

Village of Southampton Village Grocery Impact Study

Gibbs Planning Group, Inc.
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Grocery stores can increase shopper traffic and sales of an existing commercial center by up to 25 percent.

Executive Summary

American shoppers, on average, visited a supermarket 2.2 times per week in 2012, according to the Food Marketing Institute's *U.S. Grocery Shopper Trends*. As might be anticipated, recent research has established that there is a proven correlation between the presence of a grocery store anchor and lower vacancy rates for in-line retailers, higher rents for neighboring retailers, and higher—and less volatile—property values. While the direct effect of a grocery store anchor on neighboring retailers' sales per sf does not appear to have been rigorously studied, one documented data point suggests this value may approach up to 25 percent of increased sales for the Village of Southampton's retailers and restaurants.

General Impacts—New Village Supermarket

For the purposes of this study, we shall assume that the area's existing supermarkets are located in the outside of the village center, and are a 10,000 square foot (sf) "green grocer"¹ and a 15,000 sf store with a traditional selection of products. The new 20,000 sf store is assumed to be an upscale grocer, with price points and selection similar to Whole Foods or similar stores. For this discussion, assume further that the new 20,000 sf store opens as planned as a walkable urban store and within 300 feet of the village center's shopping district²; that is to say generally within the core of the historic village shopping district.

In a traditional town center retail district, a new grocery store of this size located within walking distance of existing retailers, restaurants and offices can be considered as a new anchor store for the community. While much of the existing quantitative research examining the potential impacts of such stores is performed in the context of planned shopping malls³, similar spillover effects could be anticipated in the Village of Southampton's commercial center under this scenario. Such spillover effects are outlined below:

¹ A store specializing in higher-quality fresh produce, meat, fish and prepared foods.

² A one-quarter mile radius assumes an automobile is not necessarily needed to access the new location.

³ These are centers typically classified as Community or Super Community centers. This is done for ease of data collection as figures including rents and property sales are controlled by a central landlord.

- **Lower Vacancy Rates.** Research in markets throughout the country shows that shoppers are given consistent exposure to neighboring retailers when a grocery store anchors a retail district. This results in lower-than-average vacancy rates in the area immediately surrounding the grocery store. For example, throughout the Tucson, Arizona market area, vacancy rates within walking distance of a grocery store anchor are nearly ten points below those areas without⁴. Similar figures have been reported in the top six retail markets nationwide⁵, with neighboring vacancy rates as low as four percent in the urban core of Washington, DC⁶. As vacancy rates have risen in both town centers and malls due to the Great Recession, those areas anchored by groceries have shown remarkable stability in keeping nearby retail space filled, as the relatively inelastic demand for groceries results in a steady stream of traffic to those locations⁷.
- **Higher Pedestrian Traffic and Retail Rents:** It follows that an area with increased shopper exposure would demand higher rents from its merchants, and several studies back up this assertion. An extensive study of nearly 400 retail districts in the Atlanta, Georgia area published in 2006⁸ found statistically significant evidence that the presence of a grocery store anchor translates into higher minimum rent prices in both community and neighborhood centers. The study concluded that such retailers "... appear to benefit from a grocery anchor, which can increase the volume of shopping contacts as consumers purchase lower order convenience goods on a more frequent basis. While higher order anchors may extend a community center's trade area, a grocery anchor increases the number of shopper visits relative to a center without a grocery anchor tenant⁹".

It is worth noting here a 2000 study¹⁰ that examined the rents generated by centers with grocery anchors, as it controlled for the specific type of grocery store. While this paper is sadly slightly out-of-date, and thus not accommodating of the current green grocer segment (such as Whole Foods), it found that there appeared to be an "anchor store-brand effect", whereby upscale grocery anchor tenants generated higher rents for in-line stores.

- **Higher Residential Prices:** A 2007 study of village center areas within Portland, Oregon that focused on the impacts of urban amenities on residential prices found that the presence of a specialty grocer resulted in a 17.5 percent price premium for nearby properties, all else held equal¹¹. In the case of a resort area such as a village center, this

⁴ Tomlinson, Rob. *Retail Trends: Anchored Centers vs. Mid-block Strip Centers*. Report. March 07, 2013. <http://blog.picor.com/bid/63396/Retail-Trends-Anchored-Centers-vs-Mid-block-Strip-Centers>.

⁵ Boston, New York, San Francisco, Seattle, Southern California and Washington, DC

⁶ Bierbower, Ricky. "Grocery-anchored Centers Ended 2012 with Lower Vacancies, Higher Rents." *The Washington Post*, January 11, 2013. http://articles.washingtonpost.com/2013-01-11/business/36313429_1_vacancy-rate-lower-vacancies-year-end.

⁷ American Realty Advisors. *Grocery-Anchored Centers: Why Average Isn't Good Enough*. Report. June 12, 2012. www.americanreal.com/research/2Q12ResearchNewsletter6.12.12.pdf. [EXHIBIT A]

⁸ Hardin, William G., III, and Jon Carr. "Disaggregating Neighborhood and Community Center Property Types." *Journal of Real Estate Research* 28, no. 2 (2006): 167-92. [EXHIBIT B]

⁹ *Ibid.*, pp. 177-178

¹⁰ Hardin, William G., III, and Martin L. Wolverton. "Neighborhood Center Image and Rents." *Journal of Real Estate Finance and Economics* 23, no. 1 (July 2001): 31-45. [EXHIBIT C]

¹¹ Johnson Gardner. *An Assessment of the Marginal Impact of Urban Amenities on Residential Pricing*. Report. June 2007. http://www.johnson-reid.com/files/Urban_Amenities_Final5.pdf. [EXHIBIT D]



*Village of Southampton's commercial district looking west (Main Street is shown in the foreground).
Image source: Bing Maps.*

impact may be felt in both rental and sales prices for residential property within walking distance of the potential store. The current grocery selection is limited by a lack of sales floor space. If we assume that existing sales space for groceries in the village center nearly doubles to 45,000 sf¹², seasonal residents and locals alike will see a reduced need to travel outside the immediate area by car to purchase some of their groceries, translating to increased desire to live within walking distance of this amenity.

- Increased Sales District-wide:** What, then, is the impact specific to an upscale grocer on the area's existing tenants? While the "Whole Foods Effect"¹³ has received much press, empirical studies are limited to an upscale green grocer's impacts on residential prices in the immediate area, and the attendant demographic shifts that follow¹⁴. Evidence of spillover to neighboring retailers remains mostly anecdotal¹⁵. In a 2010 interview with Joseph Coradino¹⁶, president of PREIT Services—a Pennsylvania-based company which owns the regional Plymouth Meeting Mall in suburban Philadelphia—it was stated that the addition of a 65,000 sf Whole Foods location as an anchor increased sales per square foot throughout the center from \$250 to \$310 in the first year, a 24 percent increase. Coradino credited Whole Foods with attracting higher-income shoppers to the center, which is additionally anchored by Macy's and Boscov's.
- Potential Impacts on Existing Supermarkets:** Would the spillover effects discussed above otherwise adversely impact the two existing grocery retailers in the Village of Southampton? As has been noted, addition of the new 20,000 sf competitor in the village

¹² 40-50,000 sf is generally regarded as the minimum floor area to provide a full-line supermarket. See, for example, Gibbs, Robert J. *Principles of Urban Retail Planning and Development*. Hoboken, NJ: John Wiley & Sons, 2012. 37.

¹³ See, for example, Doig, Will. "Whole Foods Is Coming? Time to Buy." *Salon*, May 5, 2012. http://www.salon.com/2012/05/05/whole_foods_is_coming_time_to_buy/

¹⁴ Johnson Gardner, 2007 (cited above).

¹⁵ See, for example, the interviews in: Boccaccio, Katherine F. "Tried-and-True Anchors: Supermarkets Stand the Test of Time." *Chain Store Age*, August/September 2012, 84-88. [EXHIBIT E]

¹⁶ Field, Katherine. "The Supermarket Evolves: Grocery-anchored Centers See a New Side of Supermarkets." *Chain Store Age*, June/July 2010, 72-74. [EXHIBIT F]

center area increases total floor space in this retail category to 45,000 sf total. This is unlike the scenario wherein a “big-box” competitor of 70,000 sf or more enters the market, overwhelming local competition. The 20,000 sf model green grocer is supportable within the two to three-mile Near Neighborhood Trade Area as defined in GPG’s Demand Model, which shows a demand in this area for up to 25,000 additional sf of retail.

Assuming the three stores are within walking distance or an easy drive of each other, each could provide a segment of shoppers’ needs in a given shopping trip to the area, as the three stores’ retail concepts provide a level of differentiation. In 2012, nearly half of consumers shopped at five different stores to purchase groceries¹⁷, taking such differentiation into account. Placing a new anchor store with sufficient market differentiation within walking distance of the existing two grocery stores can therefore increase sales at those stores by 10-20 percent, by capturing consumers who are currently driving outside of the trade area for all grocery purchases. There is a wide body of literature supporting the theory that an anchor with a positive brand image—in this case, an upscale grocery store—will produce positive sales impacts on adjacent merchants selling the same category of goods¹⁸.

Potential Impacts of a New Supermarket Outside of the Village Center:

As before, this section assumes the two existing grocers in the village center are 10,000 and 15,000 sf and are a green grocer and traditional supermarket, respectively. We shall assume further that a proposed new store of 20,000 sf locates in one of two locations: approximately three miles west or two miles east of the village center. The store would have similar price points and selection to an upscale green grocer such as Whole Foods. For this analysis, we assume a relatively even distribution of a 10,000-person population over the two to three-mile Near Neighborhood Trade Area, and further an even distribution of the additional 6,000 population comprising the Primary Trade Area. We assume that these 16,000 people shop for groceries within the trade areas only, though we relax this assumption below.

Using a simplified Huff Attractiveness Model¹⁹, and dividing potential supportable spending on groceries equally between the area residents and visitors, opening a new location outside of the village center area would potentially increase total grocery spending among residents and visitors between 1.6 and 2.8 percent. This assumes that all the potential supportable spending is captured by the new store location, and that those closer to the new location are likely to spend more in real terms due to increased convenience. A greater shift to spending at the new potential store occurs if the store is located to the west of the village center. This simplified model takes into account average distance from residents’ homes relative to the overall level of amenities offered, as well as average income levels.

¹⁷ SymphonyIRI Group. *Channel Migration: Charting a Course on the Voyage for Value*. Report. August 2012. http://www.symphonyiri.com/portals/0/articlePdfs/T_T%20August%202012_Presentation.pdf

¹⁸ A review of this literature can be found in Mejia, Luis C. and John D. Benjamin. "What do we Know about the Determinants of Shopping Center Sales? Spatial Vs. Non-Spatial Factors." *Journal of Real Estate Literature* 10, no. 1 (2002): 3-26. [EXHIBIT G]

¹⁹ This is a special case of the standard retail gravity model. Hardin (2006) [EXHIBIT B] referenced above gives an overview of the model used. See also Anderson, Patrick L. "Modeling Location and Retail Sales." In *Business Economics and Finance with MATLAB, GIS and Simulation Models*, 327-72. Boca Raton, FL: CRC Press/Chapman & Hall, 2005. The village center area and environs were broken into ten geographic regions of roughly equal size, approximating U.S. Census Block Groups. The elasticity coefficient was estimated to be -2, as per standard practice.

Table 1: Impacts of Proposed New Grocery if Located Outside of Village Center

<i>Location of New Store</i>	<i>Est. Existing Supportable Sales</i>	<i>Est. Increased Location-Specific Grocery Sales</i>	<i>Est. Total Supportable Sales</i>	<i>% Market Penetration</i>
2 Miles West	\$12,036,206	\$361,086	\$12,397,292	40
1.5 Miles East	\$12,036,206	\$192,579	\$12,228,785	30

Accompanying this shift in sales is a shift in market penetration, or the share of all grocery purchases in the trade area. The location of a new store to the west changes this penetration rate to an approximately 60/40 ratio, or 40 percent of purchases taking place at the new location. If this store were located to the east, the ratio would shift to approximately 70/30. We have assumed a penetration rate of 1.0 prior to the introduction of the new store, due to the underlying model assumptions—that residents and visitors in the trade areas are not leaving those areas to shop for groceries elsewhere.

Though this is a broad assumption, we can definitively say that the opening of a new location outside of the village—but nevertheless nearby—will shift sales away from stores located outside the trade areas, as well as from those in the village center. Based on the estimates of market penetration derived from the simplified model, we can assume this shift to be in the range of 15-20 percent of shopping trips for both those stores outside of the trade area and in the village center.

It is assumed that either of the potential new store locations is not easily accessible by non-motorized forms of transportation, though any traffic impacts would generally be confined to the areas immediately surrounding the specific site, as the limited existing selection of groceries in the village center is likely currently prompting many automobile trips outside the area. Therefore either potential new store location would have a negligible effect on existing levels of automobile dependence.

However, as those in the trade area living or staying closer to the new store site than the village center area would be less inclined to shop for groceries in the latter area, pedestrian traffic and thus retail sales in general could be negatively impacted. For example, a 15 percent shift of all grocery shopping trips from the existing village center retailers to a new store location equates to nearly 275,000 fewer individual trips into the village center in a year²⁰.

If this number is recalibrated to reflect household-trips²¹, trips into the village center for groceries are reduced by 110,300 annually. This result would be attenuated by the nearly 25,000 seasonal residents and visitors who choose to stay in the village in part due to its attractive traditional downtown, although changes in retail sales would become more volatile during the off-season period. Spread throughout the year, the reduced exposure to village center businesses due to the shift in point of purchase of groceries could affect 10-15 percent of total retail sales in the village center.

Summary & Conclusions

In conclusion, the addition of a 20,000 sf upscale market in the Village of Southampton would increase convenient access to high quality food for the majority of residents and visitors to the

²⁰ Assuming each of the 16,000 area residents and visitors average 2.2 grocery shopping trips per week, and assuming that prior to the new store opening half of those trips were to the village center.

²¹ Average household size within the Primary Trade Area was 2.49 in 2010.

Village trade areas. Planned in a walkable urban format and positioned within 300 feet of existing Main Street businesses, the new grocery would act as an anchor, likely increasing demand for neighboring retail and residential uses, and potentially bolstering existing retailers and restaurant sales by up to 25 percent.

As predicted in our simplified impact model, if located at a point on the edge of village, the store would greatly increase convenience and access—inducing between \$200,000-\$300,000 of additional yearly sales due to increased customer exposure and relocating 15-20 percent of grocery shopping trips away from the village center (though also relocating about the same number of trips currently made outside of the trade areas)—with the trade-off of impacting the market share of existing village center businesses.

Limits of Study

The findings of this study represent GPG's best estimates for the amounts and types of retail projects that should be supportable in the study area. Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by GPG independent research effort, general knowledge of the industry, and consultations with the client and its representatives. This study is designed as objective third party research and GPG does not recommend that any or all of the supportable retail be developed in the study area.

No responsibility is assumed for inaccuracies in reporting by the client, its agent and representatives or in any other data source used in preparing or presenting this study. This report is based on information that was current as of March 28, 2013 and GPG has not undertaken any update of its research effort since such date.

This report may contain prospective financial information, estimates, or opinions that represent GPG's view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted.

Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by GPG that any of the projected values or results contained in this study will be achieved.

This study should not be the sole basis for programming, planning, designing, financing, or development of any commercial center. This study is for the use of Village of Southampton for general planning purposes only, and is void for other site locations or developers.

-- END OF ANALYSIS --