



LAKE STEVENS ECONOMIC DEVELOPMENT STRATEGY



RETAIL FORECAST AND LEAKAGE ANALYSIS

PREPARED FOR



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Introduction

As one part of its Economic Development Strategy, the City of Lake Stevens is interested in attracting more retail development. New retail development can have a number of benefits. Among them are the addition of significant tax revenue to the City, county, and state; providing residents easier access to the goods and services they want; reduction in motor vehicle travel; and the attraction of shoppers and even tourists from outside the City. When done right, retail development is also a key part of a city's unique sense of place, and can increase a community's attractiveness and attract tourists.

This memorandum explores:

- The benefits of retail and tax revenues generated from retail spending;
- The amount of retail spending taking place in Lake Stevens and nearby areas;
- Retail development principles;
- Opportunities to attract retail development in the City; and
- Other related issues.

Retail as a Revenue Source

Local "sales and use" taxes are levied against retail sales that take place within a jurisdiction, along with the state sales and use tax.¹ (The everyday term "sales tax" is used in this memo.) The tax is also levied on construction materials and labor, making new development of any kind an important source of sales tax revenues.

There are 22 different types of local sales and use taxes that are allowed by state statute. These include taxes that can be collected by cities and counties, and for specific purposes such as transit, criminal justice, public facilities, zoos, and other uses.

The City of Lake Stevens levies the full "basic" and "optional" city rates, for a total tax rate of 1.0 percent. Together with the Snohomish County (1.1 percent) and state (6.5 percent) rates, the total local sales tax rate is 8.6 percent. Most of the County's tax (0.9 percent) is dedicated to the Snohomish County public transit system.

Sales tax rates in Snohomish County and the Puget Sound Region in general are among the highest in the state. However, Lake Stevens' current rate is lower than the jurisdictions to the west of I-5 such as Everett (9.2 percent) and Edmonds (9.5 percent).

Sales taxes are the biggest contributor to Lake Stevens' general fund, making up approximately one-quarter, or 24 percent, of the City's general fund revenue. This is similar to other cities in Washington State, where sales tax revenues typically make up about 21 percent of cities' general funds, about the same amount as property (22 percent) and business and utility taxes (21 percent).²

Table 1 below shows a breakdown of the City's 2009 sales tax receipts. The lion's share is collected by just over 20 retailers, mostly national retailers. In fact, the City's Target store generates \$310,000 in revenue; Safeway generates about \$94,000, and no other single retailer generates more than \$50,000. Large construction projects such as the Sunnyside Wastewater Treatment Plant and housing projects also contribute a significant amount. Finally, various other retailers, restaurants, and smaller construction projects around the City contribute about a third of the total.

¹ The tax is levied against most goods and some services. However, some goods are exempted, most notably most groceries, prescription drugs, auto fuel, and wholesale goods.

² *Tax and User Fee Survey*, Association of Washington Cities, 2008.

Table 1. Sales Tax Receipts Summary, 2009

Category	Amount	Percent
Top 22 Retailers	\$891,330	41%
Top 8 Construction Projects	\$659,589	30%
Other Retailers and Construction Receipts	\$626,464	29%
Total	\$2,177,383	100%

Source: City of Lake Stevens, Leland Consulting Group.

Recent Policy Changes: Streamlined Sales and Use Tax. Legislation passed in 2003 and 2009 has changed the state’s policy on where sales taxes are collected, and other features of the tax, in order to bring Washington law into closer alignment with other sales taxes collected nationwide. Beginning in 2008, sales taxes were assessed at the “point of delivery” (i.e., point of purchase); prior to 2008, they were assessed at the point of origin. This change will have the greatest impact on long-distance transactions, such as catalogue or internet transactions. The effect on transactions that take place at retail locations *within* Lake Stevens should be negligible, since in such cases, the point of origin and delivery is the same. This “Streamlined Sales and Use Tax” policy should benefit jurisdictions in which residents make significant catalogue and internet purchases, and have a short-term negative effect on jurisdictions with a concentration of long-distance retailers. Overall, Leland Consulting Group does not anticipate that this policy will have a significant impact on Lake Stevens’ retailing or revenue outlook.

Other Benefits of Retail

As stated above, there are other benefits of retail for the City and residents of Lake Stevens. These include convenience, travel time savings, and quality of life; potential for “place making;” and the potential to shape unique places that attract tourists and tourism spending.

For example, Lake Stevens residents’ errands are less time consuming and their lives are probably more convenient since there is a Target located in town, rather than on the west side of I-5. Examples of retail as a critical element of place making or tourist destination are shown below.



Retail/dining as an element of downtown place making, and tourist attraction.

Requirements for Successful Retail

Like other types of real estate development, the keys to successful retail are “location, location, location.” Retail development is not appropriate for every location; rather, it can only thrive on certain sites that have the characteristics shown below. The City of Lake Stevens should be careful to plan for retail only in locations with these attributes.

- *Visibility.* Thousands of customers must pass and see the site on a daily basis.
- *Accessibility.* Must be very easy to get to; most should be on the “way home” (right) side of the street.
- *Centrality location vis-a-vis target markets.* For example, grocery anchored centers should be within approximately one mile of 10,000 residents.
- *Manageable competitive environment.* Retail will avoid an area if competitors are already located there.
- *Demographic match.* Retailers choose sites located near their “target market” customers.
- *Anchor tenants.* Retail developments are often “anchored” by one tenant (for example, a grocery store) which then attracts other tenants.
- *Sense of place, safety, cleanliness.*
- *Continuity.* Urban retail must be continuous, or many shoppers will stop and turn back.
- *Parking capacity.*

Retail Development Formats

There are only a handful of formats within which large-scale retail development takes place, shown below. This is important to recognize, because neither a 10-screen movie theater nor a Nordstrom department store, for example, will be built by themselves at a free-standing site. They are almost always built as part of a larger project, because of the economics of building and operating retail. Thus, in many cases, Lake Stevens should be thinking in terms of developing or redeveloping entire centers, rather than simply attracting individual retailers. Some exceptions would be the recruitment of large club retailers such as Costco and the recruitment of individual retailers for large vacancies within existing centers.

Table 2. Retail Development Formats

Type	Examples	Anchor Tenant(s)	Gross Leasable Area		Av. Site Area (acres)	Support Population
			Typical (sf)	Typical Range (sf)		
Neighborhood	Jay's Market Center	Supermarket	50,000	30,000 - 100,000	3 - 10	3,000 - 40,000
Community	Frontier Village (including Target)	Junior or full-line department, large variety, and/or discount stores	150,000	100,000 - 450,000	10 - 30	40,000 - 150,000
Regional	Everett Mall	One or two full-line department stores	450,000	300,000 - 900,000	10 - 60	150,000+
Super Regional	Alderwood Mall, Northgate Mall	Three or more full-line department stores	900,000	500,000 - 2 million	15 - 100+	300,000+

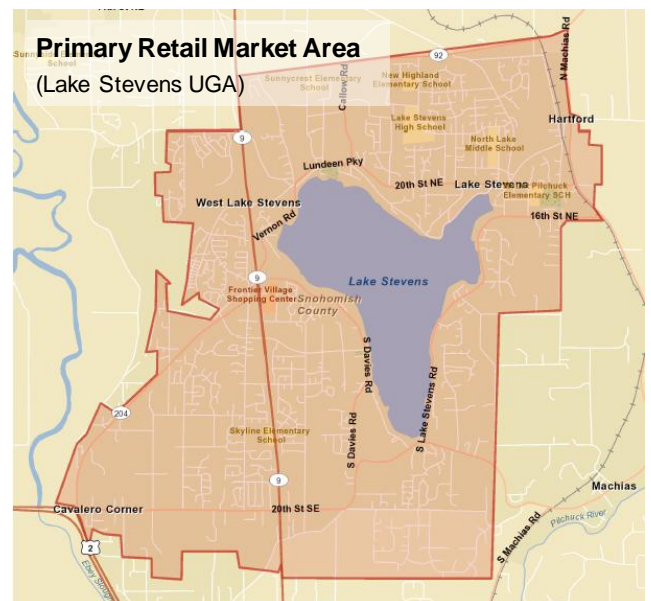
Source: Urban Land Institute, Leland Consulting Group.

Attracting Retail Development

From a technical point of view, there are essentially three strategies that Lake Stevens can use to attract new retail development, each of which is related to one of the retail market areas shown below.

1. Capture retail “leakage.” These are dollars that are being spent by residents located within the primary retail market area on goods and services purchased elsewhere (see complete description on page 8). For example, many residents do some shopping in Everett or the Marysville outlet stores, and in theory, some or all of this spending could take place in Lake Stevens. Lake Stevens’ current Urban Growth Area (UGA) boundary serves as the primary retail market area (shown at right). The primary retail market area is defined as the area from which Lake Stevens’ retailers draw most of their patronage. The current population of the UGA is approximately 28,800.

It is not always easy to recapture retail leakage. Some retailers will, by nature, continue to locate elsewhere. One example is car dealers, which seek to cluster together and locate at the *center* of the largest population possible and along major highways. These retailers are more likely to choose locations to the



west and south of Lake Stevens. Another case is when existing competition is too close. For example, since there is an outlet mall in Marysville, it is unlikely that another outlet mall would be built in Lake Stevens.

2. Become a retail destination for north Snohomish County. Lake Stevens also has the potential to attract shoppers from northern and eastern Snohomish County. The main area from which these retail patrons can be drawn is the secondary retail market area, shown at right. The current population of the secondary retail market area is approximately 105,000, nearly four times the population of the UGA.

As demonstrated by WSDOT's traffic counts, tens of thousands of people currently drive through Lake Stevens on a daily basis from these areas, many on their way to work to west of I-5 or in other locations. These people know Lake Stevens and it is a natural crossroads for them as they get to and from work, home, and other destinations. (Traffic counts and commuting patterns are shown in the Economic Assessment, a separate report completed as part of this project.) As long as the shopping alternatives are comparable to others located further west, residents of the secondary retail market area will choose to shop in Lake Stevens rather than elsewhere because of greater convenience and drive time savings.



3. Increase the City's tourism draw. The market area for a tourist destination can be regional, national, or even global. The potential for attracting new, outside spending is tremendous, but doing so is not easy. Further, it is difficult to accurately forecast significant increases in tourism spending, or to determine the market area that tourists will come from. Finally, tourists tend to support different kinds of retail—such as restaurants, gift shops, and other goods and services unique to the area—than local or regional residents. While some tourist spending should be anticipated in the Framework Plans created for the City's focus areas, particularly downtown, a specific forecast is not included here.

Retail Leakage and Opportunities

Understanding Leakage

Figures 1 through 4 below show several different ways to look at the retail spending, leakage, and opportunities in Lake Stevens.

Retail surplus or leakage figures are essentially calculated as demand less supply. Retail *demand* is a function of the number of households in an area and the amount of money those households spend on retail purchases annually. Both figures are tracked by the U.S. Census Bureau and ESRI Business Analyst, a private source of national economic and demographic information. Retail *supply* is the amount of goods and services currently being offered in the area and is a function of the number of stores in the area, their type and size, and projected sales figures. These figures are tracked by ESRI Business Analyst and Infogroup.

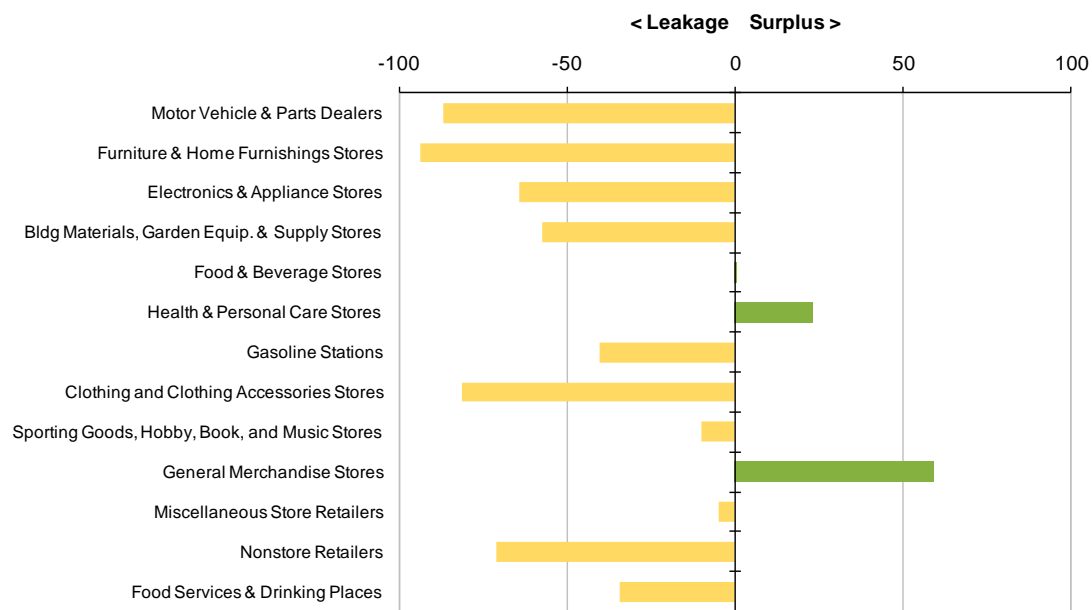
When demand is greater than supply, leakage is occurring—households within the market area have retail dollars that they are spending outside the primary retail market area. When supply is greater than demand, there is a retail surplus—and people from elsewhere must be coming into the market area in order to support the local retailers.

While opportunities to attract new retailers can include categories where there is either surplus or leakage, categories with leakage often represent more immediate opportunities. For example, if residents are going elsewhere to buy their electronics, an electronics store could be located in Lake Stevens (assuming that enough market demand exists to support an entire store) and the shopping dollars, sales taxes, property taxes, and wages will be captured locally.

Figure 1 below offers a first snapshot of retail leakage and surplus. It shows that:

- Leakage is taking place in Lake Stevens in almost every retail category. Residents are going elsewhere to shop!
- Leakage is taking place in many categories that Lake Stevens could reasonably be expected to capture: furniture and home furnishings, electronics, building materials, gasoline, clothing, sporting goods, and food services (restaurants and bars). It will probably have trouble attracting motor vehicle dealers for the reasons explained above.
- Lake Stevens has a retail surplus in several categories. The general merchandise surplus is probably due to the fact that Target draws shoppers from a large area. The City also has a modest surplus in health and personal care stores, and is essentially in equilibrium in food and beverage stores (grocery stores, specialty food stores, and liquor stores).

Figure 1. Retail Surplus/Leakage Factor, Primary Market Area, 2010



Source: ESRI Business Analyst, Leland Consulting Group. A leakage factor of 100 indicates that all potential spending is going to other areas; a surplus factor of 100 indicates that the area is capturing twice the spending power of the current population.

Figures 2 through 4 show the dynamics of retail leakage and surplus in greater detail, by displaying the actual dollar amounts of retail demand and supply, and how this could potentially translate into new retail space (measured in square feet and number of retailers). The retailer types and average sizes are just that—averages. Although they are based on the findings of national retailer surveys, the actual size of particular retailers within these categories will vary. For example, some electronics stores are 2,500 square feet, while others are more than 60,000 square feet. The total spending needed to support the larger store is therefore significantly larger.

Two types of retailers were removed from the leakage figures shown below. The first is "nonstore retailers," which includes online shopping, mail order, door-to-door sales, and other retailers that do not occupy a physical store. Because of Washington's revised sales tax laws, adding these categories of retailers would not create sales tax revenue for Lake Stevens. The second is motor vehicle dealers (and parts dealers). Motor vehicle dealers prefer locations that are a) as close as possible to the center of the metropolitan area or very large population base, b) near major highways, and c) often near other auto retailers. These criteria do not make Lake Stevens a good candidate for major auto sales.

Current Retail Dynamics in the Primary Market Area

Figure 2 shows the current retail surplus and leakage for the primary retail market area. It shows that:

- There are five “opportunity” retail categories in which Lake Stevens has the potential to attract one or more stores totaling 10,000 or more square feet, and one “major opportunity” category in which the City has the potential to attract one or more stores totaling 50,000 or more square feet.
- These categories include many retail goods and services that were (not coincidentally) cited by Lake Stevens interviewees as unmet community needs: restaurants (food services and dining), clothing, furniture, and electronics.
- Due in large part to the presence of the Target store, Lake Stevens has a significant surplus of general merchandise sales. This is not considered to be a significant deterrent to the attraction of a Costco or other warehouse store, since those stores sell a wide variety of merchandise, including food, electronics, home furnishings, and other goods.

The “retailer support” shown below evaluates the City’s capacity to add various tenants. While average tenant sizes reflect actual sizes of particular retailers, retailer sizes vary widely. For example, some electronics retailers (Radio Shack) occupy 2,500 square feet, while others (Best Buy) fill 60,000.

Key to Sales and Leakage Figures

Major opportunity. > 50,000 sf of leakage Opportunity. > 10,000 sf of leakage (Retail leakage is represented with negatives values.)

Figure 2. Retail Surplus/Leakage in the Primary Retail Market Area, 2010

Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Surplus or Leakage			Retailer Support		
			\$ Value	Area (SF)	Leakage Area (SF)	Retailer Type/Name	Av. Size (SF)	# Retailers
Furniture & Home Furnishings Stores	\$11,402,328	\$384,730	(\$11,017,598)	(36,458)	(36,458)	Furniture	7,700	5
Electronics & Appliance Stores	\$6,920,019	\$1,500,412	(\$5,419,607)	(16,936)	(16,936)	Electronics Store	2,500	7
Bldg Materials, Garden Equip. & Supply Stores	\$11,676,670	\$3,138,833	(\$8,537,837)	(21,968)	(21,968)	Home Improvement	116,000	0
Food & Beverage Stores	\$62,488,649	\$63,351,300	\$862,651	2,696		Grocery Store	52,400	
Health & Personal Care Stores	\$10,138,166	\$16,303,785	\$6,165,619	19,268		Pharmacy	11,000	
Gasoline Stations	\$42,596,864	\$18,105,659	(\$24,491,205)	(18,554)	(18,554)	Gas Station	3,180	6
Clothing and Clothing Accessories Stores	\$11,404,244	\$1,161,324	(\$10,242,920)	(44,021)	(44,021)	Women's Clothing	4,000	11
Sporting Goods, Hobby, Book, and Music Stores	\$3,042,020	\$2,488,414	(\$553,606)	(1,730)	(1,730)	Sporting Goods	11,000	0
General Merchandise Stores	\$36,839,560	\$143,305,342	\$106,465,782	332,706		Warehouse Club	135,000	
Miscellaneous Store Retailers	\$8,384,351	\$7,607,542	(\$776,809)	(2,428)	(2,428)	Florist	1,600	2
Food Services & Drinking Places	\$47,795,915	\$23,325,048	(\$24,470,867)	(59,365)	(59,365)	Restaurant	3,000	20
Total	\$252,688,786	\$280,672,389	\$27,983,603	153,209	(201,460)			50

Source: US Census, ESRI Business Analyst, Urban Land Institute, Leland Consulting Group.

Current Retail Dynamics in the Secondary Market Area

Figure 3 shows the current retail surplus and leakage for the secondary retail market area. Not all of the leakage shown below would necessarily be captured in Lake Stevens; new retailers could also be located in other cities within the secondary retail market area or to the west. Figure 3 shows:

- There are three “opportunity” retail categories in which Lake Stevens has the potential to attract one or more stores totaling 10,000 or more square feet, and four “major opportunity” categories in which the City has the potential to attract one or more stores totaling 50,000 or more square feet.
- Residents of the areas to the east, northeast, and southeast—like Lake Stevens residents themselves—are also going elsewhere to purchase many basic consumer goods.
- The scale of leakage is now approximately that of a regional mall. In addition, there is leakage within key mall (or lifestyle center) retail categories such as clothing, food, and home furnishings. A developer’s assessment of the competitive environment would be critical to the decision to locate a large mall in Lake Stevens. In other words, a developer would need to be convinced that a new center could achieve adequate sales levels given competition from Gateway Plaza, Everett Mall, Snohomish Station, and other major nearby centers.

Figure 3. Retail Surplus/Leakage in the Secondary Market Area, 2010

Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Surplus or Leakage			Retailer Support		
			\$ Value	Area (SF)	Leakage Area (SF)	Retailer Type/Name	Av. Size (SF)	# Retailers
Furniture & Home Furnishings Stores	\$38,290,570	\$7,813,937	(\$30,476,633)	(100,849)	(100,849)	Furniture	7,700	13
Electronics & Appliance Stores	\$23,348,210	\$6,840,629	(\$16,507,581)	(51,586)	(51,586)	Electronics Store	2,500	21
Bldg Materials, Garden Equip. & Supply Stores	\$39,475,380	\$38,893,626	(\$581,754)	(1,497)	(1,497)	Home Improvement	116,000	0
Food & Beverage Stores	\$214,715,660	\$219,070,414	\$4,354,754	13,609		Grocery Store	52,400	
Health & Personal Care Stores	\$34,918,466	\$26,329,571	(\$8,588,895)	(26,840)	(26,840)	Pharmacy	11,000	2
Gasoline Stations	\$144,856,465	\$118,553,134	(\$26,303,331)	(19,927)	(19,927)	Gas Station	3,180	6
Clothing and Clothing Accessories Stores	\$38,970,981	\$4,284,647	(\$34,686,334)	(149,073)	(149,073)	Women's Clothing	4,000	37
Sporting Goods, Hobby, Book, and Music Stores	\$10,318,137	\$6,047,705	(\$4,270,432)	(13,345)	(13,345)	Sporting Goods	11,000	1
General Merchandise Stores	\$125,792,087	\$238,830,170	\$113,038,083	353,244		Warehouse Club	135,000	
Miscellaneous Store Retailers	\$28,614,057	\$23,850,033	(\$4,764,024)	(14,888)	(14,888)	Florist	1,600	9
Food Services & Drinking Places	\$163,386,987	\$101,484,282	(\$61,902,705)	(150,173)	(150,173)	Restaurant	3,000	50
Total	\$862,687,000	\$791,998,148	(\$70,688,852)	(161,325)	(528,178)			140

Source: US Census, ESRI Business Analyst, Urban Land Institute, Leland Consulting Group.

Long-Term Retail Dynamics in the Secondary Market Area

Figure 4 shows the retail surplus and leakage for the secondary retail market area in 2020, using the Puget Sound Regional Council’s (PSRC) population growth estimates. The secondary retail market area is projected to grow by 24 percent during this time period, from approximately 105,000 today to 130,000 in 2020. Retail spending was assumed to increase proportionally to the population, while retail supply was held constant at today’s current inventory. It shows that:

- There are two “opportunity” categories in which Lake Stevens has the potential to attract one or more stores totaling 10,000 or more square feet, and eight “major opportunity” retail categories in which the City has the potential to attract one or more stores totaling 50,000 or more square feet. The total leakage is just less than one million square feet, more than adequate to support a regional mall.

Figure 4. Retail Surplus/Leakage in Secondary Market Area, 2020

Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Surplus or Leakage			Retailer Support		
			\$ Value	Area (SF)	Leakage Area (SF)	Retailer Type/Name	Av. Size (SF)	# Retailers
Furniture & Home Furnishings Stores	\$47,473,884	\$7,813,937	(\$39,659,947)	(131,237)	(131,237)	Furniture	7,700	17
Electronics & Appliance Stores	\$28,947,864	\$6,840,629	(\$22,107,235)	(69,085)	(69,085)	Electronics Store	2,500	28
Bldg Materials, Garden Equip. & Supply Stores	\$48,942,850	\$38,893,626	(\$10,049,224)	(25,857)	(25,857)	Home Improvement	116,000	0
Food & Beverage Stores	\$266,211,404	\$219,070,414	(\$47,140,990)	(147,316)	(147,316)	Grocery Store	52,400	3
Health & Personal Care Stores	\$43,293,041	\$26,329,571	(\$16,963,470)	(53,011)	(53,011)	Pharmacy	11,000	5
Gasoline Stations	\$179,597,720	\$118,553,134	(\$61,044,586)	(46,246)	(46,246)	Gas Station	3,180	15
Clothing and Clothing Accessories Stores	\$48,317,480	\$4,284,647	(\$44,032,833)	(189,242)	(189,242)	Women's Clothing	4,000	47
Sporting Goods, Hobby, Book, and Music Stores	\$12,792,759	\$6,047,705	(\$6,745,054)	(21,078)	(21,078)	Sporting Goods	11,000	2
General Merchandise Stores	\$155,961,089	\$238,830,170	\$82,869,081	258,966		Warehouse Club	135,000	
Miscellaneous Store Retailers	\$35,476,631	\$23,850,033	(\$11,626,598)	(36,333)	(36,333)	Florist	1,600	23
Food Services & Drinking Places	\$202,572,459	\$101,484,282	(\$101,088,177)	(245,235)	(245,235)	Restaurant	3,000	82
Total	\$1,069,587,180	\$791,998,148	(\$277,589,032)	(705,674)	(964,640)			221

Source: US Census, ESRI Business Analyst, Urban Land Institute, Leland Consulting Group.

Leakage for 2030 was also calculated, but is not shown here in detail due to the extremely long time frame and uncertainties involved. The gross leakage calculated for 2030, again using PSRC growth estimates, is approximately 1.3 million square feet.