

## MARKET REVIEW

The key to creating a desirable business cluster at North Main and Auburn is to match the market with the offering of stores, restaurants, and services in a manner that complements the scale of the buildings and preferences of neighborhood residents. This diagram provides a model for achieving that goal.



This model "Market Supported Business Cluster" is attained through a balanced relationship between design elements like access, appearance standards, and building sizes and market elements like the business mix, marketing plan, and anchors. The publicly funded improvements proposed for the intersection of North Main and Auburn propose the design changes that can improve the North Main and Auburn District's match to this model. Balancing changes to the other parts of this model would capitalize on the district's potential. This market review first verifies the underlying spending power available to the District and then recommends strategies to improve the organization and offering of the North Main and Auburn business district.

### ***Core Retail Market Concepts***

Equally important as the relationships illustrated above are the size and character of various markets that can be attracted to North Main and Auburn. Regardless of where a retail business concentration is located, markets must fit these core concepts and generate enough spending power to support the area's success.

1. There must be a large enough, close enough **residential base** interested in purchasing the store's offering. Although employees, commuters, and tourists are "add-on" markets that can convert a marginally successful retail districts into a very successful one, local residents are the backbone of every commercial area. Residents must be counted on upon to produce from 70-90% of each business's sales. The addition of a significant concentration of employees is very beneficial to restaurants since it adds a lunch seating and "cocktail hour" that can increase business by up to 1/3. Attracting tourists through events or a unique feature would register high numbers on a few days and provide the bonus of

significant sales through extreme effort during that limited time. Commuters can add sales as they are intercepted to purchase necessities during their daily travels. The importance of these add-on markets to the residential base' spending power is clear given the business setback resulting from a 5% to 10% decline in sales. Those sales add the marginal profit that can be reinvested in expanding and improving store appearance.

2. There must be enough **similar businesses** to allow consumers to comparison shop. In the abstract, logic suggests that the ideal commercial area is a broad mix of businesses satisfying the "cradle to grave" needs of local residents. But that concept defies the very term "shopping" because there never could be enough space for enough business of all types for all residents to feel that they had visited sufficient businesses to be confident in their selection. Consequently, while all successful shopping districts offer convenience shopping, such as a drug store, different shopping districts have evolved to satisfy varying niches for other items. Strong retailers like to cluster near competitors because they know that such an area gets a reputation as "the place to go to shop for..."

3. Stores must be **visible to a large enough pedestrian and/or vehicular population**. Although repeat customers are the lifeblood of any business, there also must be a steady flow of new customers. Those customers are much easier to attract when a large population sees the business every day. Studies by national restaurateurs and retailers indicate that about 20,000 vehicles and/or pedestrians per day pass the most vital retail businesses.

The North Main and Auburn District, like other communities across the country, must constantly monitor these factors to present the best possible environment for business. The analysis that follows evaluates how well the current and potential market realities match these core concepts.

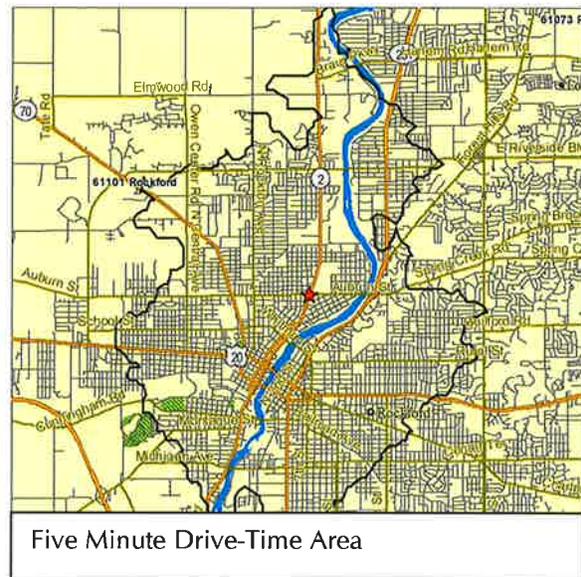
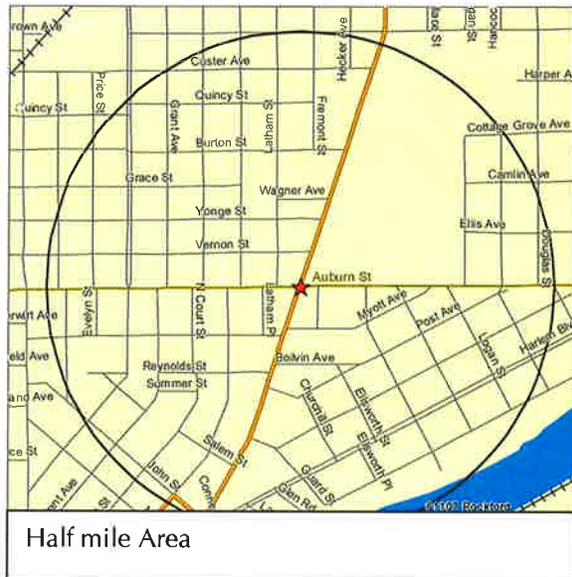
### ***Residential and Bonus Base***

The table that follows documents the quality of the residential population close to the intersection of North Main and Auburn. The ½-mile radius identifies the population who could be pedestrian customers and the 5-minute area identifies people who could conveniently drive to the North Main and Auburn District for shopping.

	½ Mile	5 Minutes	Rockford
<b>Population 2004</b>			
Population	4,888	91,667	152,130
Population Density (pop per sq. mile)	6,223	3,931	2,682
Total Population Median Age	33.0	33.8	35.3
<b>Household Income 2004</b>			
Household Average Income	\$52,663	\$45,240	\$54,127
% Income \$75,000 Plus	17.9%	14.7%	20.7%
<b>Business Summary 2004</b>			
Total Jobs in the Area	762	54,102	97,410
<b>Consumer Expenditure 2004</b>			
Total Retail Expenditure	\$35,261,095	\$618,822,778	\$1,150,369,186
<b>Housing Units 2004</b>			
% Owner Occupied Units	61.9%	52.2%	57.8%

Demographic data © 2004 by Experian/Applied Geographic Solutions.

Although incomes in this neighborhood are slightly below national and Rockford averages, the relatively high density means that the total spending power is high enough to support a commercial district at this intersection. These maps illustrate the extent of these markets:



Interviews associated with this project emphasized the connection of this district to specific neighborhoods. The area expected to most strongly connect to the North Main and Auburn District is described by these demographic characteristics and illustrated on this map.

	Core Market
<b>Population 2004</b>	
Population	28,251
Population Density	4,054
Total Population Median Age	35.7
<b>Household Income 2004</b>	
Household Average Income	\$48,180
% Income \$75,000 Plus	16.9%
<b>Business Summary 2004</b>	
Total Employees	12,733
<b>Consumer Expenditure 2004</b>	
Total Retail Expenditure	\$203,660,047
<b>Housing Units 2004</b>	
% Owner Occupied Units	56.3%

Demographic data © 2004 by Experian/Applied Geographic Solutions.



With over \$200 million in spending power within this core market and another \$400 million in spending power within a quick 5-minute drive, there is a market large enough to support a vital retail cluster at the North Main and Auburn District. The key is identifying the right businesses and providing quality access through a design that attracts both this local market and a commuter bonus market.

## ***Retail Size and Tenanting***

As Rockford reviews North Main and Auburn's commercial development prospects, it should recognize that the district will compete with centrally managed, auto oriented shopping centers. Although this district differs from those centers, it can benefit by studying development standards for those centers to define a competitive size and business offering for the North Main and Auburn District.

As shopping center development has evolved, seven types of centers emerged: Convenience, Neighborhood, Community, Regional, Super Regional, Power, and Lifestyle. The first five centers increase in size from the under 30,000 square feet of the Convenience Center to the over 1,000,000 square feet of the Super Regional Center. Power and Lifestyle Centers are variations that do not have anchors but rather compete with the Regional and Super Regional centers to skim targeted customers. As the size and complexity of the center increase, the frequency of each consumer's visits decreases and consequently the distance from which the center must draw customers increases. Convenience and Neighborhood Centers with their gas stations and grocery stores might be visited multiple times per week by a family living very close by while a Super-Regional Center is only visited a few times per year as a planned, time consuming excursion. These classifications are important in retail development because tenants tend to fit their operating format to specific types of centers.

The Power Center, an innovation of the last 15 years that capitalizes on the match between high volume, large format stores and the consumers' interest in price over amenities, is particularly important to this analysis because of the Wal-Mart under construction at the northern boundary of the core market area. The choices made to strengthen North Main and Auburn must complement the Wal-Mart offering rather than compete directly. These conditions as well as the site constraint of urban scale lots and nearby neighborhoods inappropriate for redevelopment point toward a format more similar to the centrally managed Community or Neighborhood Center. That center is of a limited size that can be accommodated within the existing area as the table below reveals by comparing North Main and Auburn to standards for community and neighborhood centers.

	<b><i>Main &amp; Auburn Current</i></b>	<b><i>Community Center</i></b>	<b><i>Neighborhood Center</i></b>
Total site acreage		10-30	3-10
Total retail sq. ft.		100,001-400,000	30,000-100,000+
Number of stores		15-25	5-15
Anchor tenants	None	Full line discounter, jr. department store or category killer	Supermarket or drug store
Goods and services	Small assortment focusing on dining, a small mix of shopping goods and convenience goods and services	Moderate assortment focusing on a mix of shopping and convenience oriented goods and services	Small assortment focusing on convenience oriented goods and services.
Minimum population to support center	Core Area: 28,000 5-minutes: 92,000	50,000-250,000	10,000-50,000
Urban Trade area drive time	Core Area	Up to 10 Minutes	Less than 5 minutes

*Source: ICSC.org; ULI, Dollars and Cents of Shopping Centers 2004; BDI*

Although the 5-minute drive time population warrants considering the possibility of a community center, the competitive nature of the market developing at West Riverside Boulevard and core market population suggest a better fit with a neighborhood center size.

### **Retail Sales Volume**

As communities seek to develop retail businesses to serve their populations, it is important to recognize the interplay of sales volume, owner profitability and perceptions of a "vital retail environment." A sales volume that can sustain the profitability of a business sufficient to provide the owner with enough income to support a family leads to business longevity. Both the number of customers necessary to support that level of sales and the stability of key businesses create the vital business district image. The table below calculates the store and owner return on a \$500,000 annual sales sustainable retail business.

<b>Sales</b>	<b>\$500,000</b>	<b>Owner Return</b>	
Merchandise Cost	\$250,000	50 Hour Weeks	\$19,724
Gross Margin	\$250,000	50% of Net	\$18,750
		Total	\$38,474
Rent	\$50,000		
Salaries	\$100,000		
Supplies	\$25,000		
Reserve for repair	\$12,500		
Advertising	\$25,000		
<b>ROI, Taxes &amp; Profit</b>	<b>\$37,500</b>		

The relatively high costs of a commercial kitchen and the number of employees necessary to provide the service level expected at a sit down restaurant, sets the sustainability sales level for restaurants at approximately \$80,000 per month or \$1 million annually. Because of low margins, full service grocery stores need to sell approximately \$200,000 per week for annual sales of at least \$10 million.

The goal for North Main and Auburn is to provide the correct number and size of retail spaces organized to make sustainable stores, restaurants, and consumer services possible. The key to setting that number is determining the spending power that could be captured by each type of businesses located in the district. The table that follows illustrates the spending power by category of residents living within previously identified core market.

	<b>2004 Estimate Total Expenditures</b>	<b>Average Sales per Sustainable Independent Store</b>	<b>Stores Supported</b>	<b>Average Sales per Chain Store</b>	<b>Stores Supported</b>
Apparel	\$26,369,170.50	\$500,000	52.7	\$2,000,000	13.2
Dry Cleaning & Tailoring	\$3,393,555.00	\$250,000	13.6		
Books	\$889,248.00	\$500,000	1.8	\$2,000,000	0.4
Groceries	\$47,426,167.50	\$10,000,000	4.7	\$20,000,000	2.4
Restaurant (not including drinks)	\$27,513,229.50	\$800,000	34.4	\$4,000,000	6.9
Footwear	\$4,938,788.25	\$500,000	9.9	\$2,000,000	2.5
Furniture	\$4,713,532.50	\$500,000	9.4	\$3,000,000	1.6
Gifts	\$14,672,356.50	\$500,000	29.3	\$2,000,000	7.3
Hair Care	\$691,545.75	\$100,000	6.9	\$350,000	2.0
Housewares & Small App	\$10,220,935.50	\$500,000	20.4	\$3,000,000	3.4
Indoor Plants & Fresh Flowers	\$878,415.00	\$500,000	1.8		
Jewelry	\$1,158,542.25	\$500,000	2.3	\$1,500,000	0.8

Demographic data © 2004 by Experian/Applied Geographic Solutions; ULI, 2004 Dollars and Cents of Shopping; BDI.

This table then uses estimates of the sales necessary for a sustainable independent or nation chain store targeting each category to estimate the number of business the core market population supports. For example, the table reports over \$26 million in apparel spending by the core market. That spending supports between 13 and 52 apparel stores, depending on whether the stores are national chains or local independents. Because apparel spending is so focused on the brand names primarily carried by national chains, one can logically assume that the number of apparel stores supported by this area to be approximately 20, on the low end of the 13 to 52 estimate. Whether any of those apparel stores should be located in the North Main and Auburn District is a decision to be made by the investors based on their experience identifying successful locations. Most urban business districts host few apparel stores because the investors choose to cluster in malls or near mass merchandisers who sell apparel like Wal-Mart. That decision is consistent with the concept of "shopping" and clustering identified in a previous section of this report.

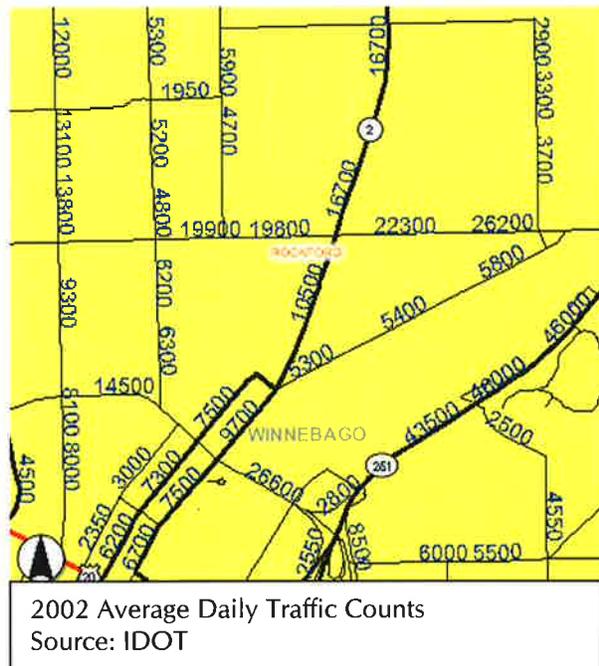
For restaurants the analysis is quite different. The table calculates support for between 7 and 34 restaurants of all types. Even with four national chains, there would still be support for another 16 independents for a total of 20 restaurants serving this population. Because the North Main and Auburn District already has a cluster of four restaurants, it would be strategic to expand the offering to 7 to 10 restaurants at this location. That stronger cluster would serve not only this market but it could draw from an even larger area and thereby attract enough sales to allow owners to invest in enhanced appearance and amenities.

The lack of national chain competition for gift stores makes that category another important opportunity for the North Main and Auburn District. Adding two to four gift stores to the District's mix would attract more gift sales make the revenue "pie larger" allowing smaller, but higher volume, "slices" per store. Services like dry cleaning and hair care also are categories that frequently choose locations in districts like North Main and Auburn.

### **Retail Mix and Anchors**

The spending power of the core market surrounding the District and the configuration model of a neighborhood center would recommend a mix and anchor strategy for the district.

- Phase 1: 50,000 SQFT Neighborhood Center
  - Single anchor: 10,000 to 13,000 SQFT store
  - 15 to 20 additional business
    - 5-7 restaurants averaging 4,000 SQFT
    - 8 to 15 stores and services averaging 1200 SQFT
  - Public space
  - Existing building rehab.
  - New Residential
- Phase 2: Add 20,000 to 50,000 SQFT
  - 2nd Anchor: Urban Grocery Store
  - Conversion of homes facing west side parking lot to specialty commercial



The anchoring store would occupy a site designed to capitalize on the traffic counts on Auburn. Because this store relies heavily on auto-oriented customers, parking must be conveniently located nearby. The creation of this ideal anchor site should strongly influence the redesign associated with improving traffic flow through the district. As depicted in the graphics related to the Form of Development, above, new construction would be expected to support the street or interior orientation by maintaining a “flush to the sidewalk” siting, particularly along Main Street.

The redesign also should retain the strong existing restaurant businesses in their existing space and create locations that could readily accommodate additional restaurants. That space should offer patios for outdoor seating screened from passing traffic and convenient to the kitchen.

Additional store space should fit the format of smaller gift and accessory stores. That space would best be rehabbed vintage space of approximately 1,000 to 2,000 square feet that uses a unique building appearance to add character to the business’s image. Those same size spaces can also host personal care businesses like hair salons and dry cleaners that prompt local residents to visit frequently.

Public space created as part of this project should enhance the area’s image without creating an opportunity to host vagrants or illegal activities. The plans to create an enhanced “green circle” are an example of this type of open space. So is the potential use of public space to open views into the interior of the site from Main and from Auburn.

Adding residential units would provide an opportunity for housing choice near Rockford’s urban center. Plans associated with this project recommend a limited number of units that could add vitality through their attractive appearance and signal strength to local real estate investors. This modest addition of town homes or condominiums to the regional market would allow both young childless couples and empty nesters to find new construction at this location rather than only on the outskirts of Rockford. This arrangement has successfully become part of the offering in other mid-size urban markets like Champaign and Elgin. Although new residential development will marginally improve the area’s spending power, its primary improvement is to the appearance of the area and perception of the market.

Building on the success of these initiatives, the second phase would seek to add another anchor, perhaps an urban grocery store of approximately 15,000 square feet. That store would require sales of another \$5 to 8 million. As demand for boutique space and places for additional services develop, the residences facing the parking located west of North Main would likely be converted for commercial uses. The photos that follow illustrate similar conversions completed in the Broad Ripple neighborhood of Indianapolis.



Broad Ripple neighborhood, Indianapolis, IN.

## Market Conclusion

There appears to be a very viable match between the spending power of the core market available to the North Main and Auburn District and a mix of approximately 50,000 square feet of stores restaurants and services. The initial phase of a store anchor, 5 to 7 restaurants, and 8 to 15 stores, would require sales of \$9 to 20 million, representing 4.5% to 10% of the \$200 million in spending power by the core market residents. This relatively modest share of spending power is reasonable despite the coming competition from Wal-Mart and the existing competition from strong, centrally managed centers to the east.

## Market Implementation

The remaining element essential for implementing a market-driven business district is a plan for marketing North Main and Auburn to both consumers and investors. That element hinges on both the investment dynamics of the area and programs to fill gaps between the market's return expectations and current market realities. The appeal to customers is dependent on the efforts of individual businesses but would be greatly enhanced by an organization that provides district marketing.

The redevelopment of the North Main and Auburn District will be a combination of building rehab and new construction. The access improvements will require the demolition of six buildings, with those costs included in the road improvement budget. The whole area's revitalization will be a mix of rehab and redevelopment of additional buildings that the market must drive by providing investor returns to cover the cost associated with improvements.

Interviews associated with this project revealed that the net rents for buildings in the North Main and Auburn District are currently quite low, estimated at an average of \$4 per square foot. As the "Existing Building" column in the table below illustrates, those rents have made the district's buildings affordable and the district's best businesses have taken advantage of that affordability and purchased their buildings. The owners then invest as necessary to improve the building to fit the needs of their businesses. In the table below, the "New Construction" and "Renovator" columns make a simplified calculation of how investors who expect to lease space and receive a 10% return on their investment might value property and its improvement in the North Main and Auburn District.

<i>Per Square Foot</i>	<i>Existing Building</i>	<i>New Construction</i>	<i>Catalyst Renovators</i>	<i>Later Renovators</i>
Average Net Rent	\$4.00	\$14.00	\$10.00	\$13.25
Investment	\$40.00	\$140.00	\$100.00	\$132.50
Construction Costs	\$0.00	-\$85.00	-\$70.00	-\$70.00
Design, financing, & fees	\$0.00	-\$20.00	-\$7.00	-\$7.00
Tenant improvements	\$0.00	-\$20.00	-\$10.00	-\$10.00
Site improvements	\$0.00	-\$10.00	-\$5.00	-\$5.00
Land costs	\$40.00	\$5.00	\$8.00	\$40.50
<i>Sample Project</i>				
Retail Square Footage	5,000	5,000	5,000	5,000
<b>Property Purchase Price</b>	<b>\$200,000</b>	<b>\$25,000</b>	<b>\$40,000</b>	<b>\$202,500</b>
<b>Value After Improvement</b>	<b>\$200,000</b>	<b>\$700,000</b>	<b>\$500,000</b>	<b>\$662,500</b>

The sample project looks at the amount an investor would pay for a potential restaurant property that could be rented for the amount per square foot associated with that column and the value associated with the completed improvement. If market-driven development is to occur, the purchase price associated with an improvement strategy must exceed the value of an existing building. In the table's examples, only "Later Renovators," where the newly remodeled space rents for \$13.25, provides a

purchase price, \$202,500, higher than the \$200,000 value of existing 5,000 square foot buildings. For the other scenarios, "New Construction" and "Catalyst Renovators," the difference between the "property purchase price" and value of an existing building will prevent investors from acquiring property to build those improvements. That difference, the \$175,000 between \$200,000 and \$25,000 for the "New Construction" and \$160,000 between \$200,000 and \$40,000 for "Catalyst Renovators," is the "gap" between market driven development and current realities. Successful implementation of a strategy to revitalize this district will require that programs like Tax Increment Financing be used to fill that gap by subsidizing the property acquisition. These projects must occur before "Later Renovators" can provide unsubsidized redevelopment of properties.

The North Main and Auburn District is fortunate to have an existing, active merchant's association. As redevelopment moves forward, that organization can undertake additional responsibilities for communicating with target customers. Important programs include creation of a business directory, advertising that provides opportunities for the market to view the area as whole competing with other organized shopping centers and events that contribute to the positive image of the area.

### ***Market Summary***

Rockford's North Main and Auburn District is a commercial area that currently offers a modest mix of specialty stores and restaurants but could be much more. The upcoming projects to improve traffic flow through this key intersection can be catalysts that help this area realize its potential. Although public investment will be important to this effort, there is also a need for private commitment to continue collaboratively managing the cluster.