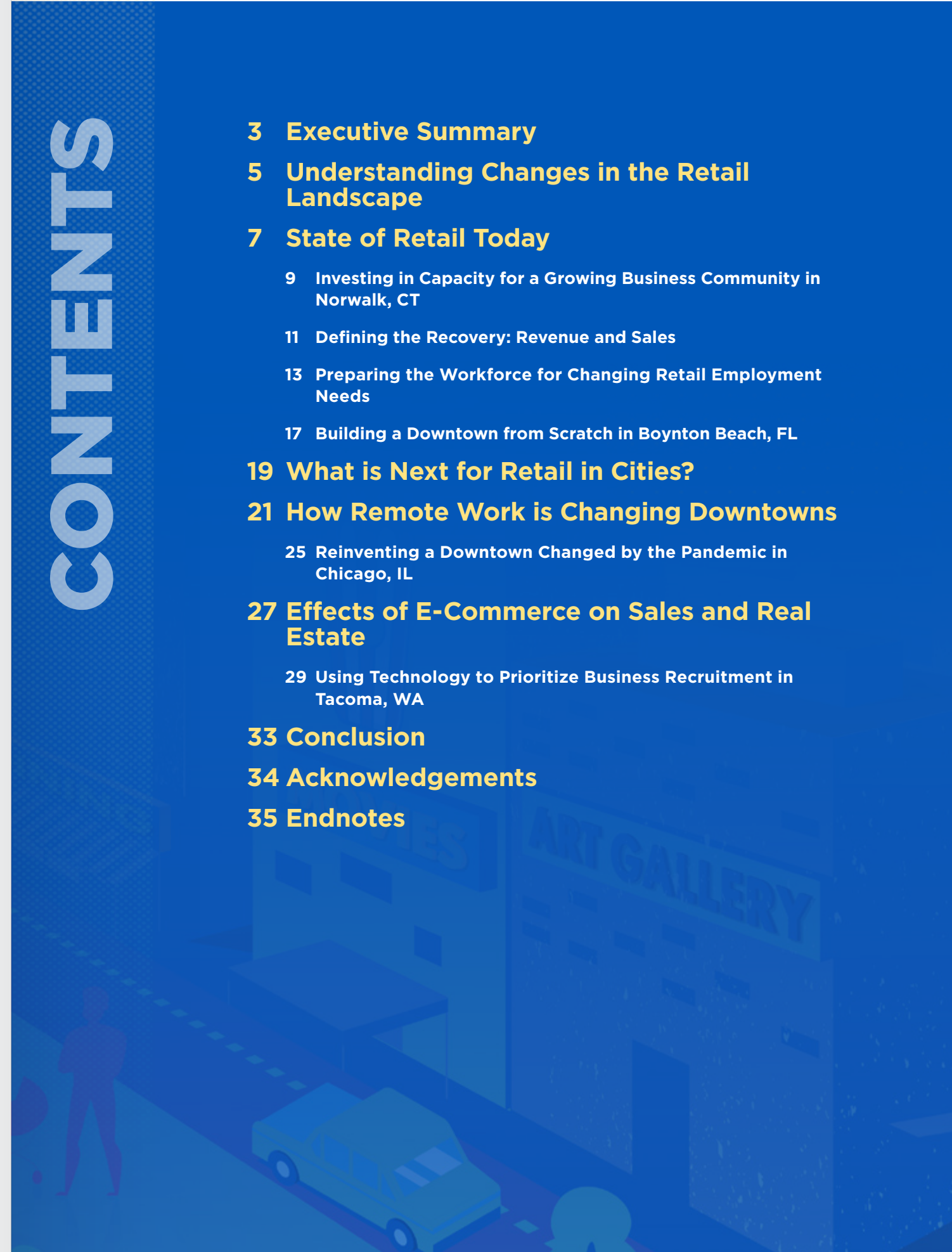
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EXECUTIVE SUMMARY

The retail sector has weathered many changes over the last several decades, but the COVID-19 pandemic was an unprecedented shock. Many businesses were forced to close their doors, consumer behavior suddenly shifted toward e-commerce and municipalities adapted their permitting and zoning practices to allow businesses to operate in new mediums. Now, in 2023, we have a stronger picture of the post-pandemic retail economy in cities. This brief provides


an updated analysis of the state of the retail sector, predicts what is coming for retail in cities nationwide, and offers recommendations for cities looking to support downtowns amid this changing landscape.

Local leaders have a critical role to play in promoting growth, equity and resilience for their retail communities through investments in programming, resources, public space, trainings and other types of support.

THE CHANGES IN CENTRAL BUSINESS DISTRICTS HAVE BEEN PROFOUND, BUT DIFFERENT CITIES FACE VARYING PATHS FORWARD FOR DOWNTOWN RECOVERY.

Retail Sectors Examined



 Motor Vehicle and Parts Dealers	 Food and Beverage Stores	 Sporting Goods, Hobby, Book and Music Stores	 Furniture and Home Furnishings Stores
 Health and Personal Care Stores	 General Merchandise Stores	 Electronics and Appliances Stores	 Gasoline Stations
 Miscellaneous Store Retailers	 Building Material and Garden Equipment and Supplies Dealers	 Clothing and Clothing Accessories Stores	 Non-store Retailers

UNDERSTANDING CHANGES IN THE RETAIL LANDSCAPE

The retail sector has weathered many changes over the last several decades, but the COVID-19 pandemic delivered an unprecedented shock. Many businesses closed their doors, purchasing suddenly shifted toward e-commerce and municipalities adapted their permitting and zoning practices to allow businesses to operate in new ways.

In June 2021, NLC published [The Future of Cities: Reenvisioning Retail](#) report, which

examines trends in the retail sector from before The Great Recession in 2007 through the first year of the pandemic and recommended ways cities could support retail in the post-pandemic economic recovery. Since that report was published, communities have come a long way. COVID vaccines are now widespread. The American Rescue Plan Act (ARPA) has granted money to municipalities to facilitate pandemic recovery. Businesses once again operate indoors while many still



In 2021, **retail** accounted for:



benefit from new modes of operation adopted during the height of the pandemic. As the economy continues to recover, the state of retail has evolved. Now, in 2023, we have a stronger picture of the post-pandemic retail economy in cities. This brief provides an updated analysis of the state of the retail sector and predicts what is coming for retail in cities across the U.S.

Cities, towns and villages took on new roles during the pandemic, providing emergency relief to small businesses, offering short-term grants and adjusting permitting and zoning to allow retailers the flexibility to operate outdoors or set up curbside pickup. As a result, cities have developed closer connections to small businesses, economic development organizations and neighborhood and

community-based organizations. Cities must now focus on supporting retail in the long term, preparing local businesses and residents for a changing retail workforce, growth in e-commerce and changes in retail operations. Retail remains an important part of the economy, accounting for 10.5 percent of jobs and 6 percent of GDP in 2021.¹ it fills an even greater role in cities. For cities, retail serves as a crucial public space for people to gather and a means by which they experience their neighborhoods. In addition to creating jobs and economic vitality, retail provides an essential piece of social infrastructure. Today, cities, towns and villages have a unique opportunity to use innovative solutions to adapt to a continually changing retail environment and meet the needs of their communities for years to come.

FOR CITIES, RETAIL SERVES AS A CRUCIAL PUBLIC SPACE FOR PEOPLE TO GATHER AND A MEANS BY WHICH THEY EXPERIENCE THEIR NEIGHBORHOODS. IN ADDITION TO CREATING JOBS AND ECONOMIC VITALITY, RETAIL PROVIDES AN ESSENTIAL PIECE OF SOCIAL INFRASTRUCTURE.



STATE OF RETAIL TODAY

The retail sector has rebounded nationally, with most subsectors having overcome the extreme disruption of the pandemic and returned to their pre-pandemic growth trajectories. The retail industry overall saw a dramatic downturn at the start of the pandemic as stores were forced to close. Most purchasing happened exclusively online, and small businesses struggled to make ends meet, leaving vacant storefronts in areas that were once thriving centers of economic activity. Since then, the retail industry has recovered from that extreme disruption as the country has reopened

and consumer behavior has stabilized. Nationally, retail space vacancy rates have returned to 2019 levels,² and the number of physical retail establishments has also exceeded 2019 levels.³ While the number of new business applications in 2022 was lower than in 2021, they remain well above pre-pandemic levels.⁴ The pandemic spurred a surge in entrepreneurship driven largely by growth in new business applications in the retail sector, as many people left jobless by the pandemic migrated toward a technology-driven retail environment with a low barrier to entry for selling products from home.

TO REACH SMALL BUSINESS OWNERS IN HISTORICALLY UNDERSERVED COMMUNITIES, CITIES MUST ENGAGE WITH NEIGHBORHOOD-BASED BUSINESS AND ECONOMIC ORGANIZATIONS.

At the same time, increased inflation has decreased consumers' purchasing power resulting in lower retail sales volume even as the nominal value of retail sales continues to rise.⁵ This puts increased pressure on retailers already facing increased costs associated with production inputs, supply chain logistics and transportation.⁶

While the state of the retail sector nationally appears strong, examining retail performance in specific sectors, cities and even neighborhoods reveals a more complicated picture. Small businesses across the country experienced significant setbacks during the first two years of the pandemic, and many neighborhoods have not yet filled storefronts left vacant during that time. The growth in the post-pandemic retail market has not been equitably distributed and has been slower in majority Black, Indigenous, and People of Color (BIPOC) and low-income communities. BIPOC-owned businesses faced higher rates of closure and lower sales compared to non-BIPOC owned businesses during the pandemic.⁷

COVID-19 exacerbated historic inequalities that disproportionately impact BIPOC and low-income communities, making grant opportunities and other resources less accessible to small and midsize businesses there, leading to a slower retail recovery.^{8,9}

Certain cities are also experiencing a retail sector recovery very different from what the national picture would suggest. Despite a greater number of physical businesses opening across the country, certain cities have experienced a net loss in physical businesses and a significant uptick in vacant retail space. The prevalence of hybrid or remote work arrangements has led to a continued decline in office occupancy rates and brought long-term challenges to retail in the central business districts in many larger and coastal cities.

Additional government and philanthropic investments are necessary to create equitable growth in the retail sector. To reach small business owners in historically underserved communities, cities must engage with neighborhood-based business and economic organizations.



Investing in Capacity for a Growing Business Community in Norwalk, CT

Norwalk, CT, is a waterfront suburban community that has seen economic growth since the start of the COVID-19 pandemic. The city has cultural institutions that anchor two downtown areas that are centers for retail activity: South Norwalk and Wall Street. In 2019, the City of Norwalk created a Department of Business Development and Tourism and hired its first staff members dedicated to attracting businesses. As the pandemic hit, this newly created department quickly pivoted to supporting existing businesses through emergency grants, relaxed regulations, and marketing support. Since then, this department

has introduced long-term capacity building projects that will serve Norwalk's growing retail sector for years to come.

In the wake of the pandemic, the city has stepped into the role of convener for Norwalk's business stakeholders, bringing together the local Chamber of Commerce, Black Business Alliance, Hispanic Chamber of Commerce and Women's Business Development Council. It has begun hosting quarterly business roundtables with local and regional elected officials, city staff, state government officials and local business leaders to discuss new funding opportunities and important developments

Photo Credit: Patrick Sikes, City of Norwalk, 2021

for businesses at the city and state levels. The meetings have been well-attended and have opened a stronger dialogue and greater partnership between business owners and state and local officials.

These convenings led the city to realize the need for a central location to help entrepreneurs and business, which led to the creation of the Norwalk Business Development Center, "The Center." In November 2022, the city opened the center in the heart of downtown to continually serve business owners and entrepreneurs at every stage of business conception and development. The center provides services including financial education, permitting and licensing assistance, mentorship, and technical assistance. The Business Development Center also provides free opportunities to advertise local businesses and events happening in Norwalk. The City of Norwalk offers no-cost marketing support to its businesses through the Visit Norwalk and Norwalk for Business platforms on a regular basis.

In addition to capacity building, Norwalk has leveraged key partnerships to introduce direct support to small businesses. The city launched Norwalk Innovations, an annual "Shark Tank" style competition in which business owners who complete an educational program from a local business support organization can enter a pitch competition to win startup funds.¹⁰ Norwalk has also formed partnerships to introduce new funding opportunities for local small businesses. With the help of NLC's [City Inclusive Entrepreneurship program](#), Norwalk launched a Kiva Hub, a public-private partnership that provides low interest loans to entrepreneurs who struggle to receive funding from traditional lenders.

The City of Norwalk's efforts to equip business owners and entrepreneurs with the resources and expertise they need to grow and thrive in the community, creating new job opportunities and enhancing economic and community development has made the community a model for local business development.

"WE ARE PROUD OF THE ASSISTANCE WE'VE BEEN ABLE TO PROVIDE AND ARE COMMITTED TO CONTINUING TO BE RESPONSIVE AND CREATIVE IN SEEKING NEW WAYS TO SUPPORT OUR LOCAL BUSINESS COMMUNITY."

— MAYOR HARRY W. RILLING, NORWALK, CT

Defining the Recovery: Revenue and Sales

Nationally, the retail sector has rebounded from the pandemic in terms of revenue. Monthly retail sales have returned to pre-pandemic levels and are reaching pre-pandemic levels of growth.* Overall, the retail sector saw an approximately 4 percent increase in dollars spent in January 2023 compared with January 2022, which is in line with levels of year-over-year growth prior to the pandemic.¹¹

Recovery has been uneven across retail sectors when examining sales from 2019 through 2022. The strongest growth remains in the non-store retail sector, which has seen 72 percent growth in sales from 2019 to 2022. This growth is attributed to continued growth of e-commerce along with a rise in street vendors and other pop-up style selling, all of which is currently included in non-store retail.[†] Several sectors that were experiencing diminishing growth prior to the pandemic — such as sporting goods, hobby, music and book stores, furniture

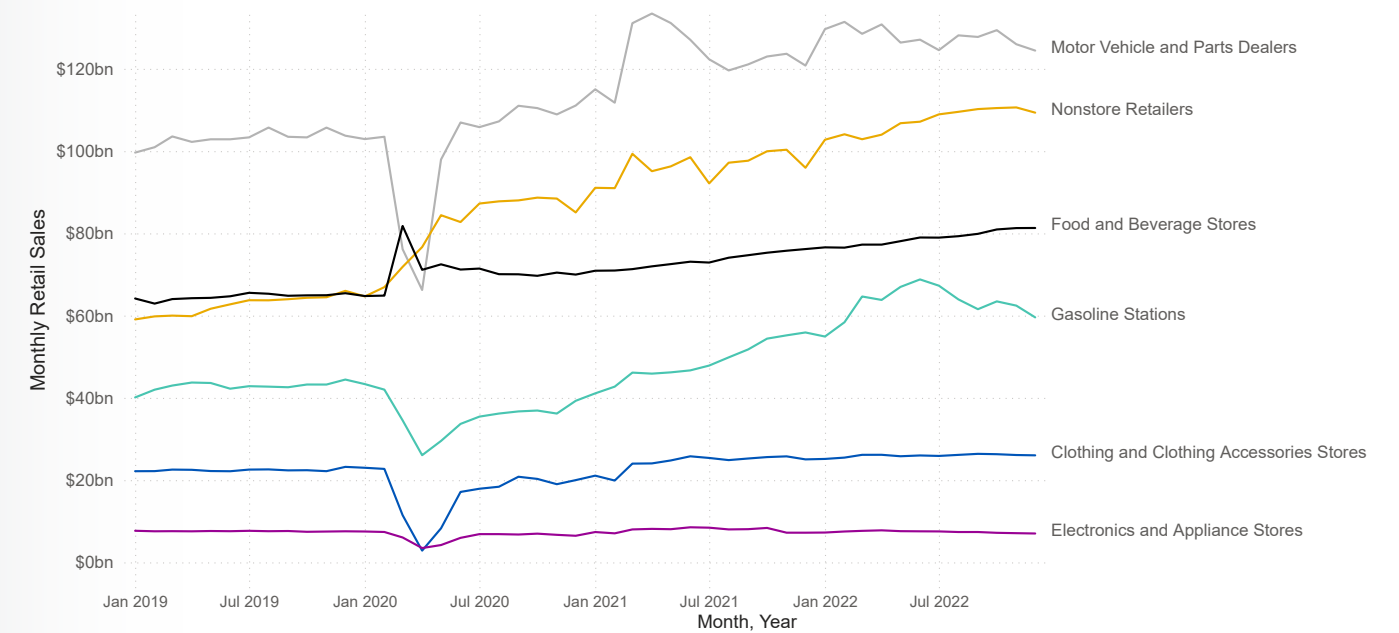
and home furnishing stores, and building materials and garden equipment stores — have experienced stronger growth in recent years.

This shift may result from changing consumer preferences and a greater emphasis on home- and entertainment-related purchases. Media coverage has highlighted the surprise expansion of bookstores. After years of decline, Barnes & Noble has announced its largest physical expansion in over a decade, and the number of independent bookstores has also grown since 2020.^{12,13} Certain sectors saw significant growth in sales from 2019 to 2022, including gas stations (47%), motor vehicle and parts (24%) and food and beverage (22%), but growth in these particular sectors was likely due in part to rising prices. The only sector that has experienced a net decrease in sales between 2019 and 2022 is electronics and appliance stores, which were already experiencing declines in sales prior to the pandemic.

* These figures reflect Bureau of Labor Statistics seasonally adjusted nominal sales data, which does not account for inflation.

[†] According to the North American Industry Classification System (NAICS) – “Industries in the Nonstore Retailers subsector retail merchandise using methods, such as the broadcasting of infomercials, the broadcasting and publishing of direct-response advertising, the publishing of paper and electronic catalogs, door-to-door solicitation, in-home demonstration, selling from portable stalls and distribution through vending machines. Establishments in this subsector include mail-order houses, vending machine operators, home delivery sales, door-to-door sales, party plan sales, electronic shopping, and sales through portable stalls (e.g., street vendors, except food). Establishments engaged in the direct sale (i.e., nonstore) of products, such as home heating oil dealers and newspaper delivery service providers are included in this subsector.” (www.bls.gov/iag/tgs/iag454.htm)

Figure 1: Retail sales bounced back after pandemic decline



Source: U.S. Census Bureau. (2023). Advance monthly retail trade report (Jan 2019 - Dec 2022)

4%

Overall, the **retail sector** saw an approximately 4 percent increase in dollars spent in January 2023 compared with January 2022, which is in line with levels of year-over-year growth prior to the pandemic.



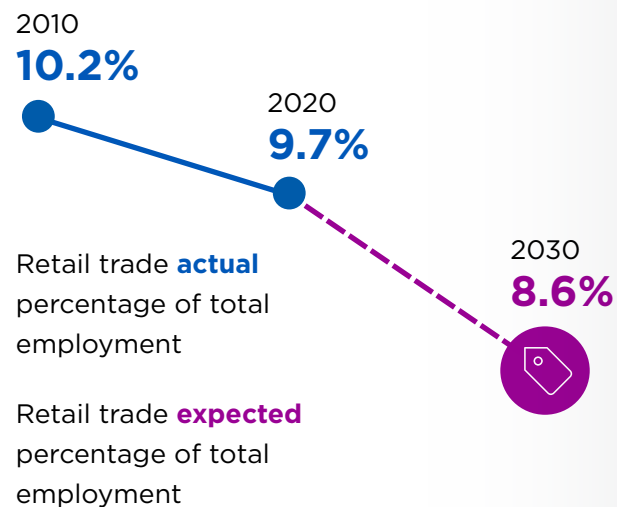
Preparing the Workforce for Changing Retail Employment Needs

Total retail sector employment has rebounded from the impacts of the pandemic, but the recovery of retail employment has lagged the recovery of retail sales. In 2022, total retail employment exceeded levels immediately before the pandemic, but not all retail sectors experienced employment gains. The total retail labor force is expected to shrink between 2020 and 2030, a shift driven by changing consumer demands and increased digitization and automation, not by the pandemic.¹⁴ The changes in the retail sector are reflected in demand for different types of retail work. Cities must adapt to prepare their workforces for high-demand occupations to ensure that retail remains an industry with strong employment opportunities.

In many retail sectors, the magnitude of sales growth does not directly correlate to changes in employment. Across all sectors, percent growth in sales has exceeded percent growth in employment between 2019 and 2022, reflecting investments in automation and shifts to e-commerce that make it possible for businesses to grow their sales without a corresponding growth in their labor forces. Like in sales and revenue growth, non-store retail has seen the largest growth in employment due to a rise in e-commerce and other means of sales. General merchandise stores have also seen higher than average job growth

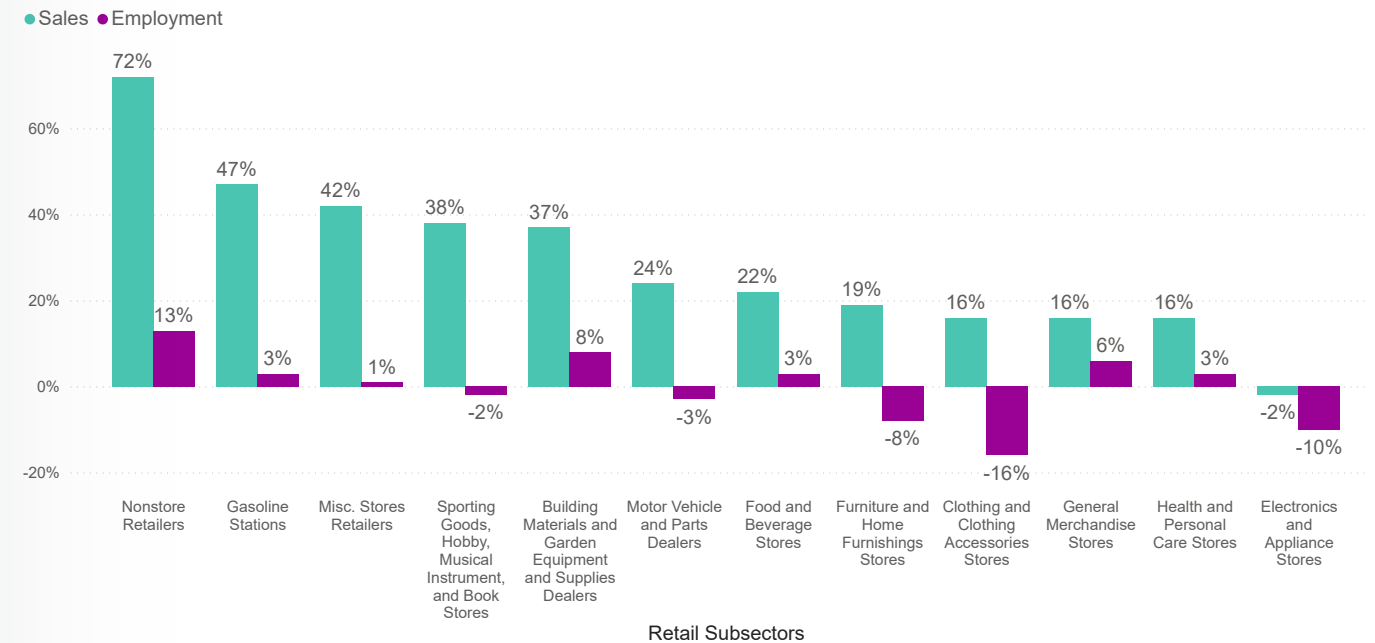
driven by nationwide growth in warehouse clubs and supercenters that primarily sell essential goods and services. Sectors driven by goods that cannot be easily sold online — such as gasoline stations, building materials and garden equipment — have not seen as much employment loss. Sectors like clothing, electronics and appliances, and home furnishings that saw a larger drop in employment early in the pandemic still have not recovered their workforces.

The retail labor force has shrunk, and that trend is expected to continue between 2020 and 2030



Source: Dorfman, D. (2022, April). Retail trade employment: before, during, and after the pandemic (Beyond the Numbers: Employment & Unemployment, vol. 11, no. 4). U.S. Bureau of Labor Statistics. <https://www.bls.gov/opub/btn/volume-11/retail-trade-employment-before-during-and-after-the-pandemic.htm>

Figure 2: Retail sales growth outpaced uneven changes in employment (2019-2022)



Sources: U.S. Census Bureau. (2023). Advance monthly retail trade report; U.S. Bureau of Labor Statistics. (2023). Current Employment Statistics survey.

Shifts toward e-commerce and automation will affect the types and numbers of retail jobs available. The current definition of jobs that count toward retail employment by the Bureau of Labor Statistics (BLS) only includes store-based retail jobs and does not include the stocking, delivery or call center jobs increasingly critical to the retail sector as e-commerce continues to grow.¹⁵ The NLC report [Reenvisioning Retail for Recovery and](#)

[Resilience](#) recalculated retail employment to include occupations that support the retail industry but are categorized as “Transportation and Warehousing” by BLS. The employment numbers in Figure 2 reflect the BLS definition of retail occupations that excludes these transportation and warehousing jobs and other non-customer facing retail jobs, and therefore may underestimate employment in the retail industry over the last few years.

People of color and women are overrepresented in the retail workforce. Additionally, historically common retail jobs are low paying and lack good benefits. NLC's 2021 Reenvisioning Retail report found that 64 percent of retail workers do not make a living wage for a family of four. Reflecting on the changing demand for labor in the retail sector, cities must consider how to prepare their workforces for these changes to ensure that the retail industry remains a reliable source of jobs, and that workers in these occupations increasingly essential to retail are protected and provided with fair wages and benefits.



To read more about economic opportunity and jobs in retail, check out the 2021 report [Reenvisioning Retail for Recovery and Resilience](#).

SHIFTS TOWARD E-COMMERCE AND AUTOMATION WILL AFFECT THE TYPES AND NUMBERS OF RETAIL JOBS AVAILABLE.



CITY SPOTLIGHT

North Las Vegas, NV

The City of North Las Vegas, NV, used its ARPA allocation to open the Small Business Connector, a one-stop-shop where new and existing small business owners can access support and connect with local, regional and state services.¹⁶ The center has a physical office on the ground floor of city hall, located in the heart of North Las Vegas. At this one location, entrepreneurs can receive license and permitting assistance from city staff, business development advice from the University of Nevada, access Las Vegas's statewide Small Business Development Center and explore funding opportunities through the city's revolving loan fund for small businesses and small business assistance grants. The Small Business Connector is a collaboration between the City of North Las Vegas and state and regional partners such as the state's Employ NV Business Hub and Workforce Connections Program as well as the local workforce development board, which facilitates connections between new businesses and prospective employees and provides training for new hires.¹⁷ The connector supported 412 businesses in its first months, more than half of which were minority-, women- or veteran-owned.¹⁸



Building a Downtown from Scratch in Boynton Beach, FL

The waterfront community of Boynton Beach, FL, is home to many small businesses and retail establishments, but it lacks a walkable downtown with access to retail. The Boynton Beach Community Redevelopment Agency (BBCRA) has worked to support local businesses through the pandemic and continually through grant programs, technical assistance and special events. It is now making meaningful investments in physical retail by developing a walkable downtown area while helping existing businesses adapt to a changing retail environment.

Boynton Beach has embarked on a substantial redevelopment project that will create a mixed-use area to serve as a downtown and center for retail with 17,000 square feet of restaurant, retail and office space. The BBCRA provided the land for this project and offered financial incentives to the developer to ensure that the project will include 300 new apartments, half of which will be workforce housing. As a city with high housing costs and no historic downtown to serve as a retail center, Boynton Beach has a lot to gain from this development.

Photo credit: Boynton Beach Community Redevelopment Agency

City of Boynton Beach, FL

The project would include:



Boynton Beach offers a robust grant program for new and existing small businesses as well as continual business support to grantees. This grant program predates the pandemic but was expanded when COVID-19 hit to provide financial assistance in the form of \$10,000 forgivable loans. The grant program matches up to 50 percent of rent, buildout and design fees for small businesses starting up or expanding. The BBCRA also assists businesses with marketing, providing resources for website development, helping businesses link their online presences to their

Google listings and much more to ensure they are competitive online and in person.

In addition to providing financial support and technical assistance, Boynton Beach has used creative events to promote its businesses. The city hosts monthly events in plazas across the community, rotating locations each month to bring attention to businesses across the city. Events often raffle off vouchers for local businesses known as “Boynton Beach Bucks.” These events provide regular opportunities for business promotion in the community.

CHECK OUT NLC'S HOUSING SUPPLY ACCELERATOR, A NATIONAL CAMPAIGN TO ALIGN THE EFFORTS OF PUBLIC AND PRIVATE STAKEHOLDERS IN THE HOUSING SECTOR TO MEET HOUSING NEEDS AT THE LOCAL LEVEL.

WHAT IS NEXT FOR RETAIL IN CITIES?



Neighborhood-based organizations will be essential partners for cities in supporting small businesses. Hyper-local organizations like downtown associations, economic development corporations, chambers of commerce and neighborhood business associations are essential for consensus-building and for developing stronger relationships between cities and small businesses. Those relationships will prove essential for cities to reach BIPOC-owned businesses and businesses in underserved areas.



Economic development will be done with the ultimate goal of improving quality of life. Local businesses have become essential gathering places for communities. Cities will increasingly design economic development initiatives to encourage well balanced, livable neighborhoods.



The blending of in-person and digital commerce will continue as online sales platforms expand and in-person businesses incorporate e-commerce components into their operations. It is vital that cities provide digital support to local businesses to help them adapt to this new reality.



Inflation and an uncertain economy will cause many retailers to act with caution. NLC has heard from local leaders that inflation is top of mind. Although Inflation has not had a high level of negative impact across the retail sector so far, subsectors have felt the impacts and some larger retailers have already indicated caution in hiring in anticipation of economic changes.



Local leaders will serve as convenors with local retail businesses to understand their shifting workforce needs and to bring together local community colleges, postsecondary institutions and community-based organizations to both meet local retail workforce needs as well as to support the reskilling of workers who might move to other sectors.



Cities will need to think about the long-term needs of small businesses beyond the pandemic. Small business grants meant for pandemic recovery, especially those funded by one-time federal and state funding allocations, will slowly phase out in favor of loans and other types of traditional capital. Cities might consider revolving loan funds or low-interest credit building loans.

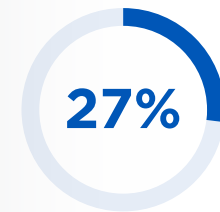


HOW REMOTE WORK IS CHANGING DOWNTOWNS

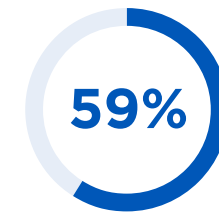
The pandemic-driven rise of remote work continues to impact downtowns, neighborhoods and retail districts. Though rates of in-office work have reached post-pandemic heights, they remain significantly below pre-pandemic levels. In the 10 largest metro areas, average office occupancy has slowly increased since the early pandemic, reaching approximately 50 percent in February 2023.¹⁹ The percentage of paid full days worked from home has slowly and steadily declined since the early pandemic when it peaked above 60 percent. In January 2023, 27 percent of paid full days were worked from home – the lowest since the beginning of pandemic.²⁰

Downtowns have historically had a high concentration of retail establishments, but the office-driven activity that has long sustained downtown businesses has been disrupted. Downtowns with a high concentration of technology, finance, and professional services companies have felt the impact acutely. Research has also shown that large U.S. cities see a significant reduction in spending from employees who work from home. Many large U.S. retailers have moved away from their large locations in city centers in favor of smaller locations in neighborhoods with online customers nearby.²¹ Many downtowns with ample space for office workers and retail establishments are no longer centers of activity.

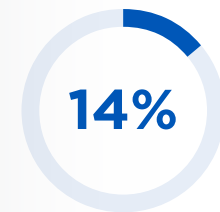
Rates of in-office work are the highest they have been since the start of the pandemic, but are still lower than pre-pandemic. Meanwhile, hybrid work arrangements have become more common. **In January 2023, among full-time employees:**



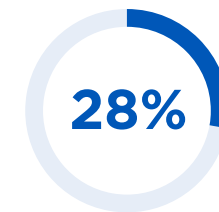
27% of paid full days worked from home



59% are full-time onsite



14% of full-time employees are fully remote



28% are in a hybrid arrangement

Source: Barrero, J.M., Bloom, N., Buckman, S. & Davis, S.J. (2023, February 12). *Survey of Working Arrangements and Attitudes, February 2023 Update*. WFH Research. wfhresearch.com/wp-content/uploads/2023/02/WFHResearch_updates_February2023.pdf



CITY SPOTLIGHT

Memphis, TN

In Memphis, TN, the Downton Memphis Commission operates **Open on Main**, a program that pairs emerging retailers and entrepreneurs with vacant storefronts in the city’s downtown core. The program is designed to strengthen Memphis’s retail environment by spurring activity on Main Street and activating empty or underutilized spaces while also giving business owners low-risk opportunities to test their market strategies rent-free for up to a few months.

While many cities have run programs to create pop-ups in vacant retail spaces, **Open on Main** is unusual in that it runs continually, requiring constant recruitment of businesses, negotiations with property owners and follow up. Prospective retailers use a form-based application to apply for a rent-free short-term lease. Accepted retailers receive a guide on best practices in operating a pop-up store and are encouraged to engage the surrounding community through events. The commission distributes follow up surveys to all participants to continually learn what strategies and types of businesses are best served by **Open on Main**. These processes allow the program to operate continuously and meet the needs of visitors and retailers alike.

Open on Main operates seven locations and has helped more than 50 retailers test business concepts. The program has also succeeded in its goal of diversifying the businesses of downtown Memphis. More than 80 percent of the businesses it has assisted are minority and woman-owned shops.²²

Cities and their downtowns have not experienced these changes evenly. Remote work has been consistently more common in larger cities compared with midsize and smaller cities and towns, and the largest cities have also endured more difficult pandemic recoveries.²³ Across the board, downtowns

are recovering more slowly than cities as a whole. Downtown recovery has been slowest in older, denser downtowns within large metro areas.²⁴ Downtown recoveries have also varied by region. Among large cities, southern U.S. downtowns have recovered more quickly while northern downtowns have struggled.



**ACROSS THE BOARD, DOWNTOWNS
ARE RECOVERING MORE SLOWLY
THAN CITIES AS A WHOLE.**

In examining data on the number of physical business establishments across the country, the number of businesses has increased in the South and West, where other economic indicators of recovery are strong, while coastal and older cities in the Northeast and Midwest experienced establishment losses.²⁵ Different cities face varying paths forward for downtown recovery.

As downtown activity has slowed, activity in neighborhood business corridors has increased, particularly in residential neighborhoods and [first-tier suburbs](#) of large cities. Retail and other amenities tend to concentrate in walkable places, but increasingly these walkable, amenity-rich places are located outside of central business districts in residential neighborhoods, or in suburban towns and villages that surround the core city of a metro region.²⁶ Some of these suburban cities and towns have benefited from the changes to work that the pandemic brought. These cities have opportunities to create walkable places with a mix of amenities, including retail, that can serve as economic centers for their communities.

Large cities with historic downtowns also often face high housing costs in addition to contending with empty office space, struggling businesses and low foot traffic. The confluence of newly vacant office space and rising housing costs has led many cities to consider whether they could reinvigorate their downtowns through conversions of office

space to residential units. This thinking has prompted a rise in office space conversions, mainly in central business districts, with the goal of giving new life to downtowns with high office vacancy rates. Between 2017 and 2021 there were an average of 39 office conversions completed annually. However, nearly 100 conversions are expected to be completed in 2023; this strategy has the potential to revitalize and restore downtowns to the bustling areas they once were by replacing lost office workers with full-time residents. Cities will need to engage with residents and businesses to rethink their downtowns and come up with innovative solutions to adapt to changing needs of our city centers.

CITY SPOTLIGHT

West Hollywood, CA

As part of the celebration of Black History Month, the City of West Hollywood, CA, co-sponsors the Black Women Lead Pop-Up Market in collaboration with the local nonprofit Black Women Lead. The open-air event features Black vendors, artists, speakers and performers and provides a special opportunity to highlight local Black retailers to a large group of potential customers.²⁷ The event brings people into the community and helps support local, Black women-owned businesses.

IN 2022, 55 POP-UP SPACES OPENED IN VACANT RETAIL SPACE, SERVING BOTH TO ENLIVEN PREVIOUSLY EMPTY STREETS AND SUPPORT LOCAL ENTREPRENEURS AND ARTISANS THAT DO NOT HAVE A PERMANENT PHYSICAL RETAIL SPACE.

buildings on LaSalle Street.³⁰ Chicago already has several office-to-residential conversion projects completed and underway, but this plan targets historic buildings in a specific area of the city and offers financing in exchange for a commitment that 30 percent of units be affordable. The city has collected proposals from developers and is now reviewing which developers will receive financing from the city.

Alongside adding residential space, the city aims to make The Loop a more attractive residential area. The Department of Transportation is examining street changes that will prioritize pedestrians, and the Department of Planning and Development is providing grants for new businesses along LaSalle Street to ensure the area has amenities available to future residents.³¹ With the reduction in foot traffic in Chicago's downtown, retail in the area has struggled, leaving many retail vacancies. To address these vacancies, Chicago has awarded grants to 17 local community and economic development organizations to activate previously vacant storefronts across the city. By utilizing neighborhood specific organizations with existing community relationships, the city ensured that this program would be deployed effectively for each neighborhood. In 2022, 55 pop-up spaces opened in

vacant retail space, serving both to enliven previously empty streets and support local entrepreneurs and artisans that do not have a permanent physical retail space.³²

While Chicago's downtown is a driver of economic activity for the city, Chicago also has numerous residential neighborhoods filled with small businesses and retail corridors. INVEST South/West is an ongoing initiative investing in 12 neighborhood commercial corridors in the South and West Sides of Chicago, specifically in neighborhoods that have historically lacked investment. This initiative predates the pandemic but is especially pertinent as BIPOC-owned businesses have faced particular difficulties in pandemic recovery. INVEST South/West engages local business organizations to connect small businesses with city resources to maintain vibrant neighborhood-serving retail. The initiative also recruits private investment to create new development in the 12 selected neighborhoods. Some of this private investment has proved controversial among community members, and the full impact of this development is yet to be seen. Meaningful community engagement and honoring community input will continue to be critical for the success of this long-term initiative.

Reinventing a Downtown Changed by the Pandemic in Chicago, IL

Chicago, IL, fits the widespread media narrative of a city whose historic downtown experienced dramatic pandemic-driven changes resulting in vacant office spaces and empty storefronts. On the other hand, Chicago has many residential neighborhoods with commercial corridors that can benefit from these same changes. The city has worked to address the dramatic impacts to its downtown by incentivizing office conversions and using pop-ups to fill vacant retail space while making long-term investments in neighborhood retail.

Chicago's central business district, which was dependent on office workers and tourists, took a dramatic hit during the pandemic. In the spring of 2020, pedestrian activity

dropped by an estimated 80 percent and hotel occupancy dropped to 20 percent.²⁸ Like downtowns in many other large cities, Chicago's downtown has seen a slow recovery in the years since. While declining rents in the early pandemic drove a 9 percent increase in the residential population downtown compared to 2019, swaths of office space still lie vacant, presenting a significant hurdle to the area's recovery.²⁹ The city has proactively acknowledged these changes and taken action to address them in the short and long term. They have worked closely with the Chicago Loop Alliance and released a framework and set of strategies for recovery. In September 2022, the city launched an effort to incentivize residential conversions of underused historic office

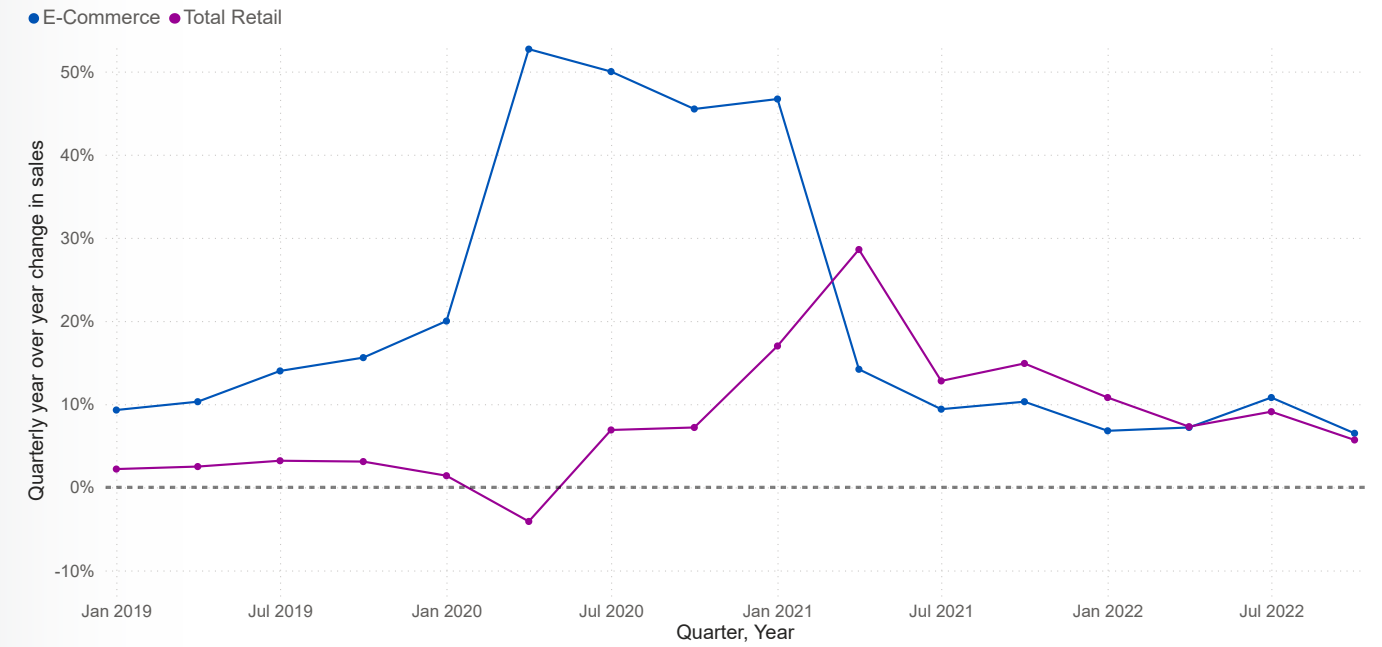


EFFECTS OF E-COMMERCE ON SALES AND REAL ESTATE

The rise of e-commerce drives much of the ongoing change in the retail market. Consumer preferences shifting away from in-person shopping threatens to upend the conventional ways cities utilize public space. Online sales accounted for a continually growing share of the retail market since the early 2000s, but growth in e-commerce accelerated

dramatically when the pandemic forced physical stores to temporarily close. The rise of e-commerce means consumers have more choices than ever. Their options now extend beyond their neighborhood or city to products from around the world, delivered right to their doors. While e-commerce does continue to grow, the pandemic did not cause a collapse of

Figure 3: Initial e-commerce spike during pandemic has evened out with total retail trends



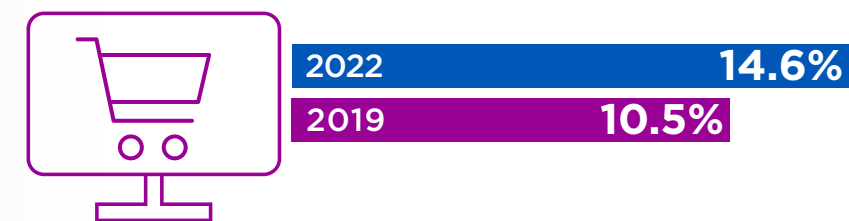
Source: U.S. Census Bureau. (2023). Quarterly Retail E-Commerce Sales Report (Q1 2019 - Q4 2022)

brick-and-mortar retail in favor of e-commerce. Rather, the lines between e-commerce and in-person retail continue to blur as omnichannel retail becomes increasingly prevalent. In 2022, the percentage of quarterly retail sales from e-commerce was 14.6 percent, down from the peak of 16.4 percent in the second quarter of 2020. But while e-commerce has not sustained its early pandemic-driven acceleration rate, it is still experiencing significant growth levels similar to those of the 2010s with no end in sight. E-commerce saw 6.5 percent growth

in year-over-year quarterly sales in Q4 from 2021 to 2022, which is slightly higher than the growth of the overall retail sector in that same period (5.7%).

OMNICHANNEL: Commerce that integrates different methods — physical stores, online, or through social media — of interaction between a business and a customer.³³

E-commerce is on the rise. In 2022, **e-commerce** accounted for 14.6% of total retail sector revenue, compared to 10.5% in 2019.





“IN TACOMA, OUR DIVERSE SMALL BUSINESS COMMUNITY IS THE LIFEBLOOD OF OUR LOCAL ECONOMY. OUR CITY HAS STRENGTHENED KEY PARTNERSHIPS TO SUPPORT OUR LOCAL BUSINESS COMMUNITY AS IT RECOVERS FROM THE PANDEMIC, AND TO ENSURE THAT OUR SMALL BUSINESSES ARE WELL-POSITIONED FOR FUTURE SUCCESS AND GROWTH IN AN INCREASINGLY DIGITAL ECONOMY.”

— MAYOR VICTORIA WOODARDS, TACOMA, WA

Using Technology to Prioritize Business Recruitment in Tacoma, WA

Tacoma, WA, has focused on building a strong entrepreneurial ecosystem, driving equitable growth and making its downtown and neighborhood business districts a vibrant destination for visitors and residents. To prepare its community for the future of retail, Tacoma has invested in digital tools and resources that support local businesses and provided technical assistance that targets digital skills needed by local businesses.

Tacoma operates the website [Make it Tacoma](#) as an information hub for businesses as well as a marketing tool that promotes the city

as an exciting place to do business. The website provides free best practices and checklists with step-by-step directions for launching an e-commerce or brick-and-mortar business, along with helpful information on web and social media for existing businesses. Make it Tacoma also provides up-to-date information about incentives and funding opportunities to make it simple to learn what resources are available.³⁴ The city's tool, [TacomaSpace](#), provides granular data on commercial property locations to help prospective businesses choose a location in Tacoma that fits their needs.³⁵ These straightforward, well-designed online resources help Tacoma attract new

businesses and provide clear information to existing businesses to help them succeed.

In partnership with the Tacoma-Pierce Chamber of Commerce, the City of Tacoma launched Spaceworks Tacoma in 2010 to support creative entrepreneurship and small business development. Spaceworks facilitates local art installations, pop-ups and special events to showcase local artists and draw new customers to underutilized areas.³⁶ In 2017, Spaceworks Tacoma started an incubator program that provides business training and peer-to-peer support to Tacoma's creative business ecosystem. The incubator has helped launch 66 creative businesses into community storefronts and vacant commercial spaces. Spaceworks Tacoma's programs support new entrepreneurs and artists while making the city's commercial districts and streets more vibrant for everyone.

Utilizing funding from Washington's Small Business Innovation Fund, Tacoma currently offers several technical assistance programs for small and micro-businesses that specifically target digital literacy.³⁷ A new Digital Sales Access Program seeks to bridge the digital divide for immigrant and minority owned, and other small businesses that need support in financial management, marketing and e-commerce. This program aims to help 65 Tacoma-based businesses which will be selected in 2023. The city is making additional investments to provide training, technical assistance and financial resources to graduates of its incubator programs to grow their digital marketing efforts. These investments in digital skills will help ensure that Tacoma's business community is prepared for ongoing changes in the retail industry.



CITY SPOTLIGHT

Cedar Rapids, IA

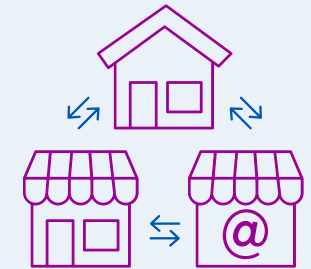
After a flood in 2008 that destroyed much of the city’s downtown core, Cedar Rapids, IA, embarked on a project to repurpose old unused buildings into mixed-use community spaces. The NewBo City Market is a product of this effort. Since opening in 2012, the market has anchored the downtown neighborhood, serving as a year-round gathering place, event center and business incubator essential to supporting businesses within the market and in the surrounding area.³⁸ In the wake of the pandemic, NewBo City Market expanded its business incubator program by launching The Hatchery, which reduces barriers to starting a food or retail business for underserved residents of the community. The Hatchery provides new businesses with reduced rent for space in the market, personalized business development guidance and regular business check-ins to ensure success.³⁹ The program has helped the market recover from the pandemic by providing a pipeline of new businesses to fill vacant space while also boosting the diversity of market vendors.

With online sales rising, customers are now more likely to utilize multiple means of purchasing in a single transaction. Many retailers are encouraging a “phygital” approach – where customers may buy online and pick up or return in store. These arrangements give physical stores a fulfillment role and make e-commerce and physical retail interdependent. For many brands, physical stores now serve an elevated role in building customer loyalty and giving customers a real-life experience even when the brand’s products are accessible online. Fifty-five percent of shoppers visit a physical store before making their purchases, even if a final purchase is made online.⁴⁰ As customers opt to order online and pick up in store, or browse a store and purchase online, adapted retail spaces will continue to

be a useful part of the retail economy and will draw consumers to areas with retail storefronts. These sorts of blended retail transactions are difficult to measure, however. Available data creates a binary between in-person sales and e-commerce sales, obscuring these blended retail transactions and making it impossible to obtain a complete quantitative picture of where retail sales are happening and which businesses receive that revenue. For example, if a local food market sells goods through Instacart, the revenue from a single transaction is shared between Instacart, an e-commerce company, and the local food market. Retail sales data will record this as one transaction that counts toward e-commerce sales, obscuring the full picture of who benefits from that transaction.

Blending of physical and digital – phygital – experiences in retail may look like:

- Buy online, pick up in store
- Browse in store, order exact size and color of product online
- Browse products in store and making an online order while still in store
- Purchase online, return in store
- Order delivery from a nearby small business through an app
- Scan a QR code at a restaurant and order on your phone through a mobile ordering system



For existing small businesses that have relied on the traditional brick-and-mortar model, adapting to these changes can prove challenging. The cost and effort required to introduce a digital sales component may be prohibitive for a business owner already investing money and staff into sustaining a retail space. Despite these challenges, the pandemic has spurred small businesses to utilize a wider set of sales streams. Main Street America found that the number of small businesses with an e-commerce component increased by 10 percent (from 63% to 73%) between March 2020 and 2022.⁴¹

At the same time, emerging options present new opportunities for small businesses to diversify their means of selling goods. Small businesses with physical storefronts may sell

additional goods through online marketplaces such as Amazon, Etsy, or Shopify, or they may sell through a third-party delivery app. The pandemic has also spurred a rise in pop-ups and markets, which provide lower-cost and lower-risk ways for businesses to sell products in person. This diversity of options benefits existing brick-and-mortar businesses and online sellers alike. Small businesses have varying needs, and a growing number of options for selling digitally, physically or a combination of both, can help more businesses thrive. Cities can strengthen retail by connecting small business owners and entrepreneurs with resources that help them capitalize on the digital retail environment as well as enabling pop-ups and markets to develop in-person retail opportunities.

CONCLUSION

The post-pandemic retail environment remains in flux. Certain metrics, such as retail sector sales, show a return to pre-pandemic trends, while other changes, such as the diminished role of downtowns in retail, seem longer lasting. Local leaders have a critical role to play in promoting growth, equity and resilience for their retail communities through investments in programming, resources, public space, trainings and other types of support. The increasing connections between e-commerce and brick-and-mortar retail calls for strategic thinking on behalf of cities to support local retailers and create a physical environment that is adaptable to these changing spaces. Cities will also need to engage in creative reimagining of downtown spaces to meet shifting demands for retail and residential spaces.

CITY LEADERS HAVE A VITAL ROLE TO PLAY IN ENSURING THEIR RETAIL ECOSYSTEMS MEET THE NEEDS OF THEIR COMMUNITIES TODAY AND IN THE FUTURE.

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