Retail Markets and Place-Making Appendix D

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While retail is classed as a single category of real estate, it includes a wide variety of different businesses with different requirements and different users. Some very basic questions occur when assessing retail markets: how many people need what is being sold, how often do they need it, and how far do they have to go to get it. People need groceries often, while appliances are needed only once in a very long time. Stores with goods that require lots of visits annually are called "high-frequency" uses; others, such as appliance stores have fewer visits and are considered "low-frequency" uses.

On the other hand, as frequency goes down the market area gets larger because people are willing to travel for infrequent expensive purchases (a new set of living room furniture), but not for frequent low-value purchases (a quart of milk). For this reason, high-frequency uses tend to be distributed across the landscape to capture small local markets while low-frequency businesses will locate in a few locations with good access to the larger market area. Most retail businesses fall between the two extremes. For Midtown, a mixture of low-frequency and high-frequency uses is desirable.

Another basic question when assessing retail is how to get people to come to your business (market capture). One answer is value versus time. The shop with the highest perceived value given for the amount of time spent getting it will out-compete other locations. This phenomenon is manifested in two ways in retail location. First, a site with fast access to the most people will be preferred over a site with poorer access. For very high frequency shopping trips this means the closest or the most convenient shop to the consumer is likely to gain the sales; this is the retail strategy of convenience markets, where price of goods is a secondary consideration.

Second, the site that offers the highest number of benefits to the consumer on each trip will be preferred to sites that offer less. In other words, if a consumer can satisfy many needs with one trip, even if the trip is longer, the consumer will make the trip because the "utility" of the experience is perceived to be higher. This is the strategy pursued by a regional mall that includes a wide variety of shops as well as food and entertainment in order to increase the perceived benefit to the consumer for the sunk cost of the trip. Another example of this utility is when the quality, type of goods, or pricing is simply unavailable elsewhere, thus making the perceived value of the goods or experience more important than the cost of getting there. An example of this is a high-quality restaurant that may be located in an out-of-the-way place but still attracts customers from miles away.

In planning new development or redevelopment, it is important to understand the effect of these principles on retail location. The differentiation is between places that act as destinations and businesses that fulfill basic needs but are not particularly special. Attractive main streets with many shops can act as destinations to attract customers from a wider area than single businesses because the main street has higher utility for the customer. Small retail and service shops with no particular specialty (such as a dry cleaner) will tend to draw only from a local area unless there happens to be convenient access for large amounts of traffic, a situation which can help increase capture. Thus in creating a new project, a developer will want either a strong local market to support the shops (i.e. lots of local consumer spending), or access to a wider market through aggregation near other shops, and access to high traffic flows. If possible, a developer would prefer to have all of these site characteristics.

In practice this means that requirements for businesses vary immensely depending on the type of business, the size of market area, and the local demographics of income and spending. Standard grocery stores tend to draw the majority of their customers from a radius of about five to ten minutes driving time. Convenience markets tend to locate near arterials to increase capture because their strategy is about capture through speed of access. Sandwich shops will locate near high concentrations of workers. Major appliance stores tend to locate in low-cost space that allows the storage of inventory, but which also has arterial access to highways for out of town shoppers. Dry cleaners will tend to locate where it is possible to have a morning commute drop-off by customers. Destination restaurants tend to locate in areas that have attributes that seem to make the trip worthwhile such as scenery or neighborhood ambience, and local market support may not matter at all.

Destination mixed-use projects appear to have a minimum of around 70,000 square feet of retail, roughly the size of a community center, but heavily weighted toward "entertainment" uses such as restaurants, theaters, and creative retailers that may draw from as far away as 30 miles. An authentic main street with historic and cultural attractions may draw from an even wider area because it acts in part as a tourism destination. Small projects that are primarily residential tend to have local-serving retail dependent on a market within walking distance. Mixed-use projects can offer great benefits in the provision of liveliness for pedestrians and better, more easily accessible services for local residents.