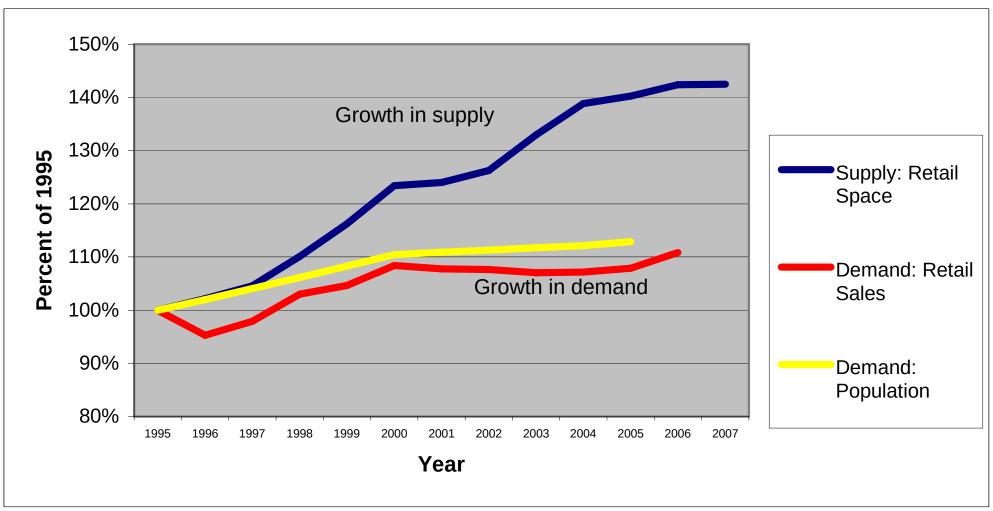
Research
Report

Lawrence, Kansas
Retail Market Conditions 2007



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Summary

The retail market of Lawrence, Kansas is out of balance, with space growing much faster than demand for that space.

Growth in supply

- From 1995 into 2007, the stock of retail space grew 3.0 percent per year.

Growth in demand

- The inflation adjusted pace of growth in demand for retail space is growing at a rate of little less than 1 percent per year.
- The number of retail firms has been effectively flat and retail employment has fallen from 2001 to 2007.

Mismatch

- The mismatch between the pace of growth in supply and the pace of growth in demand is large (supply is growing at a pace 3 times the pace of growth in demand), and it is long-term (lasting more than a decade).

Proposed developments

- Proposed developments will add over 800,000 square feet of retail space. This represents an increase in the already overbuilt stock of over 12 percent.

Consequences of the mismatch

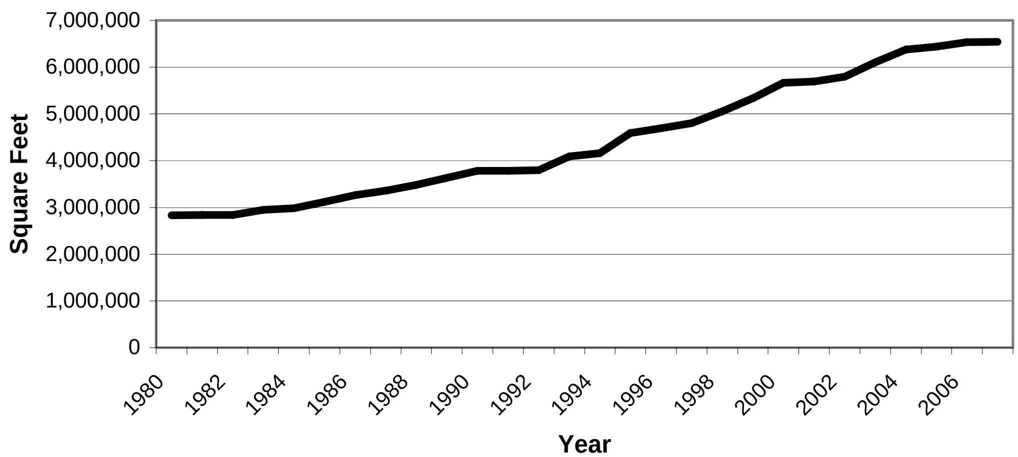
- There is over 540,000 square feet of vacant retail space in Lawrence, 395,000 south of it river.
- About 364,000 of this vacant space south of the river is in general merchandise, automotive, and food use, a category that developers are seeking to expand further.
- The surplus stock is creating blight that was contained in North Lawrence but is now spreading.
- The City cannot absorb more space; additional stock will only increase vacancies throughout the City.
- The City needs to protect itself from the harm of this overbuilding by slowing the pace of retail development.

Growth in Supply

Pace of stock development

The stock of retail space has grown continuously over time in Lawrence. The oldest buildings in the inventory date from the 1850s. The newest buildings reflect recent waves of development. Construction hit peaks during years of economic expansion during 1988, 1999, and 2003. Construction lagged during years of economic recession during 1981, 1991, and 2001. However, over the long term, these cycles of construction have resulted in a steadily growing stock of retail space.

Chart 1. **Growth in the stock of retail space over time**
Lawrence, Kansas 1980-2007



Source: City of Lawrence, Inventory of Retail Space

Examining just the most recent years, it is clear that the stock of space has continued to grow. From 1995 into 2007, the stock of space grew 43 percent. This translates into a growth rate of 3.0 percent per year.

This figure becomes an important benchmark. At issue for Lawrence is whether or not this rate of construction can be supported by growth in demand within the retail market. If it can, then the pace of growth is sustainable. If a commensurate pace of growth in retail demand does not support this pace of supply growth, then this development is not sustainable. Surplus space results in deterioration and blight, hurting existing shopping districts, wasting scarce resources invested in the downtown and other areas.

Table 1. **Growth in the stock of retail space**
Lawrence, Kansas 1995 into 2007

Supply: Stock of retail space

Year	*Suites Added*	*Square Feet Added*	*Total Square Feet*
2007	1	6,500	6,544,468
2006	14	97,840	6,537,968
2005	4	64,500	6,440,128
2004	10	270,116	6,375,628
2003	23	307,292	6,105,512
2002	24	102,038	5,798,220
2001	1	30,288	5,696,182
2000	70	328,825	5,665,894
1999	8	278,825	5,337,069
1998	33	255,710	5,058,244
1997	13	111,026	4,802,534
1996	11	99,402	4,691,508
1995	40	428,738	4,592,106

Annual Growth
Rate 1995-2007: **3.0%**

Source: City of Lawrence, Inventory of Retail Space

Growth in Demand

There is no one best way to measure demand for space in the retail market. As a result, it is necessary to examine several measures of demand and see what they say collectively.

Sales Tax Revenues

Probably the most reliable measure of retail demand is found in the number of dollars spent in retail stores each year. Spending within the market is what drives demand for that space. As real spending rises from one year to the next, the demand for space rises. Data on retail spending are readily obtained though the Kansas Department of Revenue, which collects the sales taxes and distributes the city's share back to Lawrence.

Table 2. **Growth in retail sales taxes 1995 through 2006**
Lawrence, Kansas

Year	*Retail Sales Current Dollars Fiscal Year*	*CPI*	*Retail Sales 2006 Dollars*
2006	12,195,664	193.0	12,195,664
2005	11,583,544	188.4	11,866,369
2004	11,153,509	182.6	11,788,758
2003	10,876,300	178.3	11,773,000
2002	10,730,359	174.9	11,840,819
2001	10,615,276	172.8	11,856,182
2000	10,398,461	168.3	11,924,557
1999	9,701,568	162.7	11,508,314
1998	9,350,557	159.3	11,328,672
1997	8,747,295	156.7	10,773,631
1996	8,310,127	153.0	10,482,709
1995	8,457,814	148.4	10,999,718
Annual real growth 1995-2006:		**0.94%**	

Source: Kansas Department of Revenue
Sales tax distribution, Lawrence, Kansas, 1990 through 2006
http://www.ksrevenue.org/pdf/0207lo.pdf

U.S. Bureau of Labor Statistics
Consumer Price Index, Midwest Urban Consumers
http://www.bls.gov

The inflation adjusted pace of growth in retail sales taxes suggests that demand for retail space is growing at a rate a little less than 1 percent per year. This is well below the 3.0 percent per year growth in the supply of retail space.

Population

Population growth provides another proxy for demand in the retail market. As more people reside in the community, more shoppers are likely to enter the market.

The population of Lawrence is growing, but the rate of growth has slowed over time. During the 1990s, the City's population grew by about 2 percent per year. However, during the current decade, the Census Bureau estimates that the population growth has slowed to less than one-half percent per year. This slowing rate of growth in population is corroborated by the high vacancy rate in rental housing, the slowing rate of home sales, and the stagnant school enrollment numbers.

Table 3. **Growth in population 1980 through 2005**
Lawrence, Kansas

Date	*Population*	*Annual Growth Rate*	*Time Period*
July, 2005	81,816	**0.38%**	2000-2005
July, 2000	80,281		
April, 2000	80,083	**2.01%**	1990-2000
April, 1990	65,608		

Source: U.S. Bureau of the Census
Annual Estimates of Population, Incorporated Places in Kansas
Census 2000
Census 1990
www.census.gov

A slowing rate of population growth translates into a slowing rate of growth in retail spending. If fewer people are being added to the population, then fewer dollars will be added to the retail market and there will be slower growth in demand for retail space.

Retail establishments and retail employment

Further confirmation of the stagnation in retail demand is found in the number of retail firms and employment within them. Table 5 lists the number of retail firms in Lawrence from 2001 through 2006. The definition of retail changed in 2000, thus it is not possible to examine these figures further back into the past.

What is clear is that the number of retail firms has been effectively flat and retail employment has fallen from 2001 through 2006. This suggests very strongly that there is no new demand for retail space by firms waiting to enter the Lawrence market.

Table 4. **Retail establishments and retail employment**
Lawrence, Kansas

Year	*Firms*	*Growth in Firms*	*Annual Average Employment*	*Growth in Employment*
2006	376	0.00%	5,724	-1.1%
2005	376	-1.57%	5,785	-1.7%
2004	382	0.26%	5,885	3.0%
2003	381	0.79%	5,713	1.7%
2002	378	-2.33%	5,616	-11.7%
2001	387		6,359	

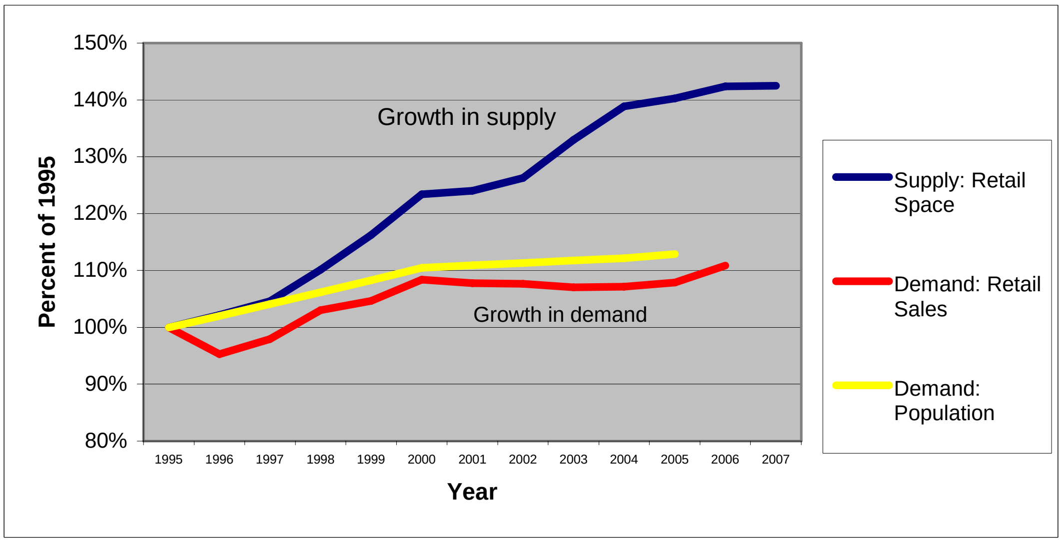
Annual growth 2001-2006: **-0.48%** Growth in firms
-1.74% Growth in employment

Source: Kansas Department of Labor
Annual Employment and Wages
http://laborstats.dol.ks.gov/industry/ces/cesrpt.asp

Mismatch in the Growth in Supply and the Growth in Demand

There is a mismatch between the pace of growth in supply and the pace of growth in demand. The supply of retail space is growing at about 3 percent per year. The demand for retail space, depending on how it is measured, is either flat for growing sluggishly at no more than one percent per year. This can be seen in Chart 2, which compares the growth in supply to both the growth in retail spending and the growth in population.

Chart 2. **Comparing growth in supply to growth in demand Lawrence, Kansas 1995 – 2007**



Source: City of Lawrence, Inventory of Retail Space
Kansas Department of Revenue
U.S. Bureau of the Census

The mismatch between the pace of growth in supply and the pace of growth in demand is large (supply is growing at a pace at least 3 times the pace of growth in demand), and it is long-term (lasting more than a decade).

The consequences of a large and long-term mismatch can be seen in the high level of vacancies and in conversion of space into non-retail uses.

Category of use

The inventory of retail space includes structures built for many purposes. About one-half of the current inventory was built to be conventional retail, that is, space to sell general merchandise. Another one-fifth of the stock was built for food service or automotive purposes. Thus, nearly three-quarters of the retail space in Lawrence is for general merchandise, food service or automotive needs. The remaining one-quarter of the space is in banking, lodging, office, or other uses.

Table 5. **Stock of retail space by category of use**

Category of Use	*Square Feet*	*Percent of Total*
General Merchandise	3,388,135	52%
Automotive	434,387	7%
Bank	396,690	6%
Lodging	646,727	10%
Office in Retail Structure	207,460	3%
Office in Office Structure	109,532	2%
Food Service	903,019	14%
Professional Services	350,693	5%
Theatre/Performance Venue	107,825	2%
Total	6,544,468	100%

Source: City of Lawrence, Inventory of Retail Space

Not all of the space originally built for retail use remains in retail use; much of it has been converted to other uses. Over 200,000 square feet of retail space has been converted into office use. This includes offices in the Tanger Mall plus offices in 10 Marketplace, Southern Hills Mall and elsewhere. An additional 220,000 square feet of retail space in the Riverfront Mall has been converted into lodging and office space.

The conversion of space needs to be recognized as both an indicator of an extremely soft retail market and as a source of harm to other markets, notably the office and lodging markets.

Occupancy and vacancy

The vacancy rate for the entire market is 8.3 percent, well above a desirable level, usually deemed to be about 5 percent. However, the vacancy rate needs to be examined further to gain insights into the condition of the market and its various submarkets.

Vacancy by location.

Table 6 lists both the nominal vacancy rate (vacant space as a percentage of total space) and the vacant and retail space converted to office use as a percentage of the total space.

Table 6. **Vacancy by location**
Lawrence, Kansas

District	*Suites*	*Square Feet*	*Vacancy Rate*	*Vacancy or Conversion Rate*
Downtown	276	1197034	6.6%	7.6%
Clinton Parkway	32	215,230	3.7%	8.9%
East 23rd St	102	413,529	10.1%	21.1%
East Lawrence	33	142,013	7.4%	10.9%
North Lawrence	75	350,084	41.9%	51.1%
Hillcrest	39	229,249	2.4%	3.0%
Orchard Corners	26	56,000	19.6%	19.6%
South Iowa St	166	1,940,889	6.6%	8.4%
West 23rd St	120	722,088	6.8%	14.4%
W 6th & Monterey	17	121,893	3.3%	3.3%
W 6th & Wakarusa	67	336,722	13.7%	13.7%
W 6th Iowa to Maine	114	740,104	0.8%	1.1%
19th & Mass	13	79,633	7.5%	7.5%
Total	1,080	6,544,468	8.3%	11.3%
Total net North Lawrence	1005	6,194,384	6.4%	9.1%

Source: City of Lawrence, Inventory of Retail Space

What Table 6 shows very quickly is that North Lawrence is a submarket with extreme problems. Its vacancy rate is over 40 percent in nominal terms but rises to over 50 percent when the retail space converted to office use is added to the vacant space. This low level of retail usage suggests that North Lawrence is a special case that merits separate consideration.

If North Lawrence is taken out of the total, the remainder of the city—that part south of the river—continues to show signs of high vacancy. The retail market south of the river has a vacancy of 6 percent, which is within and acceptable range, but it rises to over 9 percent when the retail space temporarily converted to office space is added to the supply of vacancy.[1] This remains a very high level.

Other than the problems of North Lawrence, vacancy is not a function of location with high vacancy in the older parts of the City. The vacancy rate in the 6th and Wakarusa area is nearly 14 percent. The vacancy rate for downtown is about 7 percent, and for South Iowa Street, it is also about 7 percent.

Vacancy by year built.

There is no clear trend between vacancy and year built. Newer buildings are about as likely to be vacant as older buildings.

Table 7. **Vacancy by age of suite**
Lawrence, Kansas

Vacancy by period during which the building was built.

Suite Year Built Category	*Number of Suites*	*Square Feet Total*	*Square Feet Vacant*	*Category Vacancy Rate*
Built before 1940	178	612,686	45,550	7.4%
Built 1940 up to 1980	349	1,790,002	115,202	6.4%
Built 1980 up to 1995	301	1,760,680	181,804	10.3%
Built 1995 or later	252	2,381,100	199,212	8.4%
Total	1,080	6,544,468	541,768	8.3%

Source: City of Lawrence, Inventory of Retail Space

[1] Note that the Riverfront Mall is not included in the count of space converted to non-retail use as it is deemed to have been permanently converted to office and lodging use.

Vacancy by size of suite

There is no significant trend in vacancy by size of the suite. The vacancy rate is marginally higher in smaller buildings, but this difference is too small to be of concern. The vacancy rate in smaller suites is about 10 percent while it is about 7 percent in the largest properties. Thus, the desire to build additional space cannot be justified by a shortage in any particular size category.

Table 8. **Vacancy by size of suite**
Lawrence, Kansas

Vacancy by size of the suite.

Suite Size Category	*Number of Suites*	*Square Feet Total*	*Square Feet Vacant*	*Category Vacancy Rate*
Less than 1,000 square feet	36	20,887	2,100	10.1%
1,000 up to 5,000 square feet	750	1,779,508	170,228	9.6%
5,000 up to 10,000 square feet	172	1,134,143	95,641	8.4%
Greater than 10,000 square feet	122	3,609,930	273,799	7.6%
Total	1,080	6,544,468	541,768	8.3%

Source: City of Lawrence, Inventory of Retail Space

Vacancy by type of use.

Vacancy rates do vary by use of the property. General merchandise space, which makes up about one-half of the total stock of space, has a very high vacancy rate of 13.5 percent. Even if North Lawrence is removed from the stock general merchandise space has a vacancy of 10.1 percent.

This suggests that Lawrence is especially overbuilt in the general merchandise category of retail space, the category for which new space is proposed.

Table 9. **Vacancy by use of suite**
Lawrence, Kansas

Vacancy by use of the retail suite.

Suite Year Built Category	*Number of Suites*	*Square Feet Total*	*Square Feet Vacant*	*Category Vacancy Rate*
General Merchandise	438	3,388,135	457,756	13.5%
Automotive	107	434,387	4,500	1.0%
Bank	59	396,690	-	0.0%
Lodging	16	646,727	-	0.0%
Office in Retail Structure	58	207,460	8,355	4.0%
Office in Office Structure	29	109,532	23,300	21.3%
Food Service	235	903,019	39,388	4.4%
Professional Services	134	350,693	8,469	2.4%
Theatre/Performance Venue	4	107,825	-	0.0%
Total	1080	6,544,468	541,768	8.3%

Source: City of Lawrence, Inventory of Retail Space

Leakage

Leakage describes retail spending moving from one community to another. If residents of Lawrence choose to shop in another community, those retail sales are lost to Lawrence along with the sales tax dollars. However, these flows move in both directions; residents from other communities come to Lawrence to shop here.

It is not possible to know the exact number of dollars that leave or enter the community. However, it is possible to estimate net effect of dollars leaked out of Lawrence along with dollars coming into the community from outside. This is what is done by the Kansas Department of Revenue.[2]

[2] A Study of Retail Trade in Cities Across Kansas: An Annual Report of Trade Pull Factors and Trade Area Captures, Annual report for Fiscal Year 2005 with companion tables for fiscal years 2004 & 2003, Kansas Department of Revenue, Office of Policy and Research, Issued October 2006.

The report calculates the City Trade Pull Factor:

> *It is a measure of the relative strength of the retail business community. The City Trade Pull Factor is computed by dividing the per capita sales tax of a city by the statewide per capita sales tax. A CiTPF of 1.00 is a perfect balance of trade. The purchases of city residents who shop elsewhere are offset by the purchases of out-of-city customers. CiTPF values greater than 1.00 indicates that local businesses are pulling in trade from beyond their home city border. Thus, the balance of trade is favorable. A CiTPF value less than 1.00 indicates more trade is being lost than pulled in, that residents are shopping outside the city. This is an unfavorable balance of trade.*

This study finds that Lawrence as a Trade Pull Factor of 1.22 for the year 2005. This means that in that year, more retail spending came into the City from non-residents than was lost by residents of Lawrence who shopped outside Lawrence. This ranked Lawrence as the 10th strongest retail market among cities in Kansas in terms of importing dollars.

The 2005 figure was, however, down from 1.37 in 2004, but up from 1.06 in 2003. Thus, despite some fluctuations, Lawrence has been a destination shopping city for at least the last three years.

This suggests that Lawrence is doing an impressive job of importing dollars from other markets and that the potential for raising this figure is not high as Lawrence is already among the highest among destination shopping cities in the state.

Proposed Developments

At present, many different development proposals are before the city. They total to over 800,000 square feet. All are located in West Lawrence, and all but the Miracon Plaza are located along West 6th Street.

The addition of over 800,000 square feet of space, if built, will increase the supply by over 12 percent.

Table 10. **Proposed retail developments**
Lawrence, Kansas

Proposed retail developments by square feet.

Proposed Development	*Retail Square Feet*
Miracon Plaza	23,300
Wal-Mart	132,000
Baur Farms	133,850
Northgate	198,714
Mercato	337,000
Total	824,864

Consequences of the Mismatch

Absorption of retail space

Lawrence is overbuilt now. This is demonstrated by the high vacancy rates and the conversion of projects out of retail use.

In 2007, there is over 540,000 square feet of vacant space, 395,000 south of it river. About 364,000 of this vacant space south of the river is in general merchandise, automotive, and food use. If the City had slowed the pace of growth of retail space in 1995 to the pace of growth of retail demand, it would have reduced the stock by about 400,000 square feet, an amount comparable to the surplus stock that exists now. This would have been a much healthier condition for the City as a whole and for several neighborhoods.

Lawrence is faced with about 1 percent growth in retail demand per year. This translates into about 50,000 square feet of retail space that can be absorbed each year. Thus, the City has a 7 to 10 year backlog of surplus retail space.

Harm of Surplus Retail Space

Blight and deterioration.

Over time, surplus retail space becomes “dead malls”. Lawrence already has several of these. The vacancy rate is so high in North Lawrence that it equals the level found only in inner-city slums. Other neighborhoods south of the river are unable maintain their retail shopping areas in good condition. As these retail centers are unable to occupy enough space at market level rents, investment in maintenance falls and deterioration results. This diminishes the value of residential properties nearby.

Lost opportunities to redevelop downtown.

The City has lost opportunities to redevelop its downtown, its one truly unique destination shopping center that can attract shoppers from outside of the community. The parking garage in the 900 block of New Hampshire was to be financed, in part, from the new tax revenues from the Downtown 2000 development. This development failed to materialize during the recession of 2000 to 2001. Now that the economy is in recovery, the surplus of space has ensured the continued failure of this plan and burdened the taxpayers with the full cost of the parking garage.

Harm is spreading to the office market.

As the retail market has become burdened with surplus space, owners are desperate to find take any tenant so as to cover costs. This often means filling retail space with office tenants. This extends the problems of the overbuilt retail market into the office market.

The potential to make things much worse.

The City is confronting developments containing over 800,000 square feet. Hopefully, not all of this space will be built because developers are finding it very difficult to attract leases to their proposed shopping centers. However, to the extent that this space is built, it will only expand the stock of vacant space. The newly built space may not stay empty, but given the City's inability to support more space, the new development will only mean more vacancies elsewhere in the City.

Lawrence needs to protect itself from the harm of excessive development. At the very minimum, it should avoid expanding the problem by approving more retail space within a market that is already too large and suffering from deterioration.