RETAIL MARKET REPORT - 2006

City of Lawrence, Kansas

September 2007

Draft

Lawrence/Douglas County Metropolitan Planning Department

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1. Background

The City of Lawrence has grown from a population of 65,608 people in 1990 to 89,690 people in 2006, a growth of 37% in 16 years.[1] With this population growth, an increase in residential, commercial and industrial land has followed. As a result, concerns were raised in the 1990's that retail growth was not keeping pace with population growth. Language was included in *Horizon 2020* that required the City to maintain an inventory of commercial space as well as general language requiring impact analysis studies for certain projects. The City commissioned a study in 1997, "Retail Market Dynamics", by Professor Kirk McClure that analyzed the retail market in response to numerous requests for development, specifically in the South Iowa district. This report analyzed the retail stock in all zoning districts, as well as retail sales tax figures.

In 2004, *Horizon 2020*, specifically Chapter 6: Commercial Land Use, was revised to include more specific language in Policy 3.11 that pertained to the requirement for the monitoring of retail space in the City and requiring retail market studies to be submitted for projects that add 150,000 square feet or more of retail space to the City. In 2005, the City hired Development Strategies Inc. (DSI) to perform an update to the retail market analysis performed in the late 1990's. This report analyzed retail stock in all zoning districts, and used population and income to determine demand in the market.

The City adopted the *Land Development Code* on July 1, 2006, and it contains provisions in Section 20-1107 that require a retail market analysis be completed for a zoning or site plan application that could result in 50,000 square feet of retail space being added to the City. It defines a retail business as one of the following NAICS (North American Industrial Classification System) codes:
44-45 Retail Trade, 722 Food Services and Dining Places, 811 Repair and Maintenance, and 812 Personal and Laundry Services.

In order to get an effective picture of the retail market, it is necessary to look at both the supply side of market, as well as the demand within the market. This retail market analysis aims to measure the amount space and type of businesses that are located in commercial zoning districts throughout the City, which makes up the supply side of the equation. The retail market is extremely dynamic and therefore this inventory is merely a snapshot in time taken in February 2007. On the demand side, measures of population, income, and retail sales growth are computed in order to determine demand.

[1] Population figures for 1990 provided by the U.S. Census Bureau. Population figures for 2006 are provided by the Lawrence-Douglas County Metropolitan Planning Department.

Planning staff has developed a model of collecting and analyzing data that integrates Geographic Information Systems (GIS) with databases to help provide the entire picture. The development of this model sets a foundation for the information to be updated annually using consistent methods.

For a healthy retail economy, it is important for there to be similar growth in income, population, retail sales tax dollars and inventory of stock. *Horizon 2020* and the *Land Development Code* both mandate that the inventory and analysis be updated annually. Following this methodology, analysis in future years will give a better picture of the retail market.

2. Supply

2.a. Square footage of retail space

The City of Lawrence is split into different zoning classifications and retail uses are primarily permitted in commercial zoning districts. This study aims to determine the amount of built square footage that is located within these commercial zoning districts, including CN1, CN2, CO, CD, CC200, CC400, CR, CS, and any PCD or Commercial PUD. In order to better analyze the data, the market was slit into seventeen distinct geographical districts.

Overall, the City has a total of 7,581,660 square feet of space in commercial zoning districts. Of the seventeen geographic districts, the South Iowa district contains the most space, with 1,984,100 square feet, or a 26% share of the market. The Downtown district contains 1,722,039 square feet of space or a 23% share of the market.

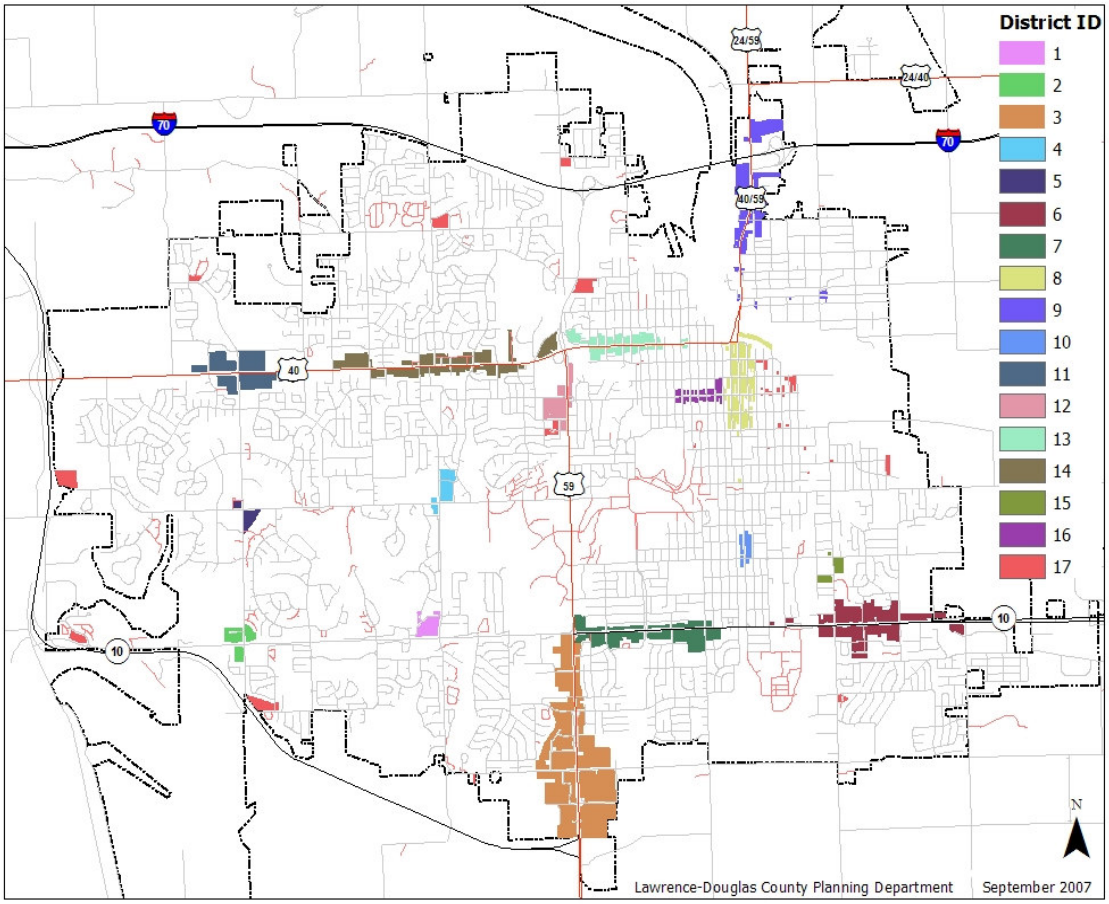
Table 2.1: Square footage by District[2]

District ID	District Name	Total Square Footage	% Share of Total Market Square Footage
1	Clinton & Kasold	123,898	1.6%
2	Clinton & Wakarusa	98,032	1.3%
3	South Iowa	1,984,100	26.2%
4	Kasold & 15th	69,500	0.9%
5	Wakarusa & 15th	50,300	0.7%
6	East 23rd St	413,749	5.5%
7	West 23rd St	690,488	9.1%
8	Downtown	1,722,039	22.7%
9	North Lawrence	272,984	3.6%
10	19th & Massachusetts	93,892	1.2%
11	6th & Wakarusa	266,922	3.5%
12	9th & Iowa	231,419	3.1%
13	East 6th	266,570	3.5%
14	West 6th	797,620	10.5%
15	19th & Haskell	29,912	0.4%
16	9th Street	162,710	2.1%
17	Miscellaneous	307,525	4.1%
	Overall Total	**7,581,660**	

[2] All square footage information provided by the Lawrence-Douglas County Metropolitan Planning Department.

The following map provides an illustrative breakdown of the districts. The table above shows the corresponding name that goes with each district identification number in the legend.

Figure 2.1: District Breakdown



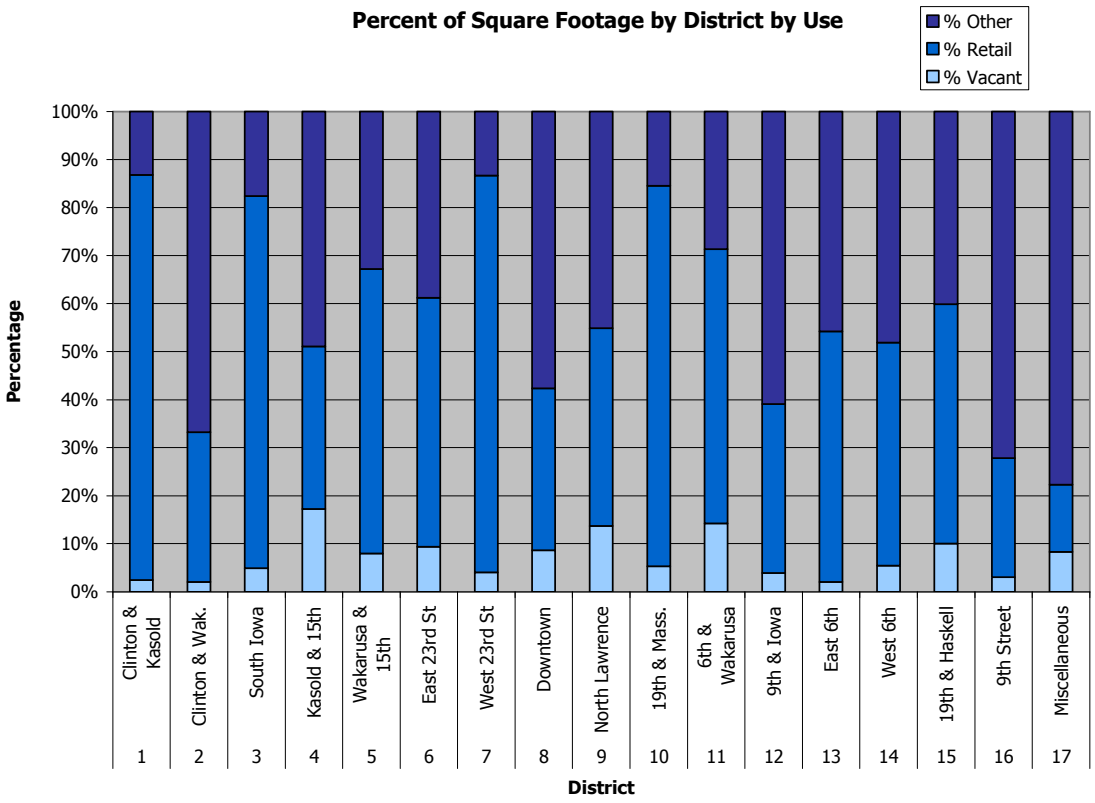
The market as a whole contains 504,183 square feet of vacant space, which equates to a 6.7% vacancy rate for all built space within commercial zoning districts. The Kasold and 15th Street district has the highest vacancy rate at 17.3%, but it is important to note that the overall square footage of that district is rather low. The 6th and Wakarusa district also contains a high vacancy rate of 14.2%, but this is primarily due to a large vacant storefront (former Hereford House Restaurant), which was occupied shortly after the data was collected. The North Lawrence district also contains a high vacancy rate of 13.7%. The Downtown district contains the most vacant square footage, 148,541 square feet, but its vacancy rate is 8.6%, which falls in the middle range of all districts.

As a whole, the entire market contains 4,121,547 (54.4 %) square feet of space occupied by retail uses as defined by the *Land Development Code*, and 2,955,930 (39.0%) square feet of space occupied by non-retail uses. This breakdown varies greatly by district, with the Clinton and Kasold district, the West 23rd district, the 19th & Massachusetts district, and the South Iowa district having the highest percentage of retail uses. The Miscellaneous district and the 9th Street district contained the lowest percentage of retail uses.

Table 2.2: Percent of square footage by district by use

Dist. ID	District Name	Total Square Footage	Vacant		Retail		Non-Retail	
			Sq. Ft	% Sq. Ft	44-45, 722, 811, 812	% Sq. Ft	Sq. Ft	% Sq. Ft
1	Clinton & Kasold	123,898	3,000	2.4%	104,538	84.4%	16,360	13.2%
2	Clinton & Wak.	98,032	2,000	2.0%	30,532	31.1%	65,500	66.8%
3	South Iowa	1,984,100	96,762	4.9%	1,538,344	77.5%	348,994	17.6%
4	Kasold & 15th	69,500	12,000	17.3%	23,500	33.8%	34,000	48.9%
5	Wakarusa & 15th	50,300	4,000	8.0%	29,800	59.2%	16,500	32.8%
6	East 23rd St	413,749	38,800	9.4%	214,425	51.8%	160,524	38.8%
7	West 23rd St	690,488	27,534	4.0%	570,860	82.7%	92,094	13.3%
8	Downtown	1,722,039	148,541	8.6%	580,989	33.7%	992,509	57.6%
9	North Lawrence	272,984	37,425	13.7%	112,397	41.2%	123,162	45.1%
10	19th & Mass.	93,892	5,000	5.3%	74,362	79.2%	14,530	15.5%
11	6th & Wakarusa	266,922	38,000	14.2%	152,422	57.1%	76,500	28.7%
12	9th & Iowa	231,419	9,098	3.9%	81,440	35.2%	140,881	60.9%
13	East 6th	266,570	5,500	2.1%	139,004	52.1%	122,066	45.8%
14	West 6th	797,620	43,123	5.4%	370,591	46.5%	383,906	48.1%
15	19th & Haskell	29,912	3,000	10.0%	14,912	49.9%	12,000	40.1%
16	9th Street	162,710	4,900	3.0%	40,406	24.8%	117,404	72.2%
17	Miscellaneous	307,525	25,500	8.3%	43,025	14.0%	239,000	77.7%
	Overall Total	**7,581,660**	**504,183**	**6.7%**	**4,121,547**	**54.3%**	**2,955,930**	**39.0%**

Figure 2.2: Percent of Square Footage by District by Use



2.b. Historical Trends

As previously stated, this study aims to determine the amount of square footage that lies within the Commercial Zoning districts. In trying to analyze historical trends with the data, it is important to note that some retail uses are permitted in other zoning districts. Previous market studies used different criteria in determining what square footage should be counted in their numbers. The market study report that was completed by an outside consultant (DSI) for the City in 2005 tried to identify space that was designed for retail uses, independent of their location. The study conducted by Professor Kirk McClure in 1997 also identified space in distinct districts throughout town that were designed for retail uses. Since both of the previous studies did not identify space with respect to the underlying zoning, and used interpretation to decide what spaces to include,

the conclusions reached were based on different sets of assumptions. In addition, since the DSI report, McClure report, and this current report do not use the same assumptions when measuring retail space, it is difficult to compare square footage amounts over time.

As mentioned, this study sets out a model, complete with assumptions on what will or will not be included, which will provide consistent data from this year forward. The intent is that from each year forward, the model will be followed yielding data that can be compared to reliably provide historical trend information.

The following table details historical trends with square footage amounts. It is important to keep in mind the above mentioned concerns with respect to data collection when analyzing this information.

Table 2.3: Square Footage Trends

Year	Total Square Footage[3]	Avg. Annual % Change Sq. Footage
2006	7,581,660	17.0%
2005	6,479,100	4.5%
2000	5,299,404	6.1%
1997	4,484,011	1.3%
1995	4,372,183	4.9%
1993	3,984,509	
Avg. Annual 2005-2000 Change		4.5%
Avg. Annual 2000-1995 Change		4.2%

[3] All square footage numbers supplied by the Lawrence-Douglas County Metropolitan Planning Department.

3. Demand

3.a. Per Capita Analysis

Multiple factors can be used to determine the demand for retail goods within a market. One measure of demand involves population and the rate at which population growth corresponds with growth in retail sales and square footage. Usually this is measured as a *per capita* figure, or an average per person. For January 1, 2007, the per capita figures show that the City of Lawrence has roughly 83 square feet of commercial space per capita, and roughly 47 square feet per capita of retail uses within that commercial space. The City of Lawrence has slightly more retail square footage per capita, when compared with average figures for the United States as a whole.[4] In addition, in a survey of 361 markets, Lawrence ranked 36 as having the most per capita retail building stock. [5]

Table 3.1: Per Capita Analysis, January 1, 2007

Pop. Estimate	Total Sq. Footage	Per Capita Sq. Ft.	Retail Sq. Footage	Per Capita Retail Sq. Ft.	Total Sales Tax	Per Capita Sales Tax
89,690	7,581,660	84.5	4,121,547	46.0	$12,260,437[6]	136.7

On average, $137 in sales tax was spent in 2006 per capita. The latest reliable figures available are from the U.S. Census Bureau's Economic Census conducted in 2002, which puts the average per capita sales tax at $123. [7]

[4] According to the *International Council of Shopping Centers*, the U.S. average for square feet of retail space per person is 40.5 for 2004.
http://www.icsc.org/srch/rsrch/researchquarterly/current/rr2005122/US%20Retail%20Space.pdf
[5] According to the *International Council of Shopping Centers.*
http://www.icsc.org/srch/rsrch/researchquarterly/current/rr2005122/US%20Retail%20Space.pdf
[6] Sales Tax Figures courtesy of Kansas Department of Revenue.
[7] U.S. Census Bureau

Table 3.2: Per Capita Sales Tax Trends			
Year	Population	Adjusted Sales Tax Collections 2006 Dollars	Per Capita Sales Tax
2006	89,690	$12,260,437	136.7
2005	88,664	$12,130,856	136.8
2004	87,184	$12,090,374	138.7
2003	85,282	$11,813,913	138.5
2002	83,495	$11,906,452	142.6
2001	81,457	$11,995,391	147.3
2000	80,098	$11,866,772	148.2
1995	73,419	$10,959,907	149.3
1990	65,608	$9,221,279	140.6
Avg. Per Capita Sales Tax 2000-2006			141.2
Avg. Per Capita Sales Tax 1990-1995			140.9

3.b. Sales Tax Analysis

The State of Kansas collects a 7.3% sales tax on goods and services in the City of Lawrence. 5.3% of the total tax goes to the State, while 1% goes to each Douglas County and the City of Lawrence. Sales tax is a measure by which to determine the demand of retail goods and services. There are however, limitations to the data. Most businesses choose to report their sales tax using a "reporting address", which may or may not be the physical location where the goods or services were sold. In addition, businesses with more than one location need only submit one form to the state. These two problems are inherent to the sales tax system and limit the reliability to which sales tax data may be analyzed. Also, there are confidential limitations to the data that prevents the data from being broken down by district and then broken down again by NAICS category.

Starting with the 2006 Lawrence sales tax collection file provided by the State of Kansas Department of Revenue, each sales tax account number was coded to a district based on address, known name of business, alias, and any other identifying features. For single records that were reporting for multiple locations, a ratio of square footage was used to split the sales tax across all locations. There were numerous records that were either out of state sales shipped to Lawrence locations, or were unidentifiable as Lawrence businesses. The sales tax for those "other" records was incorporated into the totals keeping the same market share percentages of each district in tact.

Based on those limitations to the data, it is not a reliable way to determine demand at the district level, unless comparing that same breakdown over time. This unreliability is illustrated by the inaccuracy in the percent of market share figures below in Table 3.3, and represents the limitations on breaking down the data because of the way that the Kansas Department of Revenue collects the data. However, in future years, using the foundation established with coding the 2006 figures, it will be possible and valuable to compare the district breakdowns over time.

Table 3.3: Retail Sales Tax by district

District ID	District Name	Total Square Footage	Adjusted Lawrence Sales Tax	% of Market Share	Ratio of Sales Tax to Sq. Ft.
1	Clinton & Kasold	123,898	$410,044	3.3%	3.3
2	Clinton & Wakarusa	98,032	$8,216	0.1%	0.1
3	South Iowa	1,984,100	$5,348,980	43.6%	2.7
4	Kasold & 15th	69,500	$71,513	0.6%	1.0
5	Wakarusa & 15th	50,300	$67,931	0.6%	1.4
6	East 23rd St	413,749	$595,832	4.9%	1.4
7	West 23rd St	690,488	$2,244,724	18.3%	3.3
8	Downtown	1,722,039	$1,665,112	13.6%	1.0
9	North Lawrence	272,984	$161,516	1.3%	0.6
10	19th & Massachusetts	93,892	$62,330	0.5%	0.7
11	6th & Wakarusa	266,922	$104,002	0.8%	0.4
12	9th & Iowa	231,419	$213,569	1.7%	0.9
13	East 6th	266,570	$183,678	1.5%	0.7
14	West 6th	797,620	$873,459	7.1%	1.1
15	19th & Haskell	29,912	$7,586	0.1%	0.3
16	9th Street	162,710	$90,846	0.7%	0.6
17	Miscellaneous	307,525	$146,055	1.2%	0.5
	Lawrence Market Overall	**7,581,660**	**$12,255,395**		**1.6**

3.c. Pull Factors Analysis

A City Trade Pull Factor is an economic indicator that measures the balance of trade. It is computed by dividing the per capita sales tax of the city or county by the statewide per capita sales tax. A perfectly balanced area has a pull factor of 1.00, meaning that the same amount that people spend outside of the area on goods is offset by the amount that people from out of the area come in to the area to purchase. A pull factor less than 1.00 means that more money is being

spent elsewhere than is being brought into the area and is seen as an unfavorable balance of trade. A positive pull factor, or one that is greater than 1.00 means that more purchases are being made from people coming from outside of the area than by residents who leave the area to make their purchases. A positive pull factor is seen as a favorable balance of trade.

The Kansas Department of Revenue develops annual reports that detail city and county pull factors. In fiscal year 2006, the City of Lawrence had a pull factor of 1.12, a 5.1% increase from 2003 to 2006. Also, Lawrence moved up from a ranking of 16 to 14 on the list of the top 25 "class A" cities in Kansas.[8] This means, that not only has the pull factor been rising since 2003, but it also indicates that Lawrence has a favorable balance of trade.

Table 3.4: Lawrence Trade Pull Factors and Trade Capture Area Figures

	Collections	Per Capita	Pull Factor	Trade Area Capture	% of County Sales	Population
FY 2006	$60,892,108	$748	1.12	90,982	91.3%	91,379
FY 2005	$58,300,971	$716	1.11	90,058	90.9%	81,417

In addition, the Kansas Department of Revenue calculates Trade Area Capture Figures that measures the trade area served by the community. It is figured by multiplying the city's population by the pull factor. This number helps to identify the percent of county sales that the city has. In the case of Lawrence, the share that Lawrence has of county sales has increased slightly from 90.9 % in 2005 to 91.3% in 2006.

Table 3.5: Historical City Trade Pull Factors

	City of Lawrence	Douglas County
FY 06	1.12	0.97
FY 05	1.11	0.99
FY 04	1.10	0.96
FY 03	1.06	0.93

3.d. Historical Trends

It is possible to look at historical data on population, income and sales tax dollar collections since the method for collecting this data has not changed over time.

[8] Pull Factors are produced by the Kansas Department of Revenue.
http://www.ksrevenue.org/pdf/citypullfactorfy06.pdf
http://www.ksrevenue.org/pdf/pullfactorfy06.pdf

From 2000 to 2006, the population of the City of Lawrence grew an average of 1.9% a year; however there was only a .6% average annual increase in sales tax collections and a 1% average annual increase in income after adjusting both monetary figures for inflation. Simply stated, the population generally has been growing at a faster pace than money being spent on retail goods, and money being earned as income.

Most recently, from 2005 to 2006, retail spending increased at a similar pace to population, but from 2004 to 2005 the income did not change at all, and sales tax collections only rose .3%. From 1995 to 2000, retail spending increased at the same pace as the population, while incomes rose almost twice as fast.

Table 3.6: Population, Sales Tax and Income Trends

Year	Population	Avg. Annual % Change Population	Adjusted Sales Tax Collections 2006 Dollars	Avg. Annual % Change Sales Tax	Adjusted Per Capita Income 2006 Dollars	Avg. Annual % Change Income
2006	89,690	1.2%	$12,260,437	1.1%		
2005	88,664	1.7%	$12,130,856	0.3%	$29,087	0.0%
2004	87,184	2.2%	$12,090,374	2.3%	$29,082	2.3%
2003	85,282	2.1%	$11,813,913	-0.8%	$28,441	0.1%
2002	83,495	2.5%	$11,906,452	-0.7%	$28,418	-0.1%
2001	81,457	1.7%	$11,995,391	1.1%	$28,443	2.5%
2000	80,098		$11,866,772		$27,753	
1995	73,419		$10,959,907		$23,649	
1990	65,608		$9,221,279		$22,047	
Avg. Annual Change 2000-2006		1.9%		0.6%		1.0%
Avg. Annual Change 1995-2000		1.8%		1.7%		3.5%
Avg. Annual Change 1990-1995		2.4%		3.8%		1.5%

4. Conclusion

On the supply side, the City of Lawrence contains over 7.5 million square feet of space in commercial zoning districts, with the South Iowa and Downtown districts combined making up close to 50% of the market. Of that 7.5 million square feet of space in commercial zoning districts, 54% is occupied by strictly retail uses. The overall Citywide vacancy rate for space in commercial zoning districts is 6.7%. This vacancy percentage is less than the 8% threshold established by *Horizon 2020*. It is notable that this is the highest that this percentage has been in the last ten years.

Certain districts, such as North Lawrence and 19th and Haskell, have vacancy rates above 10%. Redevelopment should be encouraged in these areas.

The City has numerous projects (over 5,000 square feet) that have received approval and are therefore "in process". Together, the largest of these projects total roughly 650,000 square feet of retail space being added to the City in the next 1-5 years. This is a significant amount of commercial space to add during a five year time period, however the four largest of these projects are all located in the 6th and Wakarusa district and are called out as appropriate land uses in *Horizon 2020*.

Table 4.1: Proposed Projects

Project	Square Footage
Bauer Farm	72,000
6th and Wak	127,487
Mercato	184,600
Northgate	198,714
Miracon Plaza	12,575
Westgate	50,796
Pine Ridge Plaza	7,373
Total	**653,545**

On the demand side, population growth has been slowing down from historical highs of over 4% in the 1990's to less than 2% a year presently. The same is true for both incomes and sales tax revenues. Pull factors for the City of Lawrence indicate that there is a fair balance of trade, meaning more money is being spent in the City than is leaving the City currently.

Since different methods for collecting the supply side data have been utilized in the past, it will be important to update this report annually from this point forward using the methodology set out in this report in order to determine the historical square footage trends to compare to the demand side trends. Future additions to the retail market should not outpace demand, unless other factors outweigh the demand constraints. Such factors would include neighborhood commercial uses being needed to serve new residential development, market-benefiting redevelopment opportunities, or certain locations benefiting from specific uses.