

# **High Order Retail Development At 39<sup>th</sup> Ave & I-75**

**Market Impact Analysis**

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**By**

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## Bullet Point Summary

- Springhills and Butler Plaza share the same trade area for high order retail activity. Splitting the trade area and dispersing retail activity to NW 39<sup>th</sup> & I-75 will result in:
  - Impact On Retail
    - Shopping opportunities reduced for all Gainesville
    - Opportunities for new shopping reduced
    - Economic activity reduced
    - Economic potential reduced
    - As previously happened to Gainesville Mall and Downtown Gainesville, Butler Plaza cascades downward into a neighborhood center
  - Impact On Already Developed Neighborhoods Of Gainesville including Haile Plantation, Suburban Heights, East Gainesville
    - Market forces lead to a lowering of property values
    - Market forces lead to heightened difficulty for the resale housing market

## Executive Summary

Development of the Springhills site into a high order retail activity will bring about the decline of Butler Plaza and nearby Archer Road retail. The adjoining acreage of Butler Plaza North will be unviable as a high order retail center. The impact will be net fewer jobs, less retail sales, less sales tax revenues, lowering in land values, lowering commercial property tax revenues.

Continued development of Butler Plaza to include the adjoining acreage of Butler Plaza North is an opportunity to capitalize on the success of Butler Plaza and Oaks Mall. Because Butler Plaza North is in close proximity to Oaks Mall and thriving Butler Plaza, the spillovers from the agglomeration of retail activity at that location will result in greater geographic range of trade area, namely trade area extending further outwards, and greater penetration within each location of the trade area. New and higher order retail and related economic activity then emerges. More jobs. More retail sales. More sales tax revenues. Increases in land values. Increases in commercial property tax revenues.

# Geospatial Impact of High Order Retail Development At 39<sup>th</sup> Ave & I-75

## Introduction

I have been retained as an expert by 1000 Friends of Florida to provide my opinion on the direct and indirect economic impact attributable to the addition of a high order retail activity center at NW 39<sup>th</sup> and I-75. My credentials are available at <http://www.businessgeography.com> and <http://www.clas.ufl.edu/users/thrall/vita/index.html> and are included at the end of this document.

In this document I will provide a general understanding of the dynamics of retail location. I will then apply those teachings to project the impact upon areas within and nearby Gainesville resulting from high order retail development at Springhills (<http://www.shopspringhills.com>), particularly the impact upon the existing similar activity center of Butler Plaza.

## Background

A high order retail center is an agglomeration of retail stores in sufficient close proximity to easily accommodate multi-purpose shopping, and that the retail stores provide synergy where each contributes to higher store traffic volume and sales than if the store was situated in isolation of complimentary retail activity. To economically sustain a high order retail center, a larger number of people within its primary trade area is required than is required of a comparatively lower order retail center. Larger population count and subsequent traffic volume is achieved by a combination of comparatively high market penetration within the trade area, and also larger geographic region comprising the trade area.

A “retail power center” or “super regional retail center (See [www.icsc.com](http://www.icsc.com); Thrall 2002) are examples of what is referred to here as “high order retail centers.” Examples of retail stores that locate in these high order retail centers are Coldwater Creek, Crate and Barrel, Pottery Barn, Sephora, Trader Joe’s, Whole Foods Market and Williams-Sonoma (see <http://www.shopspringhills.com/FAQ.html>) and see Anthony Clark (2007, “What’s In Store,” Gainesville Sun, January 28 <http://gainesville.com/apps/pbcs.dll/article?AID=/20070128/LOCAL/70128037&SearchID=73278238999864>)

Retailers that anchor what are referred to here as high order retail centers also include Costco, Super Wal-Mart, Best-Buy. Retail stores that anchor large regional malls such as Sears may also occupy such centers. The architecture of the high order retail center has become dominated by parking spaces near the individual large footprint retailer, with open walkways linking the various retailers. This is in contrast to the enclosed regional mall. The recent trend has been for the high order retail agglomeration to be as a super regional power center versus the enclosed regional mall, though the square footage of each can be the same, exceeding one-million square feet.

The primary trade area is the geographic region from which 80% of customers originate. A first approximation of the primary trade area of the anchor stores of high order retail centers, namely super regional malls and power centers, are generally estimated to be the distance driven within 30 minutes. (For illustration, see Exhibit 1). In other words, to be economically viable, the demographic composition of the trade area as well as the transportation infrastructure must allow for 80% of the customers necessary to be drawn from within a drive distance of 30 minutes. The population density within the 30 minute trade area must be sufficiently high to result in sufficient sales to meet the requirements of the stores at the center. The demographic composition of the population within the 30 minute trade area must be of a composition to generate sufficient sales to

sustain the retail activity. Too few people of the necessary demographic composition will make for an unviable location. The introduction of an additional high order center within the same trade area can also make existing retail centers within the same trade area as unviable. If by the addition of a second high order retail center within the same trade area, new net sales or new net revenues are not generated, then one or both high order retail centers can become unviable for high order retail activity. In other words, with the addition of a second high order retail center within the same trade area, sales and consequently retail economic activity are merely shifted from one location to another within the same trade area. This is known as cannibalization.

The trade area of a super regional power center or mall is a direct result from the presence of the anchor stores. Anchor stores are traffic generators for the retail center. People are willing to travel 30 minutes to the retail center because of the anchor store. Examples of traditional anchor stores are Penney's and Sears. In what is now considered a traditional enclosed mall setting, the developer might provide a build-to-suit building for the anchor store at no cost to the store, in exchange for a long term contract to occupy (not "go dark") the space. In what is now considered a traditional regional power center anchored by stores like Best-Buy, the developer might provide concessions which including a possible reduction in rent, covering the cost of fitting out the retail space for the tenant, and contractual constraints on which retailers can occupy the same complex. How then does the development cover costs and return a profit?

The answer for what is now considered the traditional high order retail center is rents and revenue generated by the non-anchor stores. Non-anchor retail stores are willing to pay to occupy space that is within the agglomeration provided by the anchor stores. Hallmark Card is an example of a non-anchor retail store. Prospective customers might drive 30 minutes to go to Penny's and while at Penny's decide to comparison shop at Sears, and while walking from one anchor store to the other might pass Hallmark and decide while passing to purchase a greeting card at Hallmark. The prospective customer is unlikely to drive 30 minutes merely to purchase a greeting card. So Hallmark piggybacks onto the trade area and traffic generated by the anchor store.

Restaurants can fall into this same category as non-anchor. Restaurants often consider a 6 mile trade area as a first rough estimation of their primary trade area. A six mile trade area might be used as a first primitive estimation of a restaurant's primary trade area. Namely 80% of the home to restaurant to back home trade comes from within 6-miles of the restaurant. However, the six mile trade area might be inadequate for generating the level of revenues needed by a restaurant chain to meet corporate objectives. Restaurants within multi-branch retail chains such as Outback, Fridays, Bone Fish, fall into the category of retail that piggy-back onto the trade area generated by the anchor store, thereby generating more revenues than merely from their six mile range. Because they are willing to pay for this proximity, rents are generally higher near to agglomerations of anchor stores, and because rents are higher, so are land values and by implication property tax revenues.

What happens if households within the trade area become less likely to shop at the high order retail center? This can come about because of a change in the demographic mix and composition of households within the trade area, or because the area of the trade area becomes split because of the addition of an additional high order retail center elsewhere but within the same trade area. As the revenue generated by a high order retail activity falls below a threshold required to sustain that activity at that location, the retailer will close ("go dark") at that location, subject to contractual obligations. With the closing of the traffic generating retailer, the trade area declines in both geographic range (distance people are willing to travel to the high order center) and the number of people at each location within the trade area decline as well. The lower order retail activity then becomes less or non viable because of lower levels of revenue generated. Lower

order retail activities also close. It is common that lower order retailers have clauses in their rental contracts enabling them to cancel their contractual obligations with 30 days notice in the event that a traffic generating activity ceases operation.

With the decline in active retail agglomeration at a high order retail center, synergy between remaining retailers is lessened, possibly leaving remaining retailers with sales and revenues below that necessary for them to remain open. The cascade affect leads to the high order retail center either going dark, or declining into a lower order retail center serving a smaller trade area with lower market penetration. Commensurate with the decline in retail activity is a decline in sales, sales taxes, rents, land value, property taxes, and job opportunities.

### **Example of Springhills (NW 39<sup>th</sup> and I-75) versus Butler Plaza, Butler Plaza North, Oaks Mall**

The thirty-minute drive time trade area of the Butler Plaza / Oaks Mall location is shown in blue in Exhibit 1. The thirty-minute drive time trade area of the NW 39<sup>th</sup> and I-75 (Springhills) location is shown in orange in Exhibit 1. The difference between the geographic reach of the two trade areas is mainly in the low population density distant locations. Thus the two trade areas can be considered to be nearly spatially coincident, namely geographically overlapping one another. People are “distance minimizers”, in other words, given two equivalent destinations; people will choose to travel to the nearest location. The travel cost and travel time is less to the nearer location. If the equivalent is offered at the two locations they will effectively split the Gainesville trade area in two. There will be little net new revenue, merely transference of sales from one location to another. There is a loss of economic viability of one or both locations. One or even both close or become merely lower order neighborhood retail centers.

Butler Plaza has 125 undeveloped acres known as Butler Plaza North, situated between Oaks Mall and Butler Plaza. If Butler Plaza North were to be developed into a high order retail center, the addition of retail agglomeration would result in a wider reaching trade area, and greater market penetration. The likelihood of a successful shopping excursion would increase when shopping at the Butler Plaza, Butler Plaza North and Oaks Mall agglomeration. In contrast, high order retail development at Springhills would result in dispersal of retail activity. Traffic generating retail activity then moves to newly developed Springhills. The hot-spot for retail activity moves to 39<sup>th</sup> & I-75, impacting and leading to the decline in market potential of the Butler area. The current Butler Plaza hot-spot descends into offering those retail activities that can survive within a six mile trade area as shown in Exhibit 2, surviving without the revenues generated beyond the area shown in yellow.

### **Neighborhood Impact**

What impact would a shift in the retail hot-spot bring for East Gainesville, Downtown Gainesville, and the established population base of the area highlighted in yellow in Exhibit 2?

East Gainesville driving distance, measured from Waldo Road and University Avenue, to Springhills is 9.5 miles, versus 5.6 miles to Butler Plaza. Because property values follow proximity to employment and shopping, the area near Waldo Road and University Avenue becomes more disadvantaged in location. Property values decline.

Downtown Gainesville likewise also becomes more remote from shopping. People who work downtown and that otherwise would choose to reside in Downtown (or East Gainesville), might then choose to reside near NW 39<sup>th</sup> & I-75 thereby decreasing demand for Downtown. As people

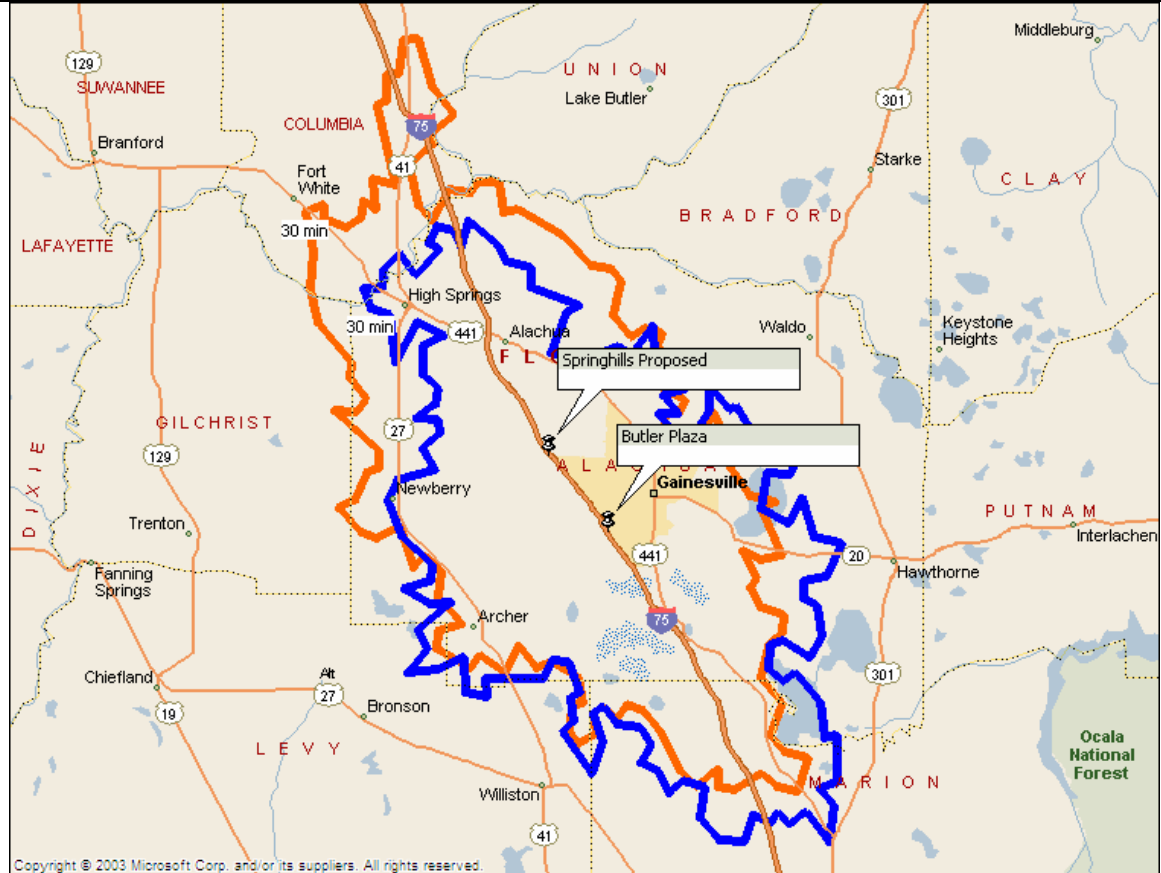
move to the Northwest, demand for local retail especially restaurants in the Downtown area becomes less than otherwise might be the case.

Core Gainesville area housing, especially the area highlighted in yellow in Exhibit 2, declines. With the NW 39<sup>th</sup> & I-75 retail hot-spot eclipsing the existing Butler Plaza retail agglomeration, households will distance minimize to shopping when making a housing location decision thereby shifting demand for housing toward High Springs and away from the currently developed areas shown in yellow which includes Suburban Heights, Haile Plantation, and other subdivisions.

### **Lost Opportunity**

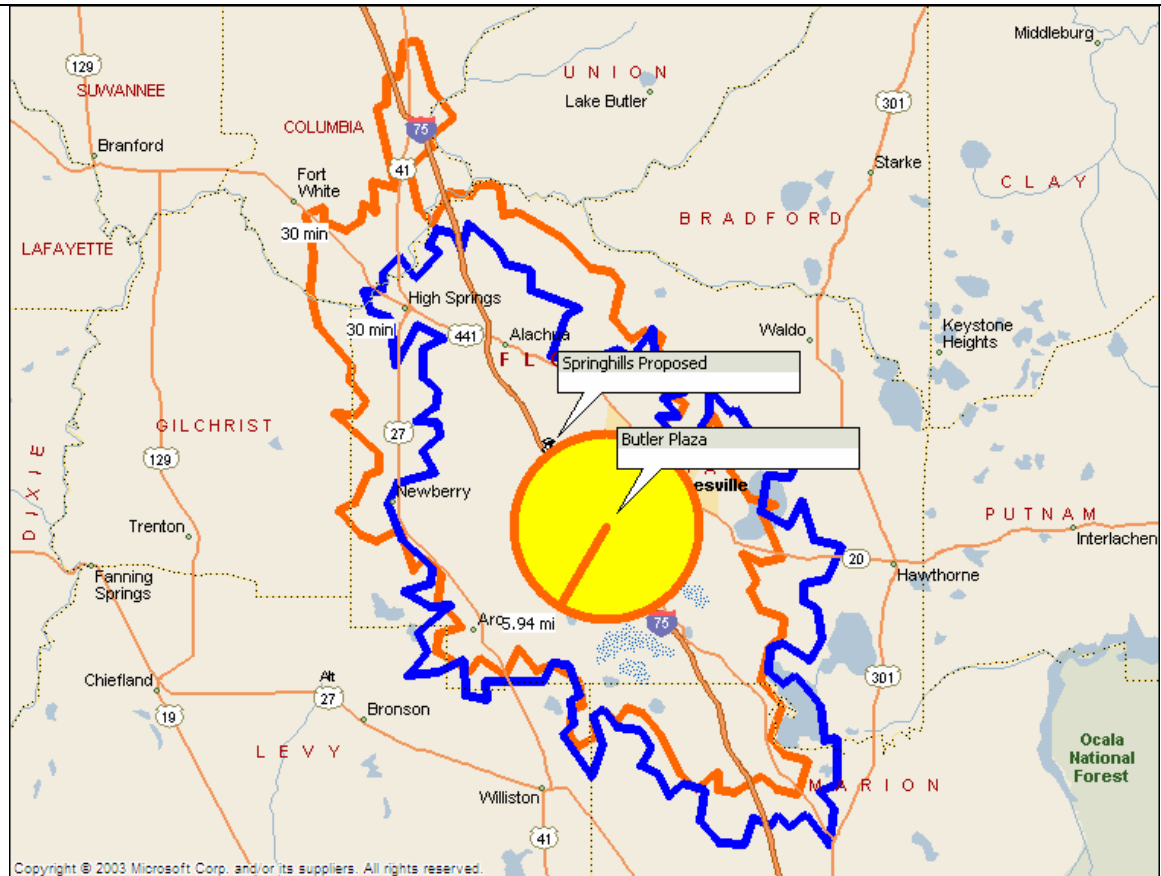
The development of Butler Plaza North is an opportunity to capitalize on the success of Butler Plaza and Oaks Mall. Because Butler Plaza North is in close proximity to Oaks Mall and existing Butler Plaza, the spillovers from the agglomeration of retail activity at that location will result in greater geographic range of trade area, namely trade area extending further outwards, and greater penetration within each location of the trade area. New and higher order retail and related economic activity then emerges. More jobs. More retail sales. More sales tax revenues. Increases in land values. Increases in commercial property tax revenues.

Exhibit 1: Drive-Time Trade Areas Of Butler Plaza & Springhills Comparison



Note: with the exception of the comparatively unpopulated perimeter trade areas, the two locations reach the same geographic trade area. Therefore, for a large footprint retailer, the two locations represent equivalent substitutes

## Exhibit 2: Six Mile Trade Area For Butler Plaza



Note: many restaurants and restaurant chains use a six mile trade area as the first primitive estimation of their primary trade area. Their experience is that 80% of the home to restaurant to back home trade comes from within 6-miles of the restaurant. But more trade might be needed or might be desired. To meet these objectives, the restaurant can piggy-back onto the traffic generated by the anchor stores with 30 minute trade areas.

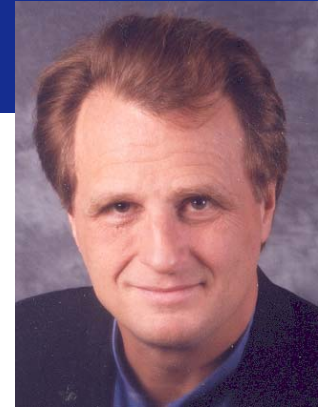
## Appendix 1

The analysis presented in Grant Ian Thrall Ph.D., April 16, 2007, "High Order Retail Development at 39<sup>th</sup> Ave & I-75: Market Impact Analysis" is consistent with Alachua County, Office of Planning and Development Staff Report: CPA-03-04, Staff Recommendation, Denial of adoption of CPA-03-04, page 44, paragraph 5

The findings of the market study are in opposition to the basic principles of the Comprehensive Plan. One of the guiding principles of the Comprehensive Plan is to promote sustainable land development that provides for a balance of economic opportunity, social equity including environmental justice, and protection of the natural environment. Allowing this amount of commercial development will allot this one development potentially all of the commercial demand for the next ten years. County-wide development and redevelopment, opportunities for infill, and existing businesses would be affected negatively.

Grant Ian Thrall Ph.D.

# About Grant I Thrall



Dr. Thrall has led the development of the contemporary university school of business geography thought. His 2002 book published by Oxford University Press, *Business Geography and New Real Estate Market Analysis*, is a synthesis of his pioneering contributions for over a quarter century. The American Real Estate Society's *Journal of Real Estate Literature* called his book "a paradigm shift" for real estate market analysis. The Wharton School of Business writes that Thrall's book is "compelling" as it builds the bridge between urban economic and geographic sciences advancing real estate market analysis. George Mason University writes that Thrall's book is one that every person in business needs to read. He has been invited to give presentations on his 2002 book to University of Pennsylvania's Wharton School of Business and Cal Berkeley's Haas School of Business, and others. In 2004 he was recognized as a "thought leader" having been invited to present the annual "Golledge Lecture" at University of California at Santa Barbara on his business geography topic.

Dr. Thrall has written or edited over a dozen books, and over 150 professional articles. His ten volume *Scientific Geography Series* is the standard reference for academic and practitioner applications of business location modeling and applications of geographic information systems to the urban built environment. Bridging the gap between academia and the private sector, for over a decade Thrall has been a consultant with Global Real Estate Research Practice, Financial Advisory Services, of PriceWaterhouseCoopers LLP, and he has twenty years experience consulting with [businessgeography.com](http://businessgeography.com). A sample of his consultancies includes the creation of the market analysis for 1,000,000 square foot University Corners mall, the largest development ever within the city of Gainesville, site selection services for O2Bkids, market analysis for St. Joe Company, Gables Apartments, State University System Board of Governors, Gainesville Greens, Butler Enterprises and Great Southern Land.

Dr. Thrall has been invited to make many public speaking engagements, and to publish articles for organizations including Centers for Disease Control and Prevention, FannieMae and the Appraisal Institute. Professor Thrall is the only geographer to have been on the academic board of editors of the Appraisal Institute's *Appraisal Journal*. He is one of four geographers that have been invited to be fellows of the Weimer School For Advanced Studies In Real Estate and Land Economics, one of the highest accolades in academic and high-level practitioner real estate. He gave the keynote address to the FACU 2005 annual meeting.

Dr. Thrall has been a Professor at University of Florida since 1983, where he is regularly nominated and has been a recipient of teaching awards. He created the Business Geography curriculum solely housed within his home Department of Geography in the College of Liberal Arts and Sciences. He presently advises ten students at the MA and Ph.D. levels, and numerous undergraduates. He is a Weimer Fellow of the Homer Hoyt Institute, a member of the academic board of the Appraisal Institute's *Appraisal Journal*, former co-editor of the *Journal of Real Estate Literature*, reelected twice to the Board of Directors of the American Real Estate Society; and he is business geography, software and data editor for the leading GIS professional magazine *GeoSpatial Solutions*. He is on the Board of Directors of the International Geographical Union representing Applied Business Geography. He is a member of the editorial board of *Journal of Real Estate Research*. Dr. Thrall has a Ph.D. in Geography and Economics, and an MA in Economics from The Ohio State University, and a BA in Business & Economics from California State University at Los Angeles. Professor Grant Thrall has been on the faculty of McMaster University in Canada, and SUNY at Buffalo. In 1989, he was Resident Scholar of the Homer Hoyt Institute in Washington DC. In 1990, he was Visiting Distinguished Professor at San Diego State University. In 2005 he gave \$500,000 in valued stock to support the Homer Hoyt Institute.

As a volunteer, Grant Thrall lent his expertise to his resident town of Gainesville, Florida. In appreciation, the Mayor and Gainesville City Commission declared two days as "Grant Thrall Days" for his advice and management of redevelopment of Gainesville's the historic downtown.

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