

REVIEW OF INDIANAPOLIS RETAIL MARKET STUDIES

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PREPARED FOR
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EXECUTIVE SUMMARY

PURPOSE

The purpose of this report is to review retail market studies prepared for selected communities in Indianapolis, Indiana, to comment on the validity and potential usage of these studies and to make recommendations about the content of future studies. Shorebank Advisory Services (SAS) was asked to perform an external review of selected market analyses commissioned by Fostering Commercial Urban Strategies (FOCUS) and the City of Indianapolis.

This report was prepared in connection with the commercial development strategy being formulated by Local Initiatives Support Corporation and FOCUS as they seek to improve the retail environments in neighborhoods near Indianapolis' central business district.

Specifically, SAS was asked to review and compare the aforementioned studies, provide an overall evaluation of the studies that addresses the value of the studies in defining potential retail strategies in the selected neighborhoods, their applicability, limitations and utility, and provide recommendations regarding possible future market studies.

The studies that are reviewed are:

1. Retail Market Study: Citizens/King Park prepared by Economic Research Associates (July 2001)
2. Martindale-Brightwood Neighborhood Retail Market Study prepared by Development Concepts (July 2002)
3. Near Eastside Neighborhood Retail Study prepared by Development Concepts (October 2001)
4. Retail Analysis for Near Southeast Neighborhoods prepared by Wabash Scientific, Gentleman Associates, Marketrends/American Grassroots and Scott-Hilliard-Kosene (June 2002)
5. Challenges and Opportunities for Retail Development in the Indianapolis Inner City: Census Tracts 3510,3515 and 3516 prepared by World Class Industrial Network with Near North Development Corporation and Mapleton Creek Development Corporation

SAS is the advisory and consulting arm of Shorebank Corporation, the nation's premier development finance institution. We have significant experience in assisting governmental agencies, economic and community development organizations, private investors and financial institutions in developing strategies and tools to increase investment in historically underserved communities. In doing this work, we have developed an understanding of the unique characteristics of underserved communities and their market potential. This experience was brought to bear on this assignment. It should be noted that we are not Indianapolis-based and did not perform field inspections of the communities discussed in the studies, but relied solely on the written market studies.

FINDINGS

- Each study suggests guidelines and actions for the subject communities as they move forward with retail development. The specific action plans serve as blueprints for community mobilization. In fact in each case care has been made to suggest community building strategies. A key question in addition to community building would focus on whether lenders and retailers would participate given the information currently available. We would suggest not yet.
- Each provides basic demographic data that addresses potential spending power, existing retail supply, existing retail demand, metrics for determining the market voids and recommendations on locations for potential developments. The metrics used to assess retail supply and demand are appropriate to make broad judgments about each of the aforementioned categories. However, because these are all inner-city, underinvested communities, additional data will be needed to understand the true characteristics of the communities and thus their true spending (buying) power.
- None of the reports provide the level of detail that a specific retailer may need in order to make investment decisions. The use of Bureau of Labor Statistics and Census of Retail Trade data can lead to broad generalizations about market gaps. However, each retailer needs to ascertain its potential within a neighborhood based on its product mix in relation to the demographics of that neighborhood and its specific definition of trade area.
- In general, the studies need to further address the impact of employment centers on demand for retail services. While the impact of this sector will vary from community to community, in certain communities the impact could significantly change the types and number of retailers willing to locate there.
- Each study addresses the number of commuters passing through the community. This is a very difficult market to assess, as it is difficult to determine the number commuters who would stop in a particular community to make purchases. As well, the universe of potential retailers for commuters is much greater, as they may pass through a number of communities during their commute, each of which may have

the types of products and services the commuters want. Our experience indicates that retailers that depend on high levels of impulse purchases benefit more greatly from high traffic counts than those whose typical customer makes planned purchases. For instance, a convenience store will benefit from high traffic counts more greatly than an electronics store.

- The communities reviewed in the studies are in very close proximity to one another and to other retail opportunities. Any retail development in one community may impact sales in one or all of the other communities. It is important that an analysis of demand and supply of retail goods and services throughout all of the communities is done and that a retail development strategy be developed for the communities in the aggregate so that each of these communities are not pursuing the same retailers or markets.
- Because these studies represent the initial analysis of the retail market potential in these communities, they provide general support for additional development. Future studies require more in-depth analysis of the types of retail that these initial studies recommend. Additionally, there is need to understand the true market share that the proposed businesses might attract, how any anticipated demographic changes might impact potential retailers and what barriers to development exist in the communities.

CITIZENS/KING PARK

Economic Research Associates (ERA) completed the Citizens/King Park Retail Market Study for the City of Indianapolis in July 2001. The purpose of this market analysis was to help develop a retail strategy for the Citizens/King Park neighborhood, just to the north of the city's central business district. The analysis targeted 4 intersections in the community and sought to determine what types of developments might be feasible at these intersections, and the neighborhood as a whole, to assist in retail-related planning efforts.

While the study's intent was to focus on a particular neighborhood, the authors chose to review market data based on a primary trade area of a one-mile radius surrounding the intersection of 22nd St and Central Avenue; their secondary trade area is a two-mile radius from that intersection. They note correctly that consumers' retail spending patterns are based on factors other than neighborhood boundaries; retailers, therefore typically use this "radius" method of evaluating potential markets. For instance, a dry cleaner located at the center of a designated neighborhood may be farther, either in terms of distance or time, from homes located at the edge of the neighborhood than a dry cleaner located in an adjacent neighborhood. As well, retailers typically use this method to determine markets.

The study reviews a large number of demographic data points including population, income and spending patterns. The data were drawn from a variety of sources including CACI (a major vendor of demographic data), the City of Indianapolis Dept. of Capital Asset Management, the Urban Land Institute and the International Council of Shopping Centers, Bureau of Labor Statistics and the Census of Retail Trade. All of these sources provide industry standard information that allows those analyzing the data to be confident that the statistics are consistent across all geographic market areas. Moreover, these data sources are consistent with those used by major retailers when choosing locations.

Using various metrics, ERA found that in six key retail categories in the primary trade area that the aggregate demand in these categories exceeded supply by more than \$20 million. This indicates that residents purchase items in these categories outside of the primary trade area. When the three categories in which neighborhood supply exceeded demand were excluded from the aggregate, demand exceeded supply by more than \$26 million. The four key categories that show the greatest opportunity for retail development were as follows:

Category	Supply	Demand	Leakage
Apparel	1,000,000	7,068,000	6,608,000
Miscellaneous*	4,875,000	14,005,000	9,130,000
Eating and Drinking Places	7,875,000	11,585,000	3,710,000
Materials and Household Furnishings	500,000	7,089,000	6,589,000
Total Leakage			26,037,000
* consists primarily of drug stores, liquor stores and entertainment retail			

Of this total, ERA believes roughly one-third of the aggregate leakage or “\$6.8 million in potential sales could take place in the neighborhood study area if appropriate and well managed stores in certain categories were to open there”. As well, ERA states that this additional retail could support the addition of 30,000 to 40,000 square feet of retail space. Based on the categories that were found to be the most lacking in the community, ERA presents examples of the various retailers in these categories and their space requirements. Additionally, the authors present a variety of franchise opportunities that may be appropriate for local entrepreneurs.

Based on their analysis, ERA recommends that a neighborhood shopping center be developed, preferably in conjunction with an existing Safeway grocery store located at 22nd St. and Central Ave. The rationale behind this recommendation is that successful neighborhood retail requires critical mass in order to be successful. By locating the new retail development along side the Safeway, the new retail outlets would benefit from the traffic generated by Safeway shoppers. ERA also presents a financing scenario and a concept plan for the site. It is their belief that significant public subsidy will be required in order to construct this center, including infrastructure improvements, low interest loans, tax abatements and equity investments.

ERA also strongly recommends that certain neighborhood initiatives be undertaken to improve the appearance of the neighborhood. These include organizing neighborhood clean-up efforts, the reduction in the number of loose animals and the greater presence of security personnel to increase the sense of safety in the community and reduce the perception of crime.

SAS Impressions:

- Report provides information necessary to refine retail development strategy
- Data supports demand for additional retail
- Additional data to assess income density may help attract retail development
- An analysis of retail available in nearby communities will help refine strategy
- Impact of large employment base on retail strategy should be further developed

This report presents the community with the information necessary to move into the planning stages for retail development. It specifically recommends steps that the community leaders might take to reach the critical mass necessary to have a successful retail core. However, because this study was prepared in July 2001, updated data and more community, business and site specific data will be required in order to move forward.

The authors' did not delve into the specific strategies and market data that will be required to attract a specific retailer to the community. While this was not in the purview of the study, this data will be needed as the retail development strategy moves forward.

The authors' use of the Census of Retail Trade information and Bureau of Labor Statistics provides a more in-depth, detailed look at the retail spending habits of the subject community than conventional demographics. However, further validation of these finding may be required. Survey and interviews, if they are well documented and receive a high level of participation is

one way to provide validation. Moreover, the use of school enrollment, utility usage (e.g. gas and electric hook-ups), and sales tax receipts data may also serve to validate finding.

Given that that the study area is an urban community, an important statistic to review is income density. Recent studies indicate that urban communities present much greater sales opportunities than many wealthy suburban communities. While median household incomes may be higher in suburban areas, the number of people per square mile in many urban communities, the amount of unreported income in these communities and the relative cost of land and lease rates combine to make historically underserved urban areas strong markets for traditional retailers whose product mix matches the demands of the communities.

Additionally, more information on the availability of retail services in adjacent communities will assist in further refining the potential of retailers to market specific products and services as competition in adjacent communities may influence a retailer's decision to locate and eventually a buyer's choice to spend money.

One specific data point that begs further analysis is the number of jobs in the trade area. ERA notes that there are 14,800 jobs in the area; that number is greater than the population, which is 14,100. This represents a key market for any retailer that will locate in Citizens/King Park. While it may be difficult to calculate accurately the impact of this large number of potential consumers, they add a dimension to the overall market that should be addressed. Information on the types of jobs, the income level of the employees and the work hours of those employees can serve as a basis of the recruitment of retailers to serve the needs of this group and the neighborhood in general.

MARTINDALE-BRIGHTWOOD

Development Concepts completed the Martindale-Brightwood Neighborhood Retail Market Study in July 2002. Its purpose is to provide a description of the existing retail climate in the neighborhood, provide an analysis of the study area using traditional demographic and census data, as well as resident and stakeholder interviews and surveys, and recommend specific strategies for strengthening retail development in the area.

Development Concepts defines the primary trade area as the community's boundaries, i.e. 30th Street to the north, Sherman Drive to the East, Massachusetts Ave. to the south and the Monon Trail to the west. The extended trade area extends to 38th Street to the north Emerson Ave. to the east, Massachusetts Ave. and 16th Street to the south and Meridian Street to the west. This definition was selected based on site surveys and expected resident shopping patterns given drive times, population density and other standard means of measuring trade areas.

The information used to determine existing retail potential was gathered using a variety of data sources. These include demographic data from CACI including Census of Retail Trade (CORT) information, results from a survey issued to residents to determine current spending habits and interviews with community leaders, property owners, real estate professionals and lenders. Additionally, a windshield survey was done to evaluate the existing retail supply and the quality of goods and services provided by existing retailers. The authors also took note of vacant storefronts, commercial buildings and land in order to get a sense of potential sites for future retail development.

The population of the Martindale-Brightwood community as of the 2000 census was 7,580. CACI projects that the population will decrease to 7063 by 2006. The number of households, 2894 as of the 2000 census, is projected to decrease to 2828 by 2006. The population and number of households in the extended trade area are also expected to decrease through 2006. The median income of the community is projected to decline through 2006; however, the average household and per capita incomes are projected to increase through 2006.

Using CORT data and demographic data, the authors project retail demand within the community and the extended trade area. In order to determine how that demand is currently met, a survey of the community was done. Additionally, the authors discuss the development of the Keystone Enterprise Park, a proposed industrial park and its potential impact on retail development in the community.

The study includes an action plan for implementation in which recommendations/ suggestions are made for potential retail development in the neighborhood. In it the authors present three opportunities for retail development.

SAS Impressions:

- The study provides a very good blueprint for moving forward with a retail strategy given the considerations discussed below
- Low population/density needs to be further addressed
- More in-depth review of both supply and demand for retail services is needed

The strength of this report lies in the direction that it gives to community leaders in moving to the next step. The authors make recommendations as to how the community might move forward with the review of the study's retail development opportunities. These recommendations clearly indicate that further study is needed to validate the opportunities and that steps need to be taken to bring other players, such as the city and other governmental agencies, private developers and lenders, into the discussion.

Certain issues arise as a result of this study that must be addressed before any of the recommendations made by its authors can be addressed. Most notable are the issues raised by demographic projections showing a declining population with incomes below national and state averages. These projections present a real concern for retail development. Retailers look at both population and income as indicators of potential success at a particular site. While urban communities typically suffer from lack of retail services due to the fact that retailers consider the income levels too low, these communities can argue that the density of the community warrants closer review. In Martindale-Brightwood, the density of the community is projected to decline. The authors of the report cite the adage "retail follows residential". In order for community-based retail to flourish in this community, a strategy should be developed to stabilize and subsequently increase its population. Attempts should be made to determine if this trend, as determined by CACI, is correct.

Additionally, a more in-depth review of both supply of and demand for retail services should be undertaken in order to truly assess the market gaps. The authors' use of windshield surveys yielded some results in determining supply of retail services. However, a more complete inventory of retailers would yield more accurate results. For instance, the use of sales tax information would indicate the number of and types of businesses located in the area and also the amount of their reported sales.

A survey was issued to validate the demand for retail services and current residents' shopping patterns. The authors cite that only 89 surveys were returned; this represents just over one percent of the population. The low number of returns does not yield the information needed to validate the data that the authors use to make their demand calculations. Several other participants in the LISC/FOCUS program used telephone interviews, preceded by a message from the Mayor emphasizing the importance of their participation in the process, which resulted in much higher resident participation in the information gathering process. Additionally, school enrollments, utility hook-ups and sales tax receipt data may also validate the finding.

NEAR EASTSIDE

The Near Eastside Neighborhood Retail Study was completed by Development Concepts in October 2001. The stated goals of the study were to gather market data to identify potential uses in the study area and to identify potential sites for focusing retail development activities. The information used to determine market demand and supply were gathered from a variety of sources. CACI was the primary source for demographic information. Development Concepts issued a survey of residents in order to assess market demand, as well.

In its demographic review of the communities, Development Concepts found that the number of households in the area has remained relatively constant over the last decade. Projections indicate that the number should not change greatly through 2005. The median household income of the community had grown to \$25,581 in 2000, growing at roughly the same rate as the state and national medians; although the neighborhood median is lower than both the state and national medians.

Also, the review indicated that the ethnic make-up of the community was changing. The percentage of African-American and Hispanic residents is increasing; the percentage of Caucasians is decreasing. This creates a change in demand for products and services in the community.

Of significant note, Development Concepts states that there is substantial competition for neighborhood retailers in very close proximity to the subject community. Also, the authors found that there is a lack of concentration of retail services in any area of the community.

Development Concepts notes correctly that the use of standard demographics when analyzing urban communities can lead to the conclusion that these communities could not support additional retailers. The study notes that the income density, a key statistic in measuring an urban community's retail potential, is \$77 million per square mile. The authors intimate that deeper drilling could lead to further proof this community could support more retail. The study states that the categories of retail that have the greatest potential for success in the Near Eastside neighborhoods are apparel, furniture and major appliances, sporting goods, games and toys and pet supplies.

Development opportunities appear to exist in the neighborhood.

1. The neighborhood is positioned along major thoroughfares that carry commuters to and from downtown. Roughly 65,000 commuters pass along the four major roads. There may be an opportunity to pull some of the commuters into the community to purchase goods and services.
2. The authors believe that the proximity to downtown Indianapolis presents clear opportunities for residential development along smaller commercial streets that would serve the community in two ways: 1) increase population density which could spur retail development; and 2) reduce the number of vacant buildings within the area.

3. A strong base of committed businesses exists. The authors believe that with the organization of business associations, local owners could pool resources to develop market share.
4. The primary trade area has an income density of \$77 million per square mile. This indicates strong buying power within the community. Moreover, analysis indicates that there are categories in which there are evident gaps in the availability of goods.

SAS IMPRESSIONS

- Report provides a very strong blueprint for community action and resource mobilization
- More detailed review of demand and supply is required to assess validity of market gaps.
- A more in-depth analysis of retail services available in adjacent trade neighborhoods is required to assess its impact on potential new retailers
- Implications of moving strong existing businesses to new locations need to be studied.

This report provides a very strong blueprint for community action with regard to retail development. It provides a very detailed “next steps” process for moving development forward. In essence, it presents a community strategy for developing retail opportunities. It rightfully notes that much work is needed and outlines that work.

However, as noted in our review of other studies, a more in-depth review of both supply of and demand for retail services should be undertaken. The authors’ use of windshield surveys yielded very good results in determining supply of retail services. The use of sales tax information would provide insight into the reported sales of local retailers and allow the user to compare those numbers with potential demand to develop a more valid “leakage” figure. The use of surveys to determine demand and purchasing patterns did not add substantively to the analysis. The authors cite that only 69 surveys were returned; this represents less than 1% of the total population. The use of telephone interviews has yielded better results for other FOCUS participants.

The study’s finding that significant competition for retail services exists in adjacent community need to be analyzed further. That competition exists means that new retailers would have to assess the impact of this competition when making an investment decision. If the community understood the nature of this competing retail cluster, it can adjust its strategy accordingly.

The concept of clustering businesses, as is recommended with businesses within the community, could have both negative and positive consequences. Businesses that developed a loyal following may suffer as a result of a move to a new location. Further study of this concept is warranted to determine its feasibility and risks, including a cost-benefit analysis and an optimization study should be done to determine impact of these recommendations.

NEAR SOUTHEAST

The Retail Analysis of the Near Southeast side Neighborhoods was prepared by a consortium of research organizations consisting of Wabash Scientific, Gentleman Associates, Marketrends/American Grassroots and Scott-Hilliard-Kosene. Their objective in undertaking this analysis was fourfold:

1. To quantify market demand
2. To compare market demand with the existing supply of retail goods and services in the neighborhood and to determine gaps
3. To ascertain the likelihood of neighborhood consumers using new businesses that would potentially fill those gaps
4. To determine additional sources of retail demand in the neighborhood

The geographic market area was deemed to be the twelve census tracts that comprise the neighborhood. The information used to quantify the market demand was gleaned from the U.S. Census Bureau, Claritas (a major vendor of demographic data), the Bureau of Labor Statistics and the Census of Retail Trade. In order to validate the data, the authors chose to compare similar data sets from different sources. For instance, for population data, they reviewed numbers from The Census Bureau and Claritas. They found that the differences were not statistically significant. However, because there is a growing Hispanic population and there appeared to be an under count of this group, they decided to use a range of numbers to account for the suspected under count. Overall, they determined the population of the community was 32,715 in 2000, up 2% from the 1990 census; Per the Census Bureau, there were 11,173 households; although the authors chose to increase this number to 11,500 to account for the suspected undercount of Hispanic residents. The average household income was \$41, 753. The total aggregate income (average income multiplied by number of households) for the community ranged between \$467 million and \$480 million.

Using CORT and BLS data, the authors determined that there was significant unmet demand in the neighborhood in a wide variety of categories. The authors determined chose to categorize these gaps, which they called "Merchandise Voids", into four categories: "Merchandise voids which can be realistically filled in the Near Southside"; "Merchandise voids which cannot be realistically filled in the Near Southside due to the dominance in that category of suburban 'big box' retail"; Merchandise voids which are too small to warrant another business; should work with existing businesses"; Merchandise which is currently overrepresented in Near Southside".

In order to assess the likelihood of neighborhood consumers patronizing new retailers in the Near Southside, the authors conducted 1,117 telephone interviews. The interview focused only on those categories that the authors had deemed “Merchandise voids that can be realistically filled in the Near Southside”. Their results indicate that residents would be drawn most greatly to reasonably-priced apparel and shoe stores, ethnic restaurants, hobby/craft stores, optical services, coffee shops/bakeries and dry cleaners, in that order.

In order to determine other sources of retail demand in the community, the authors examined traffic patterns within the neighborhood. They looked at public transportation usage (IndyGo ridership) and traffic counts on 11 corridors running through the neighborhood. The data indicated that a large number of commuters pass through the community on a daily basis.

Employers in the community represent another source of retail demand. The authors report that 1600 business establishments employ 45,000 workers in the neighborhood. The authors cite interviews with representatives of three major employers, all of whom indicated that they would be willing to work with the neighborhood retailers to increase awareness of the services available in the surrounding community among their workforces. The most often cited needs for this sector were restaurants; although health and beauty products and dry cleaning were also mentioned. A primary concern of each interviewee was parking at the potential retail sites.

Additionally, the authors cite that 200,000 visitors come into the neighborhood each year.

SAS Impressions:

- The report indicates that opportunities may exist for new retail in community
- Greater analysis of data is warranted
- Limiting choices based on historical patterns of retail location choices may result in missed opportunities

The report cites many statistics that indicate the potential for additional retail may exist within the community. The density of the population and the projected aggregate income are two of the factors that may encourage retailers to locate within the community. As well, the number of commuters passing through the community and the visitors who come to local venues also represent a possible source of demand.

However, the need exists for greater analysis of the data collected. For instance, there are a great number of commuters passing through the community. An analysis of the likelihood of their stopping to purchase goods and services would assist in marketing the community to potential retailers. For the same reason, the potential impact of the large workforce population on retail demand should be assessed. Digging deep into the meaning behind the numbers yields the most useful results.

Limiting outreach to potential retailers based on historical patterns may result in lost opportunities. Deeming certain categories of retail as “unrealistic”, despite the fact that there appears reasonable demand within the community for those categories can stall retail development efforts. For example, the authors determined that office supplies are not a viable retail opportunity because traditional retailers favor suburban “big box” retail. However, there is a very large business community with the community that may well be able to support a retailer in this category. As well, some retailers are beginning to scale their stores to fit within urban communities. For instance, Office Depot PDQ, a downsized Office Depot may fit well with the Near Southside. Moreover, an independent retailer may be willing to come into the community, if given the right incentives. When seeking to encourage retail development in urban communities, we must think beyond traditional patterns.

CENSUS TRACTS 3510, 3515 AND 3516

Challenges and Opportunities for Retail Development in the Indianapolis Inner City: Census Tracts 3510, 3515 and 3516 was completed by World Class Industrial Network (WIN) in May 2002. The study was conducted in partnership with Near North Development Corporation (NNDC). Although the study examined retail potential in all sectors, particular interest was given to the development of a grocery store as NNDC felt that there was considerable unmet need for food and basic household items in the community.

The study's review of the demographic data indicates that while the neighborhood may be poor relative to Marion County, not everyone is poor. Fully 60.7% of the households earn \$25,000 or more; 30.6% of households earn between \$35,000 and \$49,999. Much of the study's data was drawn from Experian, a major provider of detailed market data.

The study determined supply and demand for retail products and services using a variety of data sources including Dunn and Bradstreet and Claritas. The authors cite certain limitations as to the use of this data, namely that they are estimates and that, in the case of Claritas, the information does not include expenditures by commercial concerns or nonresidents. Notwithstanding these issues, the authors determined that aggregate consumer demand exceeded aggregate consumer supply by 90%. In all categories, except alcoholic beverages, demand exceeded supply. The aggregate dollar amount of projected excess retail demand, or leakage, was nearly \$11million. In the "Food at Home" category, a proxy for groceries, the gap was \$3.7 million; demand exceeded supply by 99%. The findings indicate that there is an opportunity for retail development, including a grocery store, within the three census tracts.

Additionally, the study provides a myriad of data concerning age, home ownership, income, consumption patterns of goods and services, media usage and other detailed information.

The authors interviewed community leaders, business owners and residents to determine barriers to development. The study puts barriers to development into three categories: land use and physical barriers, including land assemblage, parking; social and economic barriers, including the ability to find honest workers, theft and physical safety; and political and financial barriers, including access to capital, absence of technical assistance and lack of public financial incentives.

The study concludes with three options for consideration :

1. Attracting a food retailer
2. Developing a food co-op
3. Attracting a major discount store, such as Wal-Mart

The study lists the pros and cons of each scenario and provides general guidelines for proceeding with planning the next steps for each of the options.

SAS Impressions:

- This study provides a very detailed blueprint for taking steps to attract a food retailer
- The report provides a sizeable amount of data
- A clearer understanding of implications of the data would be helpful

This study provides community leaders with guidelines for attracting a food retailer to the community. It explains the implications of each iteration presented in the document, including barriers that must be addressed prior to development. However, it does not specifically outline the ways in the community might attract other type retailers to the community. While a grocery store appears to be the greatest need in community, the study indicates that there are other unmet needs as well. An approach should be developed for attracting retailers to meet those needs.

The report provides a great deal of demographic data about the three census tracts. However, certain basic data points are not readily available. For instance, the population and number of households must be deduced from other data within the document. This may seem like a trivial point; however, the community will use this document as a reference guide as it moves ahead with the retail development process, and the easier it is to access information from it, the more valuable a tool it can be.

As well, the implications of some of the data need to be addressed more fully. How might some of the data be used to support the contention that the community can support a grocery? The data supports the contention that the community needs a food retailer; however, the document does not directly address the demand a food retailer may need in its trade area in order to succeed.

NEXT STEPS: FUTURE MARKET ASSESSMENTS

Nearly every existing retail development—whether successful or failing—was supported by some degree of market assessment. Every development succeeds or fails based on a variety of factors, including location, market demand and management. A carefully researched market analysis should highlight both the potential rewards and the risks associated with the potential development. As FOCUS moves into the next step of its retail development planning, there are some key components of its market analysis review that will make any future market analyses more directed and, as such, more useful. These components fall into the categories of purpose/usage, demand analysis, future changes and barriers to development.

PURPOSE

Each of the studies that SAS reviewed in conjunction with its engagement with FOCUS addresses broad issues within defined communities. Each is useful as a *starting point* in the development process; they provide varying levels of guidelines that the subject communities might use to further define their redevelopment strategies. However, they do not provide the level of detail that a specific retailer may require in order to make a firm commitment to locate. Every retailer uses different criteria to determine if a location has the characteristics necessary for a successful store. As FOCUS seeks to assist community organizations foster development, it is important that the organizations understand that the next step in the process will require a more directed analysis of the market for the types of retailers that the communities, using the retail market studies as a guide, determine are the most likely to locate and succeed in their communities.

DEMAND ANALYSIS

Demand analysis encompasses trade area and demographics. The sales potential of a retail venture is largely determined by the trade area from which customers will be drawn, by the spendable income present in that area and by the share of that income that the venture will garner. Market studies often overestimate the size of the trade area. Typically, these studies use simple assumptions about distance or travel time made without appropriate acknowledgment of specific neighborhood demographics, transportation barriers or competitors' market penetration. Usually, a trade area is defined by a radius of one to 10 miles. The problem with this sort of analysis is that it ignores the varying income levels and demographics to which no single retailer might appeal equally, thus leading to inflated sales estimates. As well, the radius approach does not account for physical barriers that can make travel to the proposed site less appealing to potential consumers.

Also, potential retailers could benefit from sales to employees who work within the trade area. As noted in the Citizens/King Park Study, there are more jobs in the area than there are

residents. Thus this potential group of consumers may be as important as residents, and needs to be included in future analyses.

For proposed new retail ventures, an analysis of existing retail clusters that draw from the trade area may lead to conclusions about store design and product mix as well as about potential competition.

Demographics

The inappropriate use of overly broad data is a pitfall in market studies. Often market studies contain demographic profiles and summary descriptions of competing retail centers, which look impressive, but are not actually used in the calculation of retail potential. Detailed demographics can be used to provide the look of a detailed analysis. Of course, there is true value to detailed demographic data, but only if they are used to identify distinguishing characteristics of the area being studied in relation to other, competing sites or city neighborhoods.

One of the major obstacles preventing many businesses from realizing market opportunities in urban areas is the long-standing myth that a trade area's median income is a good indicator of buying power. But, while income may be an indicator of buying power for an individual person or household, the *median* income of a trade area is generally not a good indicator of buying power, especially in urban markets. Many suburbs, for example, have above-average median income, but are very sparsely populated relative to the city, so that fewer total consumer dollars are available. In many central cities, by contrast, population density more than makes up for median income, yielding much higher concentrated buying power. If you're interested in how many dollars are available to be spent at your store, median income can be misleading. Concentrated buying power provides a better indication of the total dollars available in a market.

A second important consideration is diversity. In terms of income, race, ethnicity, education, occupation and a host of other demographic characteristics, urban trade areas tend to be substantially more diverse than the suburbs. Once again, median incomes can mask viable market opportunities. The median income is nothing more than the 50th percentile of the income distribution; half of the households earn more, and half earn less. Many people have the impression that income is distributed around the median in a nice bell-shaped curve. However, it is generally the case that income follows a *log-normal* distribution, where the right side, or tail, extends much farther than the left. For this reason, it is important to examine the entire income distribution, not just the median, when assessing a market. For example, the South Shore neighborhood of Chicago has a median income of substantially lower than the median income of the city overall. Yet the income distributions are remarkably similar. South Shore has more people at the very low end, and fewer at the highest levels, but the middle ranges of the two distributions are nearly identical. In other words, despite its deceptively low median income, South Shore has a strong middle class presence, comparable to areas with a much higher median income. If the low median income would deter you from looking for middle class customers in South Shore, you would be missing a huge market opportunity. There is a very strong middle class presence in many neighborhoods that goes largely overlooked by retailers who focus on median income.

Combining the effects of density and diversity helps to uncover substantial pockets of highly desirable customers neglected by traditional methods that overemphasize median income. For example, many retailers' first reaction to analyses of concentrated buying power can be some version of the following: We know that there are a lot of people in this area, and collectively this adds up to a lot of dollars, but we sell to a higher-income consumer, so all this density isn't enough to interest us. Fair enough, but remember that density and diversity can *interact* to produce some pretty surprising results. Many retailers are surprised to find that in similarly sized trade areas, urban trade areas have a larger number of high income individuals and college graduates.

The real value of demographics comes in those studies that use the detail to sharply define the community as it relates to the potential retail investment, most specifically when the data will more accurately identify the supportable market and profitability of a specific venture.

Evaluating Future Changes

Retail development does not occur in a vacuum. It is important that any foreseeable changes be addressed in the market assessment. For instance, changes in income levels or distribution can seriously impact a retailer's sales. To accurately forecast the operation of a retail enterprise, one must anticipate such future events as socio-demographic changes in the trade area and potential changes in transportation patterns.

Barriers to Development

Any true assessment of an urban community will include comments related to barriers that have precluded development in the past. If a community has been historically underserved, retailers will have justification for the lack of investment. Therefore addressing the real and perceived impediments to development can go a long way towards mitigating the concerns of the potential investor. For instance, if the community has been considered a high crime area or one with declining house prices, but the statistics do not support that notion, the study should make that point clearly and with convincing backup data.