Creating Communities of Place

Office of State Planning

December 95

Memo

Vol. I, No. 2

Department of the Treasury

Governor
Christine Todd Whitman

Treasurer
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BIG BOX RETAIL

Big box retail is currently the most dynamic sector of the retail industry. While many forms of traditional retail have languished in the last five years, big box retail has achieved significant gains in the marketplace.

The term “big box” refers to large industrial-style buildings with vast floorplates or footprints, up to 200,000 square feet. Although single-story, they often have a three-story mass that stands more than 30 feet tall, allowing the vertical stacking of merchandise. Big box buildings in the range of 120,000 to 140,000 square feet occupy the equivalent of two to three city blocks, or 2 1/2 to 3 1/2 football fields.

Big Box growth in New Jersey in the last five years has been significant. As of the end of 1995, Home Depot operated 16 stores in the state, Wal-Mart operated 13, Sam’s Warehouse Club had six and Kmart had 46.

Kmart has long had a presence in New Jersey, mostly with older stores in the range of 50,000 to 60,000 square feet. The other three national chains have only been active here in the last five years.

The openings of the Wal-Mart, Sam’s and Home Depot stores represent the addition of 3.5 million to 4 million square feet of retail space in the State in the last five years. If Kmart and the other chains are factored in, the total growth in superstore retail space may have been closer to twice that amount.

This trend continues around the state, with numerous superstores under construction or in various stages of the development review process. In addition, Target Department Stores, the discount branch of Dayton Hudson, one of the nation’s largest retailers, has announced a planned expansion into the Northeast.

Big box retail presents challenges and creates opportunities for municipalities. Municipalities and regions should consider whether it is appropriate, where it is most appropriate, what impacts to anticipate, and how best to mitigate the negative impacts.

To be prepared, it is important for municipalities to understand the various formats. Because big box retail is a fairly recent phenomenon, many municipal master plans and zoning ordinances do not adequately address it. Recognizing this, the Office of State Planning has prepared this Memorandum to assist municipalities that are either considering big box retail or facing applications for this type of development.

***OSPlanning Memo** is a monthly publication which highlights strategies, techniques and data of interest to the planning community in New Jersey. I welcome your comments on these memos and your suggestions for future topics.*

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What is Value Retail?

There are two key trends in the American retail industry of the 1990s: consolidation, expressed by the sustained growth of national chains; and a greater focus on providing “value” to the consumer. The rise of the big box is linked to both trends.

Value retail reflects a new level of price consciousness on the part of both consumers and retailers. It is a broad label covering several retail concepts, such as discount department stores, "category killers" and warehouse clubs. It can be found in urban, suburban and exurban conditions, either in stand-alone buildings, or in various types of planned shopping clusters, such as "power centers" and "value malls".

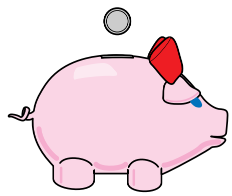
Value retail operators share the following general characteristics:

- an emphasis on providing "value" to the consumer, i.e. quality name brands at discount (considerably less than department store) prices;
- a preference for a superstore (big box) format;
- high-volume turnover, with lower profit margins than conventional retailers; and
- large advertising and promotional budgets.

Lower prices to the consumer are achieved through cost-cutting strategies such as:

- large-volume purchasing, often directly from the manufacturer, minimizing distribution and warehousing costs;
- high-tech purchasing and inventory control systems;
- no-frills sale floors and building facilities; and
- reduced staffing and labor costs.

Studies indicate that today's consumers have less interest in shopping, make fewer trips to shop, and buy more on each trip than in the past. Consumers consider saving time a priority, and they prefer stores offering "everyday low prices" to occasional department store promotions or bargain-hunting from store to store.



What Are The Major Value Retail Formats?

There are four major value retail formats: discount department stores, warehouse clubs, category killers and outlet stores.

Discount Department Stores

Discount department stores offer a wide variety of products -- up to 60,000 items -- ranging from groceries to apparel to auto products to electronics to garden supplies, all at discount prices.This group includes some of the largest retailers in the world, such as Wal-Mart and Kmart.

Wal-Mart had $82 billion-plus in sales in 1994, and sales volume has been growing by 20 percent a year. It has more than 500,000 employees at more than 2,000 stores. Kmart had $34 billion-plus in sales in 1994, and more than 300,000 employees at more than 2,200 stores.

Although the three industry leaders have built retail empires operating stores in the range of 60,000 square feet, the recent trend has been to consolidate smaller market areas and concentrate on a new generation of superstores in the range of 130,000 to 200,000 square feet. These Wal-Mart "supercenters" and Kmart "Super K" stores are often accompanied by the closure of older, smaller stores. The unrelenting competition from the industry leaders has contributed to the financial troubles of smaller chains, such as Caldor and Bradlees.

Warehouse Clubs

Warehouse clubs sell a wide range of goods, in bulk, in many different product categories but offer little selection, with under 5,000 items stocked. Selling at near-wholesale prices, with limited staff and advertising and very low profit margins, warehouse clubs compete directly against conventional supermarkets and other discount stores.

Warehouse clubs operate on large-volume turnover, as well as a strong membership base. Most charge members an annual fee.

Sam's Warehouse Club, a division of Wal-Mart, is the industry leader. Other major players include Pace and Price Costco. It is estimated that more than 1,100 warehouse club stores will be in operation nationwide by 1996.

Category Killers

Category killers offer in-depth selection in a special retail category. Examples include Toys "R" Us (children's products), Borders (books and music), Circuit City (electronics) and Home Depot (home improvement).

Category killers, which also include some of the nation's largest retailers, know their market segments very well and trade large volumes of merchandise. This allows them to establish direct relationships with manufacturers and to cut costs by eliminating wholesalers. Store sizes for category killers range from 20,000 square feet to the 120,000 square feet of the average Home Depot.

BIG BOX FACT

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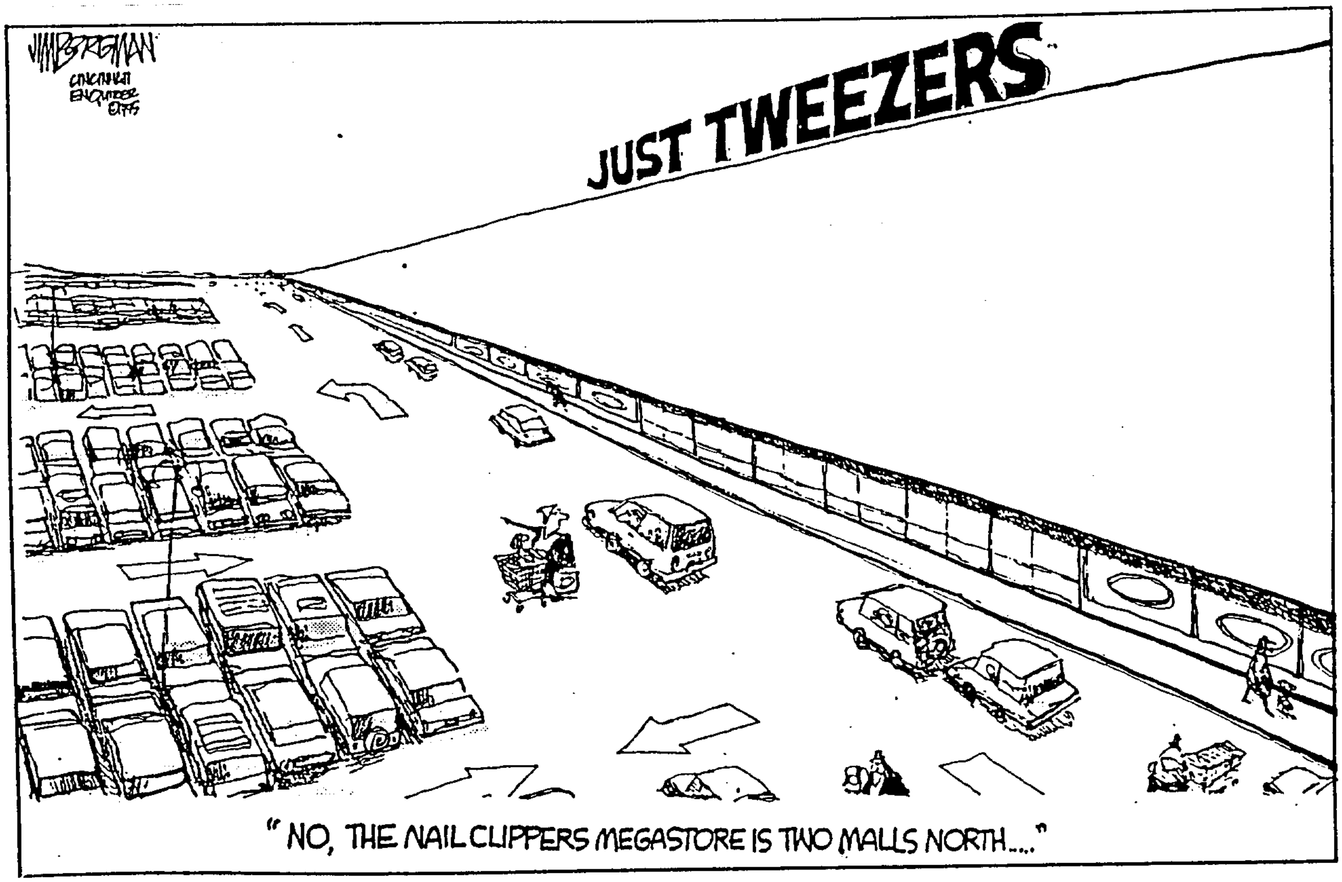

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Outlet Stores

Outlet stores are the discount branches of national department stores, such as Nordstrom's (Nordstrom Rack) and Macy's (MCO), or of national manufacturers (Anne Klein, Bass Shoes, North Face, etc). They sell overstocked items or a previous season's line at steep discounts. Outlet stores are frequently clustered in power centers or value malls.

Other Discount Retailers

Merchandisers like Marshall's, TJ Maxx and Filene's Basement sell apparel and often a variety of other products at considerable discounts. They appeal to the traditional department-store shopper with a value orientation, and are frequently found in power centers or value malls, as well as conventional shopping centers.

Types of Planned Value Retail Developments

Once ostracized by shopping centers, discount retailers are currently perceived as very desirable tenants. Power centers and value malls are the two types of discount retail agglomerations that have emerged as particularly significant.

Value retailers are also appearing in conventional regional malls, on equal footing with traditional department store anchors, or even as anchors in smaller, community shopping centers. Many discount retailers also continue to develop or lease free-standing buildings that are not part of a larger commercial development.

Value Malls

Value malls combine in a single, integrated development various value-oriented retail types, such as factory outlets, department store outlets, category killers and large specialty retailers. Examples include Franklin Mills in suburban Philadelphia, Potomac Mills in suburban Washington, D.C., and the MetroMall under construction in the City of Elizabeth. Value malls approach 1 million square feet and tend to locate at the edge of metropolitan areas.

Power Centers

"Power centers" generally bring together the various branches of the big box family -- for example, a discount department store, a warehouse club, and several category killers, along with a limited number of smaller, in-line stores. They can range from 250,000 to more than 1 million square feet and have as many as a dozen anchors and co-anchors. Anchor tenants typically occupy 60 to 100 percent of the center.

Differences Between New and Conventional Retail Formats

Power centers, discount malls and free-standing development have been expanding rapidly at a time when development of more conventional types of retail has stagnated. This can be explained by the following:

- Financing - Most big box firms have good corporate credit ratings. Institutional investors and other lenders have been favoring development projects with big box tenants, while turning down proposals for conventional retail formats.

- Tenant Demand - Big box retailers have been expanding prodigiously, while traditional department stores have stagnated or cut back.

- Risk - In power centers, anchors take up 80 percent to 90 percent of the space. Cash flow is more predictable, developer risk is reduced and leasing and management are easier.

- Cost - With little or no common space, and with outdoor amenities at a minimum, power centers are less expensive to manage and maintain than conventional regional malls.

- Merchandise Selection - Category killers and other big box retailers offer great depth in merchandise selection, which responds to current consumer demand.

- Value Orientation - Big box retailers successfully exploit the economic uncertainties of our times, as reflected by consumers' enhanced price-consciousness.

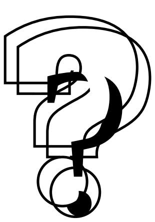
- Convenience - The industry perception is that big box retail offers greater convenience to shoppers, and this is at a premium, particularly to two-income households.

Value retail centers may differ from a standard regional mall or a conventional shopping center in the following ways:

- Financing - Many power centers are financed by institutional investors through "tenant credit" or "bonded" leases that rely on the retailer's corporate creditworthiness, not the developer's pro-forma. The lender generally requires the tenant to assume responsibility for most operating costs.

- Management - Under tenant credit leases, many power-center tenants are responsible for functions -- such as maintenance of outdoor areas, taxes, liability insurance, and security -- previously performed by the shopping center management. In many cases, the property is subdivided and there is no common management.

- Tenant Configuration - The traditional configuration with one or more anchors, preferably large department stores (or supermarkets, in smaller shopping centers), and a multiplicity of small, in-line specialty stores has been replaced. Power centers are built on anchors, and have considerably fewer in-line tenants -- or sometimes none.



Where is Big Box Retail Locating?

Big box retail is locating in every type of environment, including urban areas, older suburbs, edge cities, outer suburbs and rural areas. In new suburban and exurban areas, it typically occupies new greenfield sites. In downtowns or inner-ring suburban sites, it is occurring through the adaptive re-use of existing buildings or through redevelopment or infill.

Big boxes typically require 10-to-15-acre sites at a minimum, and favor locations along major arterials, which maximize access and visibility. But some retailers, particularly warehouse clubs, have located in manufacturing and warehousing districts, areas not considered prime by conventional retail.

This has led planners in cities like New York, Philadelphia, and Toronto to view big box retail as a tool to redevelop obsolete industrial land, provide new employment opportunities, generate tax revenues and recapture consumer expenditures flowing to similar facilities in the suburbs. In New Jersey, the proposed MetroMall in Elizabeth is expected to spearhead the redevelopment of derelict industrial land.

Given the right market conditions, retailers are locating in urban areas and adapting their standard formats and floor plans to the more complex and constrained development conditions typical of older cities. In response to higher land costs and less land, multi-level stores are becoming the norm.

There are also examples of big boxes in smaller downtowns. In Carroll, Iowa, population 9,500, Wal-Mart located in a previously cleared site adjacent to the City's two-block retail core.

BIG BOX FACT

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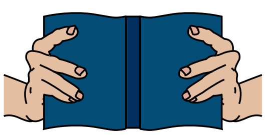
The new store was designed to complement the area's traditional architecture and is served by a parking lot shared by all downtown users. The City facilitated site acquisition and shared the costs of building the new parking lot and upgrading infrastructure.

THE PLANNING ISSUES

The first question to be addressed is whether big box retail is an appropriate and desirable use in the community. There is no stock answer -- each municipality must consider its specific conditions and constraints.

Some may wish to attract this type of retail to boost the fiscal base, provide employment or revitalize older industrial or commercial areas. Others may not want any large retail, or may not have adequate infrastructure capacity to accommodate it. Either way, big box retail uses are regulated by local land use controls -- the municipal master plan and land development ordinances -- and the municipal master planning process is the appropriate forum to discuss the issues.



Municipal Master Plan

The planning process should start with the municipal master plan. Too often, municipalities react to developer proposals instead of being pro-active and taking control.

The master plan establishes the framework for distribution of land uses. A municipality should review its land use plan and identify those areas where big box retail might be appropriate. It is crucial that the master plan language describing each land use district accurately portray the town's intention for that area.

Because big box retail is a relatively new phenomenon, many municipalities around the nation have enacted development moratoriums, while they revise their planning documents and adopt appropriate standards. This option is not available to New Jersey municipalities, since the Municipal Land Use Law specifically prohibits development moratoriums (N.J.S.A. 40:55D-90a).

It is during the planning process that municipalities should address the following questions:

- how much land is designated for retail uses, and is that an appropriate amount?
- does the community want retail that will support a predominantly local population, or does it want to serve a larger, regional population?
- is there a traditional downtown or Main Street that might be adversely affected?
- will the older shopping centers lose their tenants and close?
- how will retail uses impact on neighboring municipalities and the larger region?

The master plan process provides an opportunity to discuss the broader role of retail in the community and region and to devise and adopt policies that respond to community concerns. Communities that are concerned about the impacts of big box retail on local merchants and established retail centers are respond-

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ing with a variety of planning strategies, such as the retail "caps" adopted by towns in Massachusetts, Pennsylvania and Wisconsin. Retail caps typically establish a maximum square footage per building or building footprint, in effect requiring large-format retailers to go multi-story or occupy several buildings, respecting the finer "grain" and scale found in older downtowns. Or, in the case of Mequon, Wis., the total amount of retail in the town core has been capped at 500,000 square feet and strict controls are enforced on new retail construction outside the core. Communities in New Jersey are advised to check the relevant State statutes and case law when considering innovative controls such as these.

The master plan process also provides an opportunity for municipalities to discuss retail issues with adjoining municipalities, particularly regarding retail facilities of regional significance. Because trade areas for retail go well beyond the boundaries of individual municipalities, sound retail policies often require inter-jurisdictional agreements.

Many municipalities have come to realize that the concessions required to compete in the ratable chase make for poor planning. This creates the opportunity to evaluate development proposals jointly, and to reach equitable solutions regarding the distribution of costs and benefits.

Zoning and Land Development Regulations

The next step is to revisit the municipal zoning code and land development regulations and assess the locations zoned for retail in terms of permitted uses, bulk requirements, development standards, exactions, and so forth, in light of a better understanding of this type of development. Municipalities should be certain that the uses that have been zoned for are indeed the desired uses and that their *scale* is appropriate. If a use is not appropriate for a particular location or if the scale is excessive, it is far better for this to come out during the planning process, rather than during a contentious application hearing.

Site Layout and Development Standards

Site layout for suburban big box retail is similar to the generic configurations favored by conventional suburban retail. Stand-alone buildings are usually sited parallel to the arterial, with considerable setbacks and front-yard parking. These buildings create the same concerns raised by conventional strip development, such as disjointed internal circulation, multiplicity of curb cuts, restrictions to cross-access, etc.

Power centers, like shopping centers, generally follow an "L" or "U" configuration, with the parking field located between the buildings and facing the arterial. With more anchors and fewer in-line stores than conventional shopping centers or malls, power centers generally have more stand-alone buildings, resulting in more disjointed site layouts, less efficient internal circulation systems, fewer pedestrian amenities, and so forth.

Nevertheless, municipalities in New Jersey and elsewhere *can* to a remarkable extent influence site layout, building location and the overall configuration of retail development through the planning and zoning tools at their disposal. The schedule of bulk regulations contained in every land development ordinance -- which defines development parameters such as tract size, lot size, lot coverage or floor area ratio (FAR), setbacks, buffer provisions, etc. -- is instrumental in determining the character of future development.

- <u>Tract and lot size</u> define the scale of retail development, through the subdivision or lot consolidation process. It is important to stress that municipal codes can control both *minimum* and *maximum* lot and tract sizes, which will define the general character of the retail development.

  Lower minimum tract sizes encourage small, stand-alone buildings and fragmented development. Higher minimum tract sizes encourage larger, integrated developments. A maximum tract size places a cap on the scale of development.

- <u>Coverage, site disturbance and/or FAR,</u> combined with lot size, define the intensity and scale of development. A lower maximum coverage mandates less development, while a higher coverage encourages a more intensive use of a site. Again, both *minimum* and *maximum* coverage and FARs should be controlled.

- Setbacks and buffers are often-overlooked parameters that define the envelope for building and site improvements. Originally conceived as a means of separating and buffering uses, these provisions are very effective in separating and creating barriers to circulation between adjacent buildings and lots, even when the uses are complementary. Excessive buffers and setbacks have significant unintended consequences in deterring lot-to-lot pedestrian circulation, and unnecessarily complicating lot-to-lot vehicular circulation.

Municipalities are increasingly adopting *design guidelines* to control the appearance of new retail development. Cities like Toronto, Fort Collins, Colo., and Cambridge, Mass., have strict guidelines requiring large-format stores to respect design objectives and neighborhood character. Design guidelines typically address *site* layout issues, such as parking lot orientation, building orientation, building entrances, pedestrian circulation, public spaces and lighting and landscaping; as well as *architectural* issues such as facades and exterior walls, fenestration and display windows, materials and colors, roofs, architectural details, awnings and canopies, signage, and so forth.

Retailers have also taken interesting initiatives with innovative building design -- Wal-Mart's well publicized environmental demonstration store in Lawrence, Kan., features energy conservation measures, such as skylights, as well as construction materials and building systems designed to minimize the building's impact on the environment.

Since big box retail depends by definition on undercutting the competition, developers faced with weak standards may extend this "stripped-down" approach to site development, and limit or eliminate shade trees and other landscaping, architectural details and sidewalks. But municipalities should be cautious in relaxing site standards. If a retailer is interested in a given market, reasonable improvements are not an obstacle.

For example:

- Even though it is a co-anchor in Central Park Plaza in Steamboat Springs, Colo., the Wal-Mart store blends in with its surroundings, given the shopping center's unified approach to design, landscaping and signage.
- Responding to strict design guidelines, a Target store in Rancho Cucamonga, Calif., has pedestrian amenities: promenades, pavilions, benches and lighting. The store faces the street, and its architecture reflects the local Mission style.
- Woodfield Village Green, a power center in Schaumburg, Ill., has extensive landscaping, gazebos, garden seating areas and other pedestrian amenities.
- The Nassau Park power center in West Windsor Township New Jersey, when fully built, will include extensive landscaping and pedestrian amenities.

Vehicular and pedestrian circulation planning, parking standards and access management plans are other critical tools for shaping retail areas. In New Jersey, the Municipal Land Use Law (NJSA 40:55D-35) requires that municipal zoning be consistent with adopted access management plans, in order to preserve road capacity. This provision is being enforced along State highways, as a result of the State Highway Access management Code. Municipal codes can require alternative access to retail facilities, thereby eliminating or reducing the number of curb cuts (driveway access) from major or minor arterials.

This may entail provisions encouraging shared driveway access, cross-access between parking lots, and rear access. Rear-access roads can be defined in the municipal master plan as *master plan* roads, or designated in the *official map*. Municipal standards for internal circulation, both vehicular and pedestrian, are also critical.

Site layout should also consider future *retrofitting* options. Most newer retail buildings will almost certainly reach *functional* obsolescence well before they reach *physical* obsolescence. The rapid pace of change in retail formats will continue to vacate buildings that remain sound in structure and systems.

> **BIG BOX FACT**
>
> *Municipalities in New Jersey and elsewhere can to a remarkable extent influence site layout, building location and the overall configuration of retail development through the planning and zoning tools at their disposal.*

Accordingly, today's site layout should try to anticipate tomorrow's needs. Parking lots may become public plazas or open spaces; retail buildings may become housing, offices or civic uses. And the circulation system should be planned to facilitate future connections -- including pedestrian and bicycle links -- to surrounding uses.

Parking

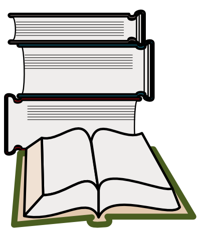
There is no consensus on the most appropriate parking provisions for big box retail. In the absence of specific standards for this type of retail, shopping center standards are generally used. The industry norm for shopping center parking is 4 spaces per 1,000 square feet of gross leasable area in shopping centers of up to 400,000 square feet; 4.5 spaces per 1,000 square feet in centers from 400,000 to 600,000 square feet; and 5 spaces per 1,000 square feet in centers of more than 600,000 square feet.

Communities are free to set their own standards and it is not known to what extent they adhere to the industry-recommended standards. There is evidence that some communities require standards that are clearly in excess of the industry norms.

And some big box chains, site conditions permitting, have implemented parking ratios well above industry standards, on the theory that each big box is a destination store, with little or no cross-shopping, which leads to longer parking turnover and less potential for parking to be shared between tenants. For example, the Wal-Mart development application in Raritan Township, Hunterdon County, proposes 5 spaces per 1,000 square feet for a building of 160,000 square feet.

On the other hand, big box projects in urban areas either provide no parking (e.g. in Manhattan) or are increasingly relying on structured parking, with ratios no higher than 4 spaces per 1,000 square feet (e.g. in other New York City boroughs).

Different formats may have different parking needs. A recent study in the April 1993 issue of the *ITE Journal* suggests that warehouse clubs generate almost half the traffic -- and parking demand -- of a conventional shopping center with the same area.



Impact Studies

Municipalities that require impact studies as part of the application process can better assess the consequences of development and make more informed decisions. Various impact studies may be requested -- environmental, fiscal, traffic, market area, etc.

The more sophisticated the assessments, the better the information available for local decisions. Impact assessments are also instrumental in determining the appropriate off-site improvements and exactions.

Impact studies are usually required only for projects exceeding a minimum threshold. The threshold can be low -- it is 10,000 sq ft in Cape Cod, Mass., and Vancouver, B.C. -- or high, perhaps in excess of 200,000 sq ft. It should reflect the community's level of concern with that type of development, its eagerness to attract new ratables, the level of "overstoring", etc..

Economic Impacts

It is often feared that large-format value retailers will capture a portion of the existing market base at the expense of existing retailers. Published studies suggest that this is often the case, but there may be significant variations, depending on local markets.

Early studies of Wal-Mart stores in 30 Iowa towns during a five-year period showed that for every $20 million in annual Wal-Mart sales, the host town's total sales volume increased by an average of $9 million, but the town's existing retail base lost $11 million. Within the host towns, businesses carrying the same merchandise as Wal-Mart lost sales, but "complementary" businesses -- those that provided goods or services not provided by Wal-Mart -- benefited from the higher traffic generated by Wal-Mart, and increased their sales.

Small towns (population 500 to 5,000) within a 20-mile radius suffered a net sales loss of almost 20 percent in the five-year period after the Wal-Mart's opening. Other small towns farther away but still within the trade area suffered sales reductions of 10 percent. Stone points out that in dynamic, growing markets, there is much greater potential to assimilate large discount retailers without serious dislocation of existing merchants.

Other studies, including a 1989 impact assessment of 10 Wal-Mart stores in Colorado, confirmed that, although new superstores increased retail sales in host communities by an average of 15 percent, a portion of those sales came at the expense of existing retailers. An assessment of a Wal-Mart proposed for Greenfield, Mass. reached similar conclusions.

The assessment estimated that Greenfield would gain 177 retail jobs within 10 years and between $51,000 and $100,000 in annual property taxes. However, Wal-Mart could displace 25 percent of the city's retail base of 365,000 square feet.

A 1989 study conducted for Wal-Mart by the University of Missouri presented a dissenting view. It found that payrolls, gross sales, tax revenues and the number of retailers were all positively affected in the 14 Missouri counties where Wal-Mart opened stores between 1983 and 1987.

Impact studies in more complex, metropolitan markets, on the other hand, suggest that fears of economic dislocation caused by superstores may be misplaced or exaggerated. New York City studies of new large-format supermarkets indicate that, although smaller, independent supermarkets and other existing foodstores lose market share, there is little impact on gross sales. Prices are lower at the new large-format supermarkets, and they offer much greater variety and depth of products. But smaller stores are faster and more convenient, and frequent, large-volume shopping is not feasible for urban populations with low auto-ownership rates.

Most of this discussion has focused on the impacts of new store openings on the existing retail base. However, market-dominant big box retailers are closing smaller, older stores and consolidating market areas around new superstore facilities. Nowata, Okla., and Hearne, Texas, are two such cases.

Based on the available studies, it is unclear how impacts may differ between complex urban markets and simpler rural markets, or between dynamic, growing markets and stagnant markets. It is also not well understood whether store size plays a role; that is, whether small stores are affected differently from medium-size stores.

Traffic Impacts

Traffic impacts are often the most contentious aspects of any application for commercial development. In the absence of specific trip-generation standards for big boxes, impact studies rely on traditional retail standards, including shopping center standards.

With the possible exception of warehouse clubs, it is generally accepted that the number of costumer trips generated by big box retail is comparable to conventional retail with the same square footage (about 7,400 average weekday trip ends for a 100,000-square-foot facility). It is important to remember that not all trips will be new. A rule of thumb is that 70 percent of trips will be destination trips, while 30 percent will be pass-by trips drawn from the existing traffic stream.

It is also accepted, but often overlooked, that big box retail generates far more truck traffic than conventional retail. This is due to higher sales volumes and merchandise turnover.

Shopping centers generate approximately 1.35 daily truck trips per 10,000 square feet of floor area. Different retail uses, however, have dramatically different delivery requirements.

According to a recent study where a conventional department store generates one tractor-trailer a day, a home improvement store generates 35 tractor-trailers and six small trucks/vans. A supermarket generates two tractor-trailers and 20 small trucks/vans a day.

Site planning for efficient goods delivery therefore takes on added importance. Municipalities may want to consider regulating delivery schedules similarly to Fort Collins, Colo, which prohibits deliveries between 7 p.m. and 7 a.m.

Fiscal Impacts

Many communities view the capture of non-residential ratables as an important means of stabilizing or even reducing local property tax rates. While this may be true for some communities for short periods of time, the tax implications of non-residential ratables, particularly retail, are often considerably more complex than anticipated.

New retail development does not directly generate school-age children, but it does require outlays for public services such as police, fire, courts, road maintenance and traffic control. In addition, the availability of retail services often stimulates residential development nearby, requiring additional public services.

The tax revenues generated by new retail ratables may be partially or substantially offset by formula-based increases in county taxes and regional school taxes resulting from the relatively greater tax capacity of the municipality. State aid for schools or municipal services may also decrease for similar reasons. The net effect of increased direct service requirements, induced residential demand, higher tax payments for regional services and possible loss of state aid requires careful analysis.

BIG BOX FACT

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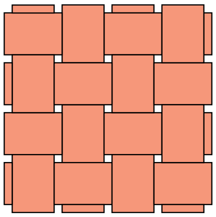
The most appropriate time for this analysis to be conducted is during the preparation or re-examination of the master plan, when a variety of alternative proposed land use patterns can be examined. Fiscal, economic, environmental, traffic and social impacts should be carefully projected and the interrelationships between these impacts weighed. Unfortunately, fiscal impacts all too often are considered only at the project review stage.



Development Exactions

Development exactions should be part of the local code and preferably defined in advance, through transportation improvement districts (TIDs) or other accepted mechanisms for pro-rating costs to individual developments. Municipalities should be careful to base exactions on accepted methodologies; to establish a "reasonable relationship" between development proposal and development exaction; and, preferably, to link specific exactions to the results of credible impact studies. Exactions that are unrelated or poorly linked to a proposed project are likely to raise objections and may not withstand legal challenge.

There are many examples of big box-related development exactions. Nassau Park -- a development with 1 million square feet of office space and a 600,000-square-foot power center anchored by Wal-Mart, Home Depot and Sam's -- contributed $1.8 million to West Windsor Township for transportation and sewer improvements, and $2.2 million to Mercer County for transportation improvements.

The developer is also required to submit an annual survey of peak trip generation and employee traffic. The site is in the municipal TID. Exactions based on area-wide TIDs have been upheld by New Jersey courts.

Municipalities around the nation have not limited exactions to infrastructure applications. Some towns, like Colliersville, Tenn., charge impact fees on new commercial development outside the downtown to fund downtown improvements. Auburn, Wash., required a suburban mall developer to provide shuttle bus service to and from the downtown, in addition to financial and marketing support for the downtown. And the package offered by Wal-Mart in Greenfield, Mass., included funds for downtown streetscape improvements; funding for an archaeological dig on the development site and a mobile exhibit of the findings for local schools; and the contribution of a 75-acre parcel to extend the municipal industrial park. Again, New Jersey municipalities considering innovative exactions should check the relevant State statutes and case law.

Citizen Activism

Big box retail development proposals have inspired considerable resistance from coalitions of "Main Street" merchants, environmental organizations, neighborhood groups, historic preservation interests and others, both in New Jersey and around the country. (New Jersey case law involving a development dispute is found in *Manalapan Realty vs Township Committee of Manalapan Township*, a case where the municipality, responding to neighborhood concerns, effectively precluded a Home Depot from locating in an expanded regional mall.)

Wal-Mart, as the leading and fastest-growing retailer, has been repeatedly targeted by these groups, and has come to represent the entire industry. Perhaps the most widely publicized cases have been in Vermont, where proposals to build retail outside the state's traditional centers have been repeatedly blocked under Act 250, a growth-management framework that requires state review and permitting of projects of regional significance.

The state of Vermont has been working with Wal-Mart executives to explain the statewide growth management rationale and to suggest suitable locations close to existing downtowns. Wal-Mart has finally received approval to open a store in an old Woolworth building near downtown Bennington.

Resistance to big box proposals has spawned a small growth industry, with a national network dedicated to the dissemination of information on strategies that have worked. The National Trust for Historic Preservation has taken a leading role in the field. There is a growing number of consultants who advise Main Street and other local merchants on how to reposition their businesses when facing the eminent opening of Wal-Mart or other discount department stores; some publications also address these issues directly.

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Big Box Retail Within the Framework of New Jersey's State Plan

Although big box retail is not explicitly discussed in the New Jersey State Development and Redevelopment Plan, which is a broad policy document, it contains principles that are important in framing the issues raised by any type of large-format development.

At the core of the State Plan is an appeal for municipalities to embrace better planning. This often involves looking beyond municipal boundaries and reaching interjurisdictional agreements.

Because large-scale retail draws on large trade areas, the Office of State Planning encourages municipalities to consider jointly the broader role of retail, through their master planning processes, and to evaluate jointly projects of regional significance. Municipalities participating in the State planning process can request assistance from the Office in planning, project evaluation, or interjurisdictional agreements. Also, assistance is often available from county planning boards.

The Office encourages municipalities to refer to the State Plan's Resource Planning and Management Structure and to direct large-format development to the appropriate center types in accordance with the policy objectives of the relevant Planning Area. Communities involved with the centers designation process should also make sure any large-format retail facilities are within the Community Development Boundary.

The State Plan encourages mixed-use development in compact forms, with retail and services within walking distance of housing and other uses. Big box formats with their large building floorplates and surface parking requirements seemingly challenge this model. However, the experience with both "in-town" regional shopping malls and with urban big box development suggests that the traditional fabric of streets and blocks that inspired the State Plan concept of centers is very flexible, and that large-format uses can be accommodated in these settings, with appropriate design guidelines.

Historically, this has been the case. Large industrial and warehouse buildings, which the big boxes emulate, as well as other land-intensive uses, such as transportation terminals, stockyards, and large educational and health facilities, are integrated into the surrounding physical pattern without compromising fundamental principles of accessibility to pedestrians and mass transit, and without destroying neighborhood character. Although big boxes raise design challenges, the Office believes it is necessary for planners, developers, retailers, local officials and community residents to find innovative ways to accommodate these uses without compromising fundamental growth-management and quality-of-life-objectives.

BIG BOX FACT

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For Further Information

This paper is the first in a proposed series on retail and its planning implications. To obtain a copy of a larger study of big box retail, please contact Sheila Bogda at (609) 292-3744. For further information on this topic, to consult documents on which this document is based or to find out more about how the Office of State Planning can assist your community in this area, please contact Carlos Macedo Rodrigues, Manager -- Special Projects, at (609) 292-3097.

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