

RELOCATION PROBLEMS OF BUSINESS AND COMMERCIAL ESTABLISHMENTS

Summary Statements of Workshop Panel 4

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EFFECTS OF RELOCATION ON MARGINAL BUSINESSES

A marginal business or family store has the following characteristics: (a) usually has an elderly owner-operator; (b) requires small capitalization; (c) has an operation that generally requires few specialized skills; and (d) is usually located in substandard structures where reduced rentals and other operating expenses are possible. Relocation usually has a negative impact on this type of small business. Many liquidated during the displacement process might have continued had they not been displaced by the particular project involved.

Issues

This problem raises the following issues: What are the economic and social effects of putting family stores out of business? If family stores wish to continue, should they be given the opportunity to do so, and how can they be assisted? How can financing of the new location be arranged?

Causes of the marginal operation at the old site should also be analyzed in order to enhance the chances of improvement through relocation. Marginal businesses are usually anachronistic, and the perpetuation of this ill should be considered in counseling the relocatees. If an out-of-business procedure seems to be the only reasonable solution, a determination should be made as to whether the project actually will cause or only accelerate the discontinuation.

Usually, capital and other requirements of relocation are prohibitive for marginal business operators. Age often negates the possibility of business loans, or there is a general lack of desire on the part of the proprietor to accept responsibilities involved in relocation. Few are able to retire, however, on such quick notice as the project announcement or the short term of the relocation schedule. The owner-operator of a business often needs continued gainful employment. What other machinery should be available to assist the relocatee in making a transfer? Some considerations should be given to the agency's degree of concern or involvement in regard to efforts toward or responsibility for future success of the displaced business.

Alternative Solutions

After acquisition, the agency could assist the client at least on a temporary basis with rent differentials. Perhaps through a type of rent supplement, assistance could be arranged prior to acquisition as well. This would be of benefit prior to actual taking of the property. Rental reductions and supplements will offset decreasing receipts usually noted during the period of project announcement and actual displacement. After relocation, supplements will benefit the relocatee during the period required for reestablishing goodwill in the new environment.

Constructive programs are needed to assist family operators in making a successful relocation or transition to other gainful employment. Without significant assistance, these proprietors might be traumatically affected by displacement. The only constraint

anticipated evolve from the possible reluctance on the part of the displacee toward relocating. If some type of schooling or training is recommended or required for transition to the other gainful endeavor, certain costs might be covered by relocation payments.

Liaison with the Small Business Administration has been tried and proved in other relocation programs. Periodic publications by this Administration regarding available or current loan programs would be an ideal innovation. Development of a priority program with U. S. Employment Service and other governmental employment agencies would also be a very beneficial innovation.

Research

Two approaches to the research needs are suggested: (a) Identify and analyze socio-economic, psychological, and environmental factors that are considered in a small business owner's decision to relocate his business, to go out of business, or to seek a new livelihood and (b) study the ingredients required for successful relocation, retirement, and venture. A research program would probably require a series of case studies of different types of businesses or entrepreneurs to establish the importance of critical elements and ingredients. Demonstration projects would seem to be required to serve as a test technique for establishing the validity of research findings.

ADEQUACY OF CURRENT RELOCATION ALLOWANCES FOR BUSINESSES

Significant issues, alternative solutions, and implications relating to this problem are discussed in the following.

1. What should be the fundamental goals of relocation payments? Should the payment be limited to an amount considered significant to induce or make palatable relocation so that the displaced owner will not discontinue business? Is the present payment adequate to encourage relocation versus early retirement or discontinuance? Should the allowance be sufficient to actually force or strongly encourage early displacement? This entire area might be the subject of heavy research in order to determine the best goals and, especially, answers to the questions raised.

2. Should the purpose of relocation payments be to cure all negative effects of relocation? An alternative solution is to limit assistance to an amount required to maintain the business through its actual move. This solution, however, may mean that less financial exposure by government will place heavy requirements on displacees to arrange for additional financing for unavoidable costs and upgrading caused by changed market or different facilities at new locations. For example, a clothier may require a complete change in inventory to meet the demands of different types of customers. Financial assistance through loans is not always available to every displacee. Another solution is to establish a period of time during which assistance will be extended, beginning at the time of the announcement of the project and extending through a 6- to 12-month period following the actual move. This would increase governmental financial exposure and would ease the financial burden of the displacee. There is also the alternative to expand, as considered desirable, the purposes for which relocation assistance may be paid and determine by studies whether items should be included such as rent subsidy and goodwill. Should the criteria for these in commercial relocation be comparable to the criteria applicable in residential relocation? What should be the time period for rent subsidies, and what should be the extent and basis for goodwill? At a considerable cost to the government, most of the displacee's costs related to relocation would be paid, although certain undeserved benefits may be reaped by some businesses.

3. Should relocation assistance be different for the several categories of business needing assistance? Criteria should be developed to determine the categories to be assisted, such as product or service; type of operation such as manufacturing, wholesale, retail, or service; form of business such as corporation, partnership, or proprietorship; financial capacity including net worth, profits, and sales; number of employees; and type of employees such as skilled or semi-skilled.

4. Should economic injury from loss of sales or additional collateral costs be compensated? Should this be a flat payment or be based on a follow-up showing evidence of loss suffered? Alternative solutions are (a) make a flat payment regardless of volume of sales and with no analysis requirement (this may assist many businesses that actually do not require aid); (b) base a payment on an analysis and make the payment relatively early (this offers a degree of selectivity and could very possibly result in assisting those businesses most likely to upgrade the economics of the community); (c) make partial payment early followed by a later payment supported by justification; and (d) defer any payment until justified by supporting income statements. The approach to be taken involves consideration of expertise available, cost of administering, and methods for analyzing. An evaluation should also be made of the degree to which the federal government wants to involve itself.

5. Should relocation allowances permit or abet upgrading of the facility, including buildings, new equipment, or land to meet code requirements such as parking requirements? Alternative solutions are (a) continue present practice under which majority of relocatees supplement upgrading through their own financing (a constraint here is whether a displaced business can obtain needed financing); (b) subsidize by paying interest on allowable upgrading (funds for upgrading would come from regular lending channels and only the cost of financing would be paid, a payment not necessarily viewed as subsidy but rather a legitimate cost of relocation); and (c) define the upgrading eligible for reimbursement through relocation assistance. The advantages of this approach to a small business can be seen from the following example:

A cafeteria now located in a given area manages well with existing kitchen equipment and dining facilities. However, a move to a different location would very clearly require a "new look" in the dining room. It would also be unfeasible to remove most, if not all, kitchen equipment. At the present location, customers may be from the local neighborhood and shopping area whereas, at the new location, reliance may be placed on drive-in traffic that will require parking facilities. The present location may be clear of liens, but at the new location the displacee may require either a down payment or a given period of lease payments.

6. When should relocation benefits begin and when should they end? The government's exposure and benefits to the displacee will vary drastically according to the time periods.

EFFECT OF TIME INVOLVED IN RELOCATION PROCESS ON BUSINESS

Issues

For businesses that are consumer oriented, the removal of the residents will certainly cause a decrease in sales, possibly to a degree sufficient to change a profitable business into an unprofitable business. If a competitor is displaced, however, there may be a temporary benefit to the remaining business until it too is acquired. For businesses that rely on residents for its employees, the displacement of these residents prior to the acquisition and relocation of the business can cause severe hardships. Businesses may be compelled to delay needed capital improvement because of acquisition. If acquisition is put off too long, some businesses may lose their competitive positions.

Alternative Solutions

Possible solutions are (a) to decrease the lag time between location of the right-of-way and the actual taking or (b) to subsidize the business in proportion to the loss caused by the project and the profit that could have been reasonably expected. The latter could be in the form of an early acquisition and a subsequent decrease in rent to offset the loss incurred. The obvious and best solution is, of course, to cut the lag time. This can be done by funding a project fully before undertaking it or giving a priority of early acquisition to businesses that will suffer loss.

Although subsidizing displaced businesses will add to the cost of the project, early acquisition will not because the fair market value would be the same. How much more

a subsidy may cost is certainly an area that needs further research, especially the effects of relocation on sales and profits.

Research and Data Needed

Because of the tremendous variety of businesses involved in these projects, research on the effects of displacement will be difficult. Small entrepreneurs may lack records. Questionnaires might be used to obtain information on the needs and desires of the businesses in the right-of-way. The relocation agency should be ready at the earliest possible time either to assist the businesses to relocate or to advise them on the desirability of ceasing operation and the benefits they can receive for doing so.

DEFINITION AND MEASUREMENT OF COSTS AND BENEFITS ASSOCIATED WITH RELOCATION OF BUSINESSES

Issues

Business proprietors and owners of buildings and land affected by right-of-way acquisition may experience short- and long-term benefits and costs. Examined in broad terms of the benefits and costs of public improvements, the issues include (a) Are proprietors and owners guaranteed adequate investment returns by the nature of their location? (b) Are benefits and costs, either explicit or implicit, currently measurable or compensable or perceivable or all of these by individuals concerned? (c) Does the current program of relocation assistance reduce the risk, cover costs, and produce individual and social benefits and costs? (d) What identifiable and measurable costs should society, the proprietor, the owners, and the highway program assume? (e) What means are available for extending benefits to the affected group other than money compensation or direct subsidy? and (f) What costs and benefits are predictable in terms of the anticipated "normal" life of a business?

Alternative Solutions

Short of either massive subsidy or acceptance of current or modified compensation programs or both, measures of benefits and costs and follow-up monetary and business assistance are required. The difficulties involved in long-term implications of benefit-cost studies suggest use of informed judgmental approaches to compensation and assistance.

Research and Data Needed

These include (a) studies of successful and unsuccessful relocations including case studies and a survey of the number of displacements and the number that have survived and (b) studies of the investment decision of landlords and the results obtained from the investment. A general research project statement should involve investigating experience of businesses before and after relocation. This could depend in part on such documentary evidence as business records and sales tax records plus questionnaires and unstructured interviews. This project should include investigation of the consequences of reinvestment on the part of landlords.

PROSPECTS FOR DISPLACED BUSINESSES

Issues

The significant issues are (a) What happens to those businesses that are successfully relocated? (b) What can be done to assist the reestablishment of those marginal businesses that may be beneficial or desirable to the community? and (c) What happens to the owners of displaced businesses?

Many businesses that reestablish will generally pose no relocating problems. Chain stores usually open a new more modern store in a new location, and the managers and employees are transferred to other stores. Other smaller but sound independent businesses suffer no basic problems of relocation because of the nature of business. Often

relocation will help a stagnating business because the owner, whose lack of funds or initiative made him reluctant to modernize, now has financial assistance. At the new location the business will generally be more modern and efficient and provide more employment opportunities. These newly relocated businesses will often be more profitable and provide more tax revenue for the locality. Some marginal businesses reestablish easily because relocation allowances are adequate enough to allow the owner to resume operation in the new location and because the owner has a desire to remain active and to be self-supporting. The nature of a business and its competition determine to some extent whether a business can successfully relocate.

Of major concern is the marginal business that does not reestablish. What happens to its owner? Many owners will retire because of (a) age or health, (b) inadequacy of relocation allowances, (c) the attitude that the nature of their business or of their competition may prevent success at any new location, or (d) lack of information on all available assistance. Other owners will just change occupations, either buying out another marginal business or becoming an employee for someone else.

Alternative Solutions

Solutions to resolve the problems of those businesses that do not reestablish are (a) determine if a void will be created that will be undesirable and (b) provide more adequate relocation assistance for businesses if their continuance is desirable. If the owners were to become a welfare case or would collect social security, perhaps his relocation assistance could be increased by the amount he would have collected if he did go out of business.

Research

A study should be undertaken of those businesses that do not reestablish based on the amount of capitalization, nature of business, nature of patronage, age of owner, and zoning and license requirements. If this research is deemed unnecessary, efforts should be made to update previous studies, make new studies, and create a data bank.

CONSEQUENCES OF BUSINESS DISPLACEMENT TO THE COMMUNITY

Issues

Issues include the following: Do consumers experience additional money costs and benefits of shopping for goods and services when neighborhood businesses are displaced? Do consumers and business owners perceive additional social costs and benefits when neighborhood businesses are removed? Do displaced business owners or managers or both transfer locations within the neighborhood or in the area, go out of business, become government responsibilities, or become retrained for new job opportunities? Is retail capacity and service replaced in the short term or long term within the neighborhood or within the relevant shopping area?

Neighborhood businesses include retail goods and services establishments appealing to highly localized residential areas. These businesses, usually located near primary market population or on arterials, provide nationally branded convenience goods of low unit value, give personalized services including delivery and credit services, depict low sales volumes and use of as-suggested price system, and do not use extensive promotional effort.

Alternative Solutions

Probably most of the solutions are inherent in the current legal system, even though more administrative flexibility and coordination are needed. An information program and an advocacy planning effort offer means of mitigating impacts. For example, can or should the provision of marketing services for a neighborhood be determined through a community planning and advocacy process, or is relocation to be primarily a random or individualized effort or both. Joint development and creation of new shopping areas (perhaps employing subsidies of different levels yet to be determined) can provide for

transfers of capacity and maintenance of at least some services. Community or neighborhood centers providing counseling and mental health services might help deter negative impacts.

Research Data Needed

Data are needed to answer the following questions:

1. What are the effects on retail capacity of the removal or displacement of neighborhood businesses within the relevant markets sought out by localized residents?
2. Are the residents of the affected neighborhood mobile? What is the automobile ownership pattern? What are the employment locations of neighborhood residents? What are the availability and the use of public transit? What are the effects of age, income, and family composition on buying habits? What is the level of consumer expenditures in neighborhood stores? What are the levels of customer isolation created by business removal?
3. What are the buying habits of local residents? That is, where, when, and how does shopping occur in neighborhood stores and what is bought there? Is delivery provided or desired? Have shopping habits shifted or changed through time? What is the importance of credit to customers if available and not replaceable?
4. What is the effect of business removal on the tax base and tax revenues? What is the effect of removal on long-term planning, zoning, and urban renewal patterns? Can adjustments in business capacity and convenience be made through planned development or through joint development efforts? For example, can new marketing facilities be created adjacent to neighborhoods impacted?
5. What are the price-cost effects of business removal; that is, what are the price levels depicted in neighborhood stores (given no replacements)? What are the additional costs of shopping and the price levels depicted in remaining or nearby or the first available shopping area?
6. What are the effects of relocation on the business owner or manager? What are the employment and income effects on owners or managers? What options are available to the owner-manager? What is the business mortality rate before and after relocation impact?
7. What are the social impacts of a neighborhood business removal? For example, the store may be a neighborhood center, it may provide personalized services and interest for residents, it may mitigate isolation, it may provide credit to fixed-income recipients, or it may be a stabilizing unit.

Research Needs

Before-and-after studies of impacts and also benefits and costs in selected states are needed. Studies should be undertaken in different urban areas of different sizes. Study area criteria might also include consideration of the mobility of the population and the income levels and areas where adjustment plans differ.

GENERAL COMMENTARY

In addition to problems and suggested research of the formal questions just presented, Panel 4 suggests that those responsible for the compilation of records and statistical data consider the utilization of a more realistic and definitive breakdown of the effects of public improvement programs on displaced business. In the past, there has been inaccurate statistical indication of these effects in at least one program because of the limitations to 2 categories on report forms, one indicating that the displacee relocated and the other that he discontinued business.

The category "discontinued business" can readily be interpreted to mean "put out of business." Many cases of discontinuing operations at a project location meant nothing more than reestablishing an outlet or branch at another location, very often with a direct transfer of personnel. This is true of chain food stores, drugstores, and cleaning establishments. Under these circumstances the chain very rarely moves any of the old equipment but elects to abandon it. Under the statistical system mentioned, a displacee

ment of this type would be recorded as "discontinuing business" with the implication that the improvement project caused the destruction of another business. There are numerous examples of similar situations where the 2-category statistical system would result in the same inaccurate record.

Panel 4 strongly advises that steps be taken to ensure that report forms compiled for statistical records avoid these pitfalls.