

# LET'S TALK BUSINESS

*Ideas for Expanding Retail and Services in Your Community*

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## **Retail Development in Growing Communities: How Much Retail Can Our Town Support?**

by  
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Growing communities often attract a variety of new commercial developments including both free-standing stores and neighborhood or community shopping centers. These developments provide a community with products, services and conveniences important to the quality of life of local residents. The challenge in accommodating these types of developments becomes one of minimizing losses to existing retailers, such as those downtown, while allowing new competition to serve the growing market.

To respond to this challenge, community leaders can conduct an assessment of the retail market with a focus on anticipated market supply and demand by retail category. The intent is to anticipate how well the market will respond to changes in the number, type and location of retail businesses and to provide community leaders with information to guide future business expansion and recruitment efforts.

Before an analysis of a particular development can be conducted, the economic health of the local retail community must be assessed. This requires a close look at retail activity, particularly in the central business district. Key indicators of economic health in the retail sector include vacancy levels, property values, store turnover, retail mix, employment, tax revenues, new business incubation, critical mass/concentration of retail, and the availability of goods and services demanded by the community.

Second, changes in trade area demographics should be estimated. The trade area is generally defined as the geographic area in which three-fourths of current customers reside. A significant increase in population could signal new opportunities for retail expansion or development. The profile of these new or anticipated residents can help you assess future market demand for various types of products or services.

Third, regional retail competition must be assessed. New retail concepts are threatening traditional retail stores. These concepts include large non-mall stores offering assortment and low prices for selected types of goods like electronics, off-price apparel stores, food/drug stores, outlet centers, warehouse clubs and the internet. By recognizing the changes in competition, both locally and regionally, your assessment of proposed retail developments can offer valuable insight into the changing market and risk facing the traditional retailers in the community.



Finally, with an understanding of general retail trends, changes in trade area demographics, and regional competition, anticipated gaps in the local retail market can be projected. Two techniques can be used.

**Retail Mix Analysis** - The retail mix in other "comparison" communities can be used as a measure of how many and what type of retail stores might be supported in the subject community. Comparison communities might include those with similar population, household incomes and distances from major metropolitan areas. If a community is growing in population, comparison communities with larger populations can be used.

Once a sample of comparison communities are identified, the retail mix in each community is inventoried by specific retail category. The average number of stores by retail category in the comparison communities is then compared with the number in the subject community to identify any significant differences that might suggest business expansion or development opportunities. To conduct a retail mix analysis in your community, see: <http://uwex.edu/ces/cced/lets/lets1198.html>.

**Retail Space Analysis** - In a growing community potential increases in consumer expenditures can be used to estimate how much new retail space can be supported. Household consumer expenditure data is available through the U.S. Bureau of Labor Statistics, Consumer Expenditure Survey (<http://stats.bls.gov/>). In addition, household consumer expenditure data by store type (grocery stores, book stores, hardware stores, etc.) can be purchased from private data firms. Increases in consumer expenditures can be calculated by multiplying projected increases in the number of households by the average spending per household.

Next, data from the Urban Land Institute's annual Dollars & Cents of Shopping Centers can be used to determine median sales per square foot for a variety of retail stores in various types of shopping centers. By dividing projected increases in consumer expenditures by sales per square foot you can estimate how many additional square feet (by retail category) could be supported by the additional households. The following table provides a rough approximation of how many square feet of store space could be supported by the addition of one "typical" household in Wisconsin.

Store Type	Support per Household
<u>Building Material</u>	<u>2.6</u>
Hardware	0.5
Department/Variety	13.4
Food-Grocery	11.6
Auto Supply	2.6
Gas Stations	5.5
Apparel	4.5
Shoe	1.3
Furniture	3.5
Home Furnishing	1.6
Appliance	0.5
Radio/TV/Comp/Music	2.3
Eating Places	12.4
Drinking Places	1.5
Drug	3.1
Sporting Goods	1.4
Book	1.0
Hobby/Toy	1.0
Gift	1.0
Flower	0.5

*Notes: This table is based on U.S. "Community Shopping Center" Gross Leaseable Area (GLA) and median sales per square foot as reported in the 1997 Dollars and Cents Shopping Centers (Urban Land Institute).*

*Square foot (S.F.) supported per household (H.H.) was estimated using 1998 consumer expenditure estimates (by store type) and the number of households for the State of Wisconsin as estimated by Claritas Data Services.*

These estimates are only approximations, as consumer demand in new households in your community will likely vary from the state average. Further, national shopping center median sales per square foot may not reflect local retail store requirements. Nevertheless, these estimates can be used as a starting point to identify retail categories that will experience significant demand growth as a result of an increase in local number of households.

These steps can help you estimate reasonable levels of retail growth in response to a growing population. Reasonable growth is important to ensure a successful and sustainable business community. In addition, it helps ensure that necessary goods and services will be available to a growing population.

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### Square Feet

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