

Evaluating Downtown Retail Opportunities

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This article summarizes a method for identifying market opportunities in specific retail categories. A detailed study of market demand and supply (in square feet) is necessary for each store category to determine market potential. Market opportunities can be identified where demand exceeds supply. After considering other more qualitative market factors including how and where local residents shop, conclusions can be drawn regarding potential business categories worthy of business expansion or recruitment efforts.

Retail Demand Analysis

In analyzing the retail market, the level of current demand can indicate the need for new or expanded stores. Unfortunately, data limitations often make it difficult to estimate demand. A relatively simple way to estimate trade area retail store demand is to use the 1997 Economic Census from the U.S. Census Bureau.

Using the Economic Census, actual retail sales levels for the state can be used as a surrogate for consumer demand. The underlying assumption is that aggregate consumer demand at the state level is fairly well represented by the aggregate retail sales captured at the state level. This is a reasonable assumption in states that do not experience significant sales leakage to adjacent states.

The following steps provide a relatively simple approach to estimating market area retail store demand using Economic Census data. The estimates of demand reflect consumer spending of people who reside within a trade area based on local per capita income and population. However, they do not reflect where those expenditures are actually made.

Step 1. Calculate Statewide Per Capita Spending

Per capita sales for each retail category are calculated by dividing 1997 state sales by 1997 state population. Sales and population estimates can be obtained through the U.S. Census Bureau's web site or through other public and private data sources.

Step 2. Adjust for Differences in Income

The next step is to determine a local adjustment factor that can be applied to state per capita retail spending to account for differences in per capita income. This makes the assumption that if local per capita income is higher than state per capita income, local per capita retail spending should be higher than state per capita retail spending. A simple method for calculating this adjustment is to divide trade area per capita income by state per capita income. In many situations, this calculation will provide a reasonable and sufficient adjustment for the overall difference in per capita income.

Step 3. Calculate Trade Area Store Demand

Retail store demand for your trade area can now be calculated by multiplying the results of step 1, step 2 and primary trade area population.

State Per Capita Retail Spending	\$319
X Adjust for Differences in Income	.993
X Current Trade Area Population	45,700
= Trade Area Store Demand	\$14,500,000



Step 4. Calculate Trade Area Store Demand in Square Feet

To provide an "apples to apples" comparison with the retail supply that will be estimated later in this section, retail store demand must be converted from dollars to square feet of space. A widely recognized and useful source of sales and space data for specific retail categories is the Urban Land Institute's *Dollars & Cents of Shopping Centers: 1997*. This research summarizes key operating statistics for a sample of shopping centers in various categories. While downtowns are not specifically surveyed, tenant information from the category "community shopping centers" provides a reasonable basis for estimating typical store size and sale per square foot. A sample calculation of store demand is shown below.

Trade Area Store Demand (Dollars)	\$14,500,000
÷ Dollars Per Square Foot	\$247.29
Trade Area Store Demand (Sq. Ft.)	59,000

Retail Supply Analysis

For the supply analysis, a database of existing businesses needs to be assembled for each of the store categories under investigation. The database should include all of the retail businesses within the primary trade area. In addition, other types of stores (such as department or grocery stores) that compete for business in this store category should also be included in the database area even though they will not be included in the demand and supply square foot comparison.

For downtown retailers, a complete list could be obtained from your building and business inventory. For trade area businesses that are located outside of your downtown area, a list can be generated from chamber of commerce lists, yellow-page listings and private data firms that sell business lists (such as InfoUSA).

For each retail store, a reasonable estimate of store size in square feet should be included in the database. In some communities, building square feet may be available in tax assessment records. Square feet can also be estimated by a simple comparison with other stores. The Urban Land Institute's *Dollars & Cents of Shopping Centers: 1997* provides information on store size that can be used as a comparative benchmark.

Additional comments should be added to the database to describe how each store competes in the market area. These individual strengths and weaknesses will be important later in the reconciliation of market demand and supply. See the following database example.

<u>Business Name</u>	<u>Address</u>	<u>Sq Ft</u>	<u>Comments</u>
Drug Stores (NAICS 44611):			
Cayuga Drugs	205 Valley Ave	1,000	Estab Cust.
Walgreens	806 S. Main St.	4,000	Pop. Chain
Tompkins Drugs	1709 S. 18th	6,000	Near Clinic
	Total (sq.ft.)	14,500	
Competitors in Other Store Categories:			
Save n' Shop	1719 S. Main		- In-Store
Discount City	15 W. Oak Street		- In-Store

Other Market Considerations

Examining quantitative aspects of demand and supply is only part of the analysis. There are also a number of qualitative considerations that require local knowledge and insight about the market. The previously calculated differences in retail space demand and supply need to be analyzed in context of other market factors. The following are additional considerations that add to the analysis of each category.

- Retail mix in other
- Quality of existing competitors
- Competition from outside the trade
- Consumer behavior
- Demand from non-residents
- Demographic and lifestyle information
- Survey and focus group findings
- Competition from other types of stores
- Demand from other businesses

Drawing Conclusions

The quantitative comparison of retail space demand and supply by store type must be analyzed in combination with an understanding of many other market considerations. If there appears to be a significant amount of unmet demand, there may be opportunity for an existing business to expand or for a new business to be recruited. These opportunities can then be evaluated as part of a downtown's niche and space utilization strategies, and eventually provide a foundation for business expansion and recruitment efforts.

For More Assistance:

More detailed guidance in completing this analysis is available in the Downtown and Business District Market Analysis web-based toolbox, a collaborative effort between the University of Wisconsin - Extension and the Wisconsin Main Street Program of the Wisconsin Department of Commerce. The toolbox is available at: <http://www.uwex.edu/ces/cced/dma/>

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