



RETAIL PURCHASING POWER AND SPACE DEMAND ANALYSIS

Calvert County plans to redevelop the site of the former Middle School in Prince Frederick. To assist with this transition, the Board of County Commissioners (BOCC) engaged Fore Consulting to provide an unbiased, professional review of the potential uses of the project. Calvert County seeks a unique concept for this cornerstone location, one that will set a high standard for the Prince Frederick Town Center.

Given the site's prominent frontage on Route 2/4 (Solomons Island Road) and the successful retail commercial development in the site's immediate vicinity, retail redevelopment is one of the likely combined land uses for the site. However, some members of the BOCC expressed concern that Calvert County could not successfully accommodate additional retail space and asked Fore to examine whether additional retail space could be accommodated. The consultant analyzed and compared the estimated levels of retail spending by county residents with the estimated volume of retail sales at county retail establishments. This comparison was made both in total and by broad category of retailing (e.g., groceries, apparel, etc.) so that major imbalances could be identified by type of retail activity. The consultant also estimated the additional retail space by category that could be supported and the "lost" real property tax revenue and employment associated with this retail space.

Methodology:

- An analysis of consumer retail expenditures (i.e., demand) by the residents of the competitive trade area by broad category of retail establishment.
- An analysis of the retail sales that occur at retail establishments in Calvert County.
- Conclusions of the supportability of additional retail space in the county and which broad categories of retailing are undersupplied.
- For purposes of this analysis, the competitive trade area is the entirety of Calvert County as it is the intent of the analysis to determine the extent to which, if any, there is the potential for additional retail space anywhere in the county.

Demand Analysis (Consumer Retail Expenditures):

- The analysis of the retail expenditures by residents of Calvert County includes estimating the number of county households, the households' aggregate income, the total of retail expenditures by these households, and the distribution of retail expenditures among broad categories of retail stores.
- The following steps were undertaken to estimate the total demand for retail space in Calvert County:
 - Estimate the number of households in the county;
 - Estimate the aggregate household income of county households;
 - Estimate the percentage of aggregate household income of county households spent on all retail purchases;
 - Estimate the level of total retail expenditures; and
 - Estimate the distribution of total retail expenditures among broad categories of retail stores.
- First, Fore estimated the number of households in the county in 2011 and the households' average household income from socio-economic data provided by Nielsen, a nationally recognized provider of such data. Based on this information, the estimated number of county is estimated total 33,068 in 2011. The aggregate household income is estimated to be approximately \$3,107,500,000 in 2011.
- Fore then estimated the percentage of household income that county residents spend on retail purchases, whether such purchases occur in the county or elsewhere. For purposes of this analysis, they excluded non-store sales (such as internet sales) and motor vehicle and gasoline station sales so that data could be compared with other retail sales data that would reinforce the conclusions. (Most sales at motor vehicle establishments and at gasoline stations are not subject to sales and use taxation.)
- The consultant relied upon the services of Nielsen to estimate both the total retail expenditures made by county residents as well as the distribution of those expenditures among broad categories of retail establishments. The Nielsen estimates of consumer expenditures are based on the Consumer Expenditure Survey published by the Bureau of Labor Statistics (BLS) of the US Department of Labor. Estimates are produced by developing

regression models of household expenditures for a wide range of goods and services. This information is then combined with proprietary demographic estimates to create geographic estimates of potential household demand for products and services. Other data sources used in developing these estimates include trade associations and the Census of Retail Trade. Based on the Nielsen estimates for 2011, Fore estimated that 33.61 percent of County residents' household income is expended on retail purchases as defined. Thus, the estimated aggregate retail expenditures attributable to Calvert County households total approximately \$1,044,500,000 million in 2011.

Supply Analysis (Retail Sales at County Establishments)

The analysis of retail sales occurring within Calvert County included examining Maryland state sales and use tax collections for Calvert County, surveying and estimating sales at retail shopping centers in Calvert County, as well as examining Nielsen estimates of retail store sales for the county.

The Office of the Comptroller of Maryland publishes detailed sales and use tax collection data for each Maryland county for each fiscal year. This sales and use tax collections information is arrayed by broad categories (Food and Beverage Group, Apparel Group, General Merchandise Group, etc.), each with several sub groupings. As sales and use tax is collected by establishments other than retail ones (some wholesale and service establishments collect it), it was first necessary to select those categories that were largely retail in nature. As the consultant needed to align this information with each of the broad categories established for the analysis of consumer expenditures (see above), it was then necessary to reorganize the data by these categories. Retail sales were then calculated based on the uniform 6.0 percent tax rate in effect through the end of fiscal year 2011.

There are certain limitations in using this sales tax information to estimate total retail sales. The principal limitation is that each retail chain reports its statewide sales tax collections as a single amount and not by store location or jurisdiction. This means, for example, that Giant Food reports its statewide tax collection to the Office of the Comptroller for all of its stores combined into one total. To estimate tax collections on a per-County basis, the Office of the Comptroller divides the total tax collected for a particular chain and allocates it on an average per-store basis for all units of the chain throughout the State. Thus, in the case of the three Giant Food units in Calvert County, the Office of the Comptroller reports the equivalent of three average Giant store collections and not the actual collections that took place in the county.

In addition, certain types of establishments that are usually considered to be "retail" in nature (e.g., grocery stores) do not collect sales and use tax for many goods sold in their stores. Thus, it is not possible to estimate sales for these types of establishments with this data. To compensate for this in certain cases, Fore did use the estimated grocery store and pharmacy store sales for Calvert County that "Food World" surveyed in early 2011. "Food World" is a publication for the food and pharmacy industries in the Mid-Atlantic region. Each June it publishes an annual "market study" where it reports sales volumes by county, by chain, for the larger grocery store, convenience store, and pharmacy chains. "Food World" reported annual chain grocery store sales of \$230.4 million, annual chain pharmacy store sales of \$14.3 million, and annual chain convenience store sales of \$21.1 million in the county. Based on the use of sales and tax collection information as adjusted, Fore estimated total retail sales for Calvert County to be approximately \$476,482,000, excluding motor vehicle and gasoline station sales. However, because of the data limitations discussed above, Fore believes that State's sales and use tax collections information is not a reliable basis for estimating retail store sales in Calvert County as it very likely significantly undercounts the actual level of retail sales.

As an alternative method to estimate retail store sales in Calvert County, Fore surveyed retail shopping centers in Calvert County. Fore collected information on actual sales volumes for chain grocery stores, convenience stores, and pharmacies using information published in the above referenced "Food World." For the remaining stores in the surveyed shopping centers, Fore estimated average retail sales based on experience with similar types of the centers in the greater Washington region. Fore estimated these stores to average \$250 per square foot of retail space (gross leasable area), with the exception of the two Walmart stores for which the average US store productivity (\$422 per square foot) was used. In all, Fore identified 18 shopping centers and three freestanding grocery store or pharmacy units. This approach presents, however, significant limitations. First, some portion of these shopping centers includes non-retail establishments, such as beauty parlors, dry cleaners, insurance agencies, doctors offices, etc. that are service, not retail, establishments. Including these tenants will overstate the estimate of retail sales. Second, and more importantly, a survey of shopping centers does not include the many freestanding stores that are located outside of shopping centers as well as store front retail space such as that in Prince Frederick. This approach yielded estimated total sales of \$548,511,000. For the reasons cited above, the consultant believed that this also understates the actual level of retail sales.

In the end, the consultant relied on the estimates provided by Nielsen to estimate the level of retail sales in Calvert County. Nielsen's estimates are directly related to its estimates of consumer expenditures by broad retail category. Nielsen bases its estimates of retail sales on several sources, including the 2007 Census of Retail Trade that is conducted every five years by the US Census Bureau. The information collected in this census is updated for changes in business activity using wage and employment data from the US Bureau of Labor Statistics and local sales tax data.

Unmet Retail Space Demand

By this comparison, a substantial share of retail spending by County residents, on a net basis, is "lost," that is occurring outside of Calvert County. Comparing the estimated total levels of retail expenditures by Calvert County residents (\$1,044,457,700) with the estimated level of retail sales occurring within the county (\$719,333,897) indicates that there is a net "loss" of retail sales spending of approximately \$325,124,000 to locations outside of Calvert County. When these totals are adjusted for the surplus of Food & Beverage Stores in the county, the "lost" retail sales spending totals \$460,727,356, representing a retail sales leakage factor of some 54.1 percent. When consumer expenditures and retail sales are compared by broad category, Fore was able to identify those retail categories for which additional retail space is supportable, and these "lost" retail sales represent jobs that could otherwise be located in Calvert County. The following compares consumer expenditures and retail sales by category.

**Estimated Retail Sales, by Categories of Retail Establishments
Calvert County
2011**

	Consumer Retail <u>Expenditures</u>	<u>Retail Sales</u>	“Lost” Spending (Expenditures less Sales)	Percent “Lost” <u>Spending</u>
Furniture & Home Furnishings	\$35,393,527	\$5,004,113	\$30,389,414	85.9%
Electronics & Appliance Stores	36,431,856	15,149,585	21,282,271	58.4%
Building Materials & Garden Equipment Stores	155,412,908	42,392,271	113,020,637	72.7%
Food & Beverage Stores	193,582,141	329,185,694	-	-70.0%
			135,603,553	
Health & Personal Care Stores	92,121,550	64,607,788	27,513,762	29.9%
Clothing & Clothing Accessories	80,649,791	7,186,830	73,462,961	91.1%
Sporting Goods, Hobby, Book, Musical Instrument Stores	32,071,799	4,685,111	27,386,688	85.4%
General Merchandise Stores	209,844,944	154,333,501	55,511,443	26.5%
Miscellaneous Store Retailers	42,312,844	18,818,047	23,494,797	55.5%
Foodservice & Drinking Places	<u>166,636,340</u>	<u>77,970,957</u>	<u>88,665,383</u>	53.2%
Total	\$1,044,457,700	\$719,333,897	\$325,123,803	31.1%
 Total Excluding Food & Beverage Stores	 \$850,875,559	 \$390,148,203	 \$460,727,356	 54.1%

Sources; Fore Consulting, Inc.; Nielsen.

Based on the survey of retail shopping centers, Fore believes there are opportunities for additional retail establishments in most categories of retail with the exception of food and beverage stores. According to this comparison, food and beverage store sales exceed the expenditures of county residents by a substantial margin. This is very likely attributable to residents of neighboring counties purchasing these items at the closest grocery and related establishments. This comparison does indicate that there are opportunities in all other categories, including furniture and home furnishings stores, electronics and appliance stores, building materials and garden equipment stores (e.g., home improvement centers), clothing and clothing accessories stores (e.g., women’s and men’s clothing stores, shoes stores, etc.), sporting goods, hobby, book and musical instrument stores, and foodservice and drinking places (e.g., restaurants and bars).

Although it is unlikely that all of these sales would ever be repatriated to Calvert County (for example, some retail expenditures by county residents are made while they are on vacation or working outside of the county), there is ample demand for additional retail development in many retail categories in Calvert County. If all of these “lost” sales could be repatriated to the county and an adjustment for the oversupply of food and beverage store space is made, it is estimated that there is unmet demand for approximately 1.6 million square feet of retail space. Using

productivities (sales per square foot) of industry leaders in each retail category the following summarizes the estimated unmet demand for additional retail space by broad retail categories.

**Estimated Additional Retail Space Demand
From County Resident Retail Spending Outside of the County
Calvert County
(Excluding Food and Beverage Stores)**

<u>Retail Category</u>	<u>“Lost” Spending</u>	<u>Estimated Productivity (Sales per Square Foot of GLA)</u>	<u>Additional Retail Space Demand (Square Feet of GLA)</u>
Furniture & Home Furnishings	\$30,389,414	\$150.00	202,596
Electronics and Appliances Stores	21,282,271	\$600.00	35,470
Building Materials, Garden Equipment Stores	113,020,637	\$250.00	452,083
Health & Personal Care Stores	27,513,762	\$920.00	29,906
Clothing & Clothing Accessories	73,462,961	\$330.00	222,615
Sporting Goods, Hobby, Book, Musical Instrument Stores	27,386,688	\$215.00	127,380
General Merchandise Stores	55,511,443	\$325.00	170,804
Miscellaneous Store Retailers	23,494,797	\$300.00	78,316
Foodservice & Drinking Places	<u>88,665,383</u>	<u>\$335.00</u>	<u>264,673</u>
	<u>\$460,727,356</u>		<u>1,583,843</u>

-
- Excludes Food & Beverage Stores category as there is an estimated excess supply of such space in this category in the county.
 - Typical sales per square foot of gross leasable area (GLA) of retail space based on published data by representative leading category companies.
 - Estimate from “Lost Spending” divided by “Productivity per Square Foot of GLA.”
 - Sources: Nielsen; corporation SEC filings; Fore Consulting, Inc.

As is already the case in the county, most of this additional retail space would likely be located proximate to the county’s population centers.

Loss of Real Property Tax Revenues and Employment

The retail sales that are “lost” to other jurisdictions also imply a direct loss in real property tax revenues for the Calvert County General Fund. It is estimated that if all of the “lost” retail sales (excluding food and beverage store sales) could be repatriated to Calvert County, County real property tax revenues would increase by nearly \$1.9 million in fiscal year 2011-2012 (see the table following).

Retail
by
residents
of the
thereby
the
for retail
the
also
“lost”

**Estimated “Lost” Real Property Taxes
From County Residents Retail Spending Outside of the County
Calvert County
FY 2011 - 2012**

spending
county
outside
county,
lowering
demand
space in
county,
implies

<u>Retail Category</u>	Additional Retail Space Demand (Square Feet of GLA)	<u>Assessed Values</u>		Estimated “Lost” Real Property Taxes
		Per Square Foot of GLA	<u>Total</u>	
Furniture & Home Furnishings	202,596	\$150.00	\$30,389,414	\$271,073
Electronics and Appliances Stores	35,470	\$150.00	5,320,568	47,459
Building Materials, Garden Equipment Stores	452,083	\$90.00	40,687,429	362,932
Health & Personal Care Stores	29,906	\$140.00	4,186,877	37,347
Clothing & Clothing Accessories	222,615	\$85.00	18,922,278	168,787
Sporting Goods, Hobby, Book, Musical Instrument Stores	127,380	\$85.00	10,827,295	96,580
General Merchandise Stores	170,804	\$80.00	13,664,355	121,886
Miscellaneous Store Retailers	78,316	\$100.00	7,831,599	69,858
Foodservice & Drinking Places	<u>264,673</u>	\$300.00	<u>79,401,836</u>	<u>708,265</u>
	1,583,843		\$211,231,651	\$1,884,187

- Excludes Food & Beverage Stores category as there is an estimated excess of supply of such space in this category in the county.
- Estimated assessed value per square foot of GLA based on the most recent assessments of similar county properties.
- Estimated by multiplying “Additional Retail Space Demand” by “Assessed Values per Square Foot of GLA.”
- Estimated for the current FY 2011-2012 fiscal year by multiplying “Assessed Values – Total” by the current county real property tax rate (\$0.892 per \$100 of assessed value).
- Sources: Online assessment data from the Maryland Department of Assessment and Taxation; Fore Consulting, Inc.

employment opportunities. Using sales per paid employee data published by the International Council of Shopping Centers, it is estimated that approximately 2,553 retail jobs are “lost” to other jurisdictions, as shown below.

Estimated “Lost” Employment
From County Resident Retail Spending Outside of the County
Calvert County

<u>Retail Category 1/</u>	<u>“Lost” Spending 2/</u>	<u>Sales per Paid Employee 3/</u>	<u>Estimated “Lost” Employment 4/</u>
Furniture & Home Furnishings	\$30,389,414	\$187,248	162
Electronics and Appliances Stores	21,282,271	229,973	93
Building Materials, Garden Equipment Stores	113,020,637	241,205	469
Health & Personal Care Stores	27,513,762	235,922	117
Clothing & Clothing Accessories	73,462,961	126,117	582
Sporting Goods, Hobby, Book, Musical Instrument Stores	27,386,688	130,614	210
General Merchandise Stores	55,511,443	208,689	266
Miscellaneous Store Retailers	23,494,797	130,610	180
Foodservice & Drinking Places	<u>88,665,383</u>	187,248	<u>474</u>
	<u>\$460,727,356</u>		<u>2,553</u>

- Excludes Food & Beverage Stores category as there is an estimated excess of supply of such space in this category in the county.
- Estimated by subtracting estimated sales at county retail establishments from estimated spending by county residents on certain categories of retail goods.
- Source: U.S. Economic Census; International Council of Shopping Centers.
- Estimate from “Lost Spending” divided by “Productivity per Square Foot of GLA.”
- Sources: Nielsen; corporation SEC filings; Fore Consulting, Inc.

Conclusions

From this analysis, Fore concluded:

- The “lost” retail sales attributable to county residents are estimated to be \$460,727,356 (excluding consideration of food & beverage stores).
- If all of these “lost” sales could be repatriated to the county and an adjustment for the oversupply of food and beverage store space is made, it is estimated that there is unmet demand for approximately 1.6 million square feet of retail space. As is already the case in the county, most additional supportable retail space would be located in proximity to the county’s population centers.
 - There is then ample demand for additional retail space in Calvert County in most categories: Furniture and Home Furnishings Stores, such as furniture stores, floor covering stores, and other home furnishings stores.
 - Electronics and Appliance Stores, such as radio and television stores, computer and computer software stores, and camera/photographic supplies’ stores.

- Building Materials and Garden Equipment Stores, such as home centers (e.g., Lowe's, Home Depot), paint and wallpaper stores, hardware stores, outdoor power equipment stores, and nursery/garden center stores. The "lost" sales in this category could accommodate about four Lowe's home improvement centers using the chain's average store net sales of \$27,900,000 in fiscal year 2011.
 - Clothing and Clothing Accessories Stores, such as men's, women's, and children's clothing stores; shoe stores; jewelry stores; and luggage and leather goods stores. All of the "lost" sales in this category could accommodate about nine Marshalls or TJ Maxx stores (owned by the same company) using the chain's average store net sales of \$8,200,000 in fiscal year 2011.
 - Sporting Goods, Hobby, Book, and Musical Instrument Stores, such as sporting goods stores; hobby, toy, and game stores; sewing stores; musical instrument stores; and newsstands.
 - General Merchandise Stores, such as department stores; and warehouse clubs and supercenters.
 - Foodservice and Drinking Places, including full-service and limited-service restaurants; cafeterias; and drinking places.
- As "Lost" sales imply an unmet demand for additional retail space, the county also suffers from "lost" real property tax revenues associated with such space. If all the unmet demand for retail space were accommodated within Calvert County, an estimated additional \$1.9 million in real property tax revenues might be realized.
 - Retail spending by county residents outside of the county, thereby lowering the demand for retail space in the county, also implies "lost" employment opportunities. Using sales per paid employee data published by the International Council of Shopping Centers, it is estimated that approximately 2,553 retail jobs are "lost" to other jurisdictions.