Understanding Regional Retail Development

by Beth Humstone

On the corner. In the downtown. Along highway strips. At interchanges. Retail development is a significant land use in virtually every community. It has its own demands and impacts that are distinct from offices or services. One only has to look at the acres of parking and traffic congestion commonly associated with shopping centers to understand this.

In many communities today, the supply of retail space exceeds the demand for it. There are vacancies in downtowns, strip centers, and shopping malls. We have over-zoned land for retail development and in the process have spread it out across the landscape. So how does a planning commissioner determine where retail development should go and how it should be designed and accommodated?

Regional Retail Market Analysis

The first step in planning for retail development is to undertake a regional market analysis. Shopping is largely a regional experience. In spite of the interest in buying locally, most consumers do travel around a region for shopping purposes as not all goods are provided in each community. In addition, people often shop where they work – which is often in a different part of their region.

Regional retail market analyses are typically conducted by regional planning commissions, chambers of commerce, or regional development agencies. Some analyses are undertaken in response to major retail development proposals; others in anticipation of retail changes or needs. Planners should be cautioned about developers' or retailers' market analyses as they may be skewed towards favoring a specific proposal.

A retail market analysis estimates the potential growth in retail demand and compares that to the supply of retail facilities within the trade area.[1] Information is compiled on population growth, income, and expenditures by retail type (groceries, apparel, furnishings, etc.).

> IN ADDITION TO ZONING BY TYPE OF RETAIL STORE, A GROWING NUMBER OF COMMUNITIES REGULATE THE SIZE, CONFIGURATION, AND IMPACT OF RETAIL STORES.

From these projections, estimates of retail sales and square footage demand for different types of retail stores in the region can be obtained. The analyst will also consider what share of sales will take place online, especially important since some goods, such as computers, have a high number of on-line purchases.

Next, a community-by-community inventory of existing retail space and occupancy rates is conducted. This inventory will show where the retail areas are within the trade area. A comparison between the existing available space and the projected space needs can be made and gaps identified.

Most market analyses distinguish between *convenience* goods and *comparison* goods. Convenience goods are widely distributed, less expensive, and frequently purchased items. Examples include food, newspapers, and gas. Comparison goods are purchased at less frequent intervals and are generally more expensive; they also are often purchased after examining prices at several stores. Examples of comparison goods include major appliances, furniture, and sporting goods.

The regional market analysis will indicate the extent to which the region may already be "over-stored" (more space than demand justifies) or "under-stored" (less space than demand justifies) with either convenience or comparison goods. It may even point out areas where future shopping should be planned.[2]

Plan for Efficiency and Effectiveness

With the information from the retail market analysis on the supply and demand for retail space in the region, a planner can identify locations for future retail development.

The first step will be to determine the viability of existing spaces for continued retail use. For example, old highway strip centers may be ripe for other uses if stores have shifted to shopping malls or interstate interchanges. Downtowns that may be filling up with specialty and tourist shops may need to offer basic goods for residents. The appropriateness of each existing retail areas for future retail use should be evaluated and its particular role – regional retail center, community shopping center, neighborhood center – determined.

When considering new locations for retail development, planners must recognize that retail development does have public service and infrastructure costs that should be weighed against the potential benefits of a wider selection of goods, employment, and tax revenues.

1 A regional trade area is the geographic area from which a large percentage of sales are derived (usually from 50 percent up to 90 percent, depending on the extent to which sales come from tourists, visitors, and others from outside your region). Regional trade areas may vary considerably in size. The retail market analysis will include a map or definition of the trade area.

2 Due to the economic downtown, the market for retail, especially in less-populated, peripheral areas is down and not expected to pick up soon. See *Emerging Trends in Real Estate, 2010* (PricewaterhouseCoopers and the Urban Land Institute).

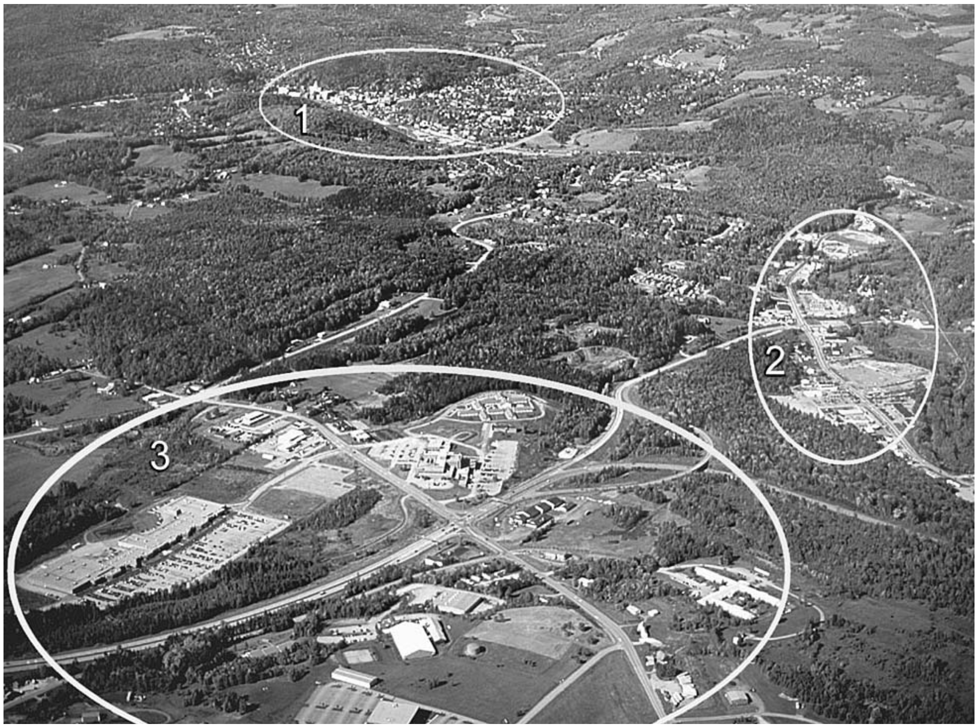

Photo illustrates three centers of retail development around Montpelier, Vermont: (1) downtown, (2) strip commercial, and (3) interchange development.

The most obvious service demanded is transportation, generally taking the form of new or enlarged roads and highways. While some of these improvements are paid for by developers, many are financed with taxpayer dollars.

Retail centers also require a full range of infrastructure services, including water, sewer, roads, sidewalks, driveways, parking, electricity, gas, and cable. They demand police protection, emergency services, and fire protection. Again, it is the municipality that most often pays for these services.

New retail areas can impact existing retail areas, such as downtowns, village centers, and older shopping centers. Research has documented that new shopping malls and big box stores can shift sales from older retail areas to these new areas.[3] With reduced sales, older shopping centers can experience declines in occupancy, employment,[4] and property values.

Planning for retail development, both existing and new, should minimize costs and maximize efficiency by following these guidelines:

1. Reinforce existing active retail areas, especially those in close proximity to concentrations of population. Significant public and private investment has already been made in these areas. It is inefficient not to utilize them in the future.

2. Promote compact retail development where mixed uses exist or are proposed, and a range of transportation alternatives are available. Such development will promote more walkable environments, while minimizing traffic impacts.

3. Locate retail centers where there is a full range of infrastructure, including water, sewer, roads, sidewalks, electric, gas, and fiber optic cable.

4. Provide for comparison goods in highly accessible, compact, mixed use regional centers; provide for convenience goods in neighborhood and town centers.

E-Commerce a Growing Share of Retail Sales

While e-commerce is a growing share of all retail sales, it is still a small percentage – 3.6 percent overall in 2008 according to the U.S. Census. Nevertheless, planners should factor in e-commerce when estimating future retail sales in their regions.

Between 2003 and 2008, e-commerce sales nearly tripled from $57.9 billion to $141.9 billion. The economic downtown has tempered that rate of growth somewhat. Nevertheless, e-commerce sales are a growing share of total retail sales – up to 4.1 percent according to U.S. Census estimates for the second quarter of 2010.

The highest proportion of e-commerce retail sales (under the category of electronic shopping and mail order houses) is in Clothing and Accessories ($17 billion) followed by Other Merchandise ($14 billion) and Electronics and Appliances ($13 billion).

Sources: U.S. Census Bureau, "E-Stats, 2008 E-commerce Multi-sector Report;" (published May 28, 2009). U.S. Census *2008 Annual Retail Trade* Survey, Table 5.

Implement Regulations That Reflect Your Plans

Zoning should specify the locations identified through the market analysis and planning studies for retail development, differentiating among the types and scale of retail that are appropriate for different parts of the community.

One mistake is to treat all commercial development and all retail development as one single use in a zoning code or ordinance. Commercial development includes not just retail trade, but also services, offices, and wholesale businesses. Each comes with its own set of impacts and considerations. For example, offices generally have fewer traffic impacts than fast food restaurants.

Even among retail stores there are differences. Locations for convenience goods are often more numerous and dispersed, while those for comparison goods are concentrated. Traditionally,

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3 See, e.g., Thomas Muller and Elizabeth Humstone, "Superstores in 'Sprawl Locations' in Iowa: An Analysis of their Effects on Downtowns," in *Better Models for Superstores*, Constance Beaumont, Editor (National Trust for Historic Preservation, 1997); and Thomas Muller and Elizabeth Humstone, *Impact of Wal-Mart Stores on Northwestern Vermont* (Preservation Trust of Vermont, 1995).

4 In some cases, employment in certain types of retail has been found to decline regionally as a result of these new retail developments. See reports cited in footnote 3.

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downtowns have been centers for both comparison and convenience goods, while smaller town centers and villages provide convenience goods. Suburban shopping malls typically focus on comparison goods. Most big box stores, such as K-Mart, Wal-Mart, and Target, offer both comparison and convenience goods.

In addition to zoning by type of retail store, a growing number of communities regulate the size, configuration, and impact of retail stores.

• *Square Foot Caps*: To limit the proliferation of big box or other large-scale stores in inappropriate locations, some communities have placed caps on the size of stores. Sometimes the caps are designed to ensure that the scale of new stores will fit into the character of a neighborhood, such as a historic district. Others limit the location of large stores to certain places in the community.[5]

• *Urban Design Standards*: Another approach to fitting new retail within a neighborhood, town center, or historic area is to use design standards or guidelines. For example, in some communities regulations call for entrances to stores to be on public streets and sidewalks and for facades to include a row of display windows (proving greater visual interest for pedestrians). Parking is often required at the side, back, or underneath buildings. Some communities have required the location of retail within multi-story buildings and/or mixed use buildings. *Editor's Note: for more on this, see Ilene Watson's "Introduction to Urban Design Guidelines," in PCJ #41.*

• *Impact Studies*: Economic and fiscal impact assessments and/or transportation impact studies are sometimes required of retail projects over a certain size to determine whether or not they will impose excessive costs on the community.

– Economic impact assessments measure the effect of projects on sales, employment, property values, and wages.

– Fiscal impact assessments focus on taxes and other revenues and cost of services.

– Transportation impact studies examine the effect the new development will have on traffic, roadway level of service, and the need for improvements in roads, as well as other modes of transportation (e.g., pedestrian, bicycle, bus).

Summing Up:

Retail development is an important land use in virtually every city and town. Effective planning, drawing on a thorough regional market analysis, can result in the more thoughtful development of future retail and revitalization of existing retail centers. Many cities and towns also use local regulations or guidelines to ensure that new retail does not impose excessive costs on the community, and better fits with existing neighborhood character. ◆

5 The New Rules Project currently has an online map and index of places around the U.S. with store caps: www.bigboxtoolkit.com.

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For additional resources related to this article, go to our PlannersWeb site – our resource pages are listed in the right-hand sidebar. Look for "Regional Retail."

A Retail Hierarchy

Regional shopping center: Has the largest concentration of retail businesses within a trade area. Usually a minimum of 350,000 square feet with two or more anchor stores. Includes downtowns, shopping malls, and big box retailing areas. Attracts shoppers from many towns, including adjoining counties and regions. Offers a broad range of comparison goods and often convenience goods. (*Super regional centers* may have over 800,000 SF of retail space.)

Community shopping center: Serves one or more communities with a range of shopping facilities, usually 100,000 SF to 350,000 SF in total. Features some comparison goods and a broad range of convenience goods. Usually in town centers, along major highways, and at interchanges.

Neighborhood shopping center: Primarily serves the host community with from 30,000 to 100,000 SF. Generally offers convenience goods. Usually in village centers or along highways.

Corner stores: A few small stores serving the immediate neighborhood at a prominent intersection.