

RETAIL AND REAL ESTATE MARKET ANALYSIS

SCOPE OF SERVICES

The Retail Market Feasibility Study RFP included a list of specific deliverables to be completed within the 17-week study period. The TEG/Arnett Muldrow & Associates (TEG/AM) consultant team has developed an approach to each task that will deliver the requested product, will address the data and analytical issues included in the Task List and which will serve as the basis for sound recommendations and action steps to be taken, in concert with other development planning objectives, at completion of the retail study. We understand that parallel transportation and planning analyses are also underway, and will complete our assessment of opportunities in a manner that reflects our experience in other settings with transit and long-range planning goals, so that the retail program and strategic approach can be integrated with larger considerations. Our Proposed Scope of Work, approach by task and deliverables are described in detail in the following sequence of Tasks.

TASK 1 PROJECT INITIATION AND DATA COLLECTION

Task 1 will begin with completion of the contract in early May, 2011, and scheduling of a site visit to Burlington as soon as possible to meet with representatives of the City Planning Department, other City Representatives, Chittenden County Transit, Church Street Marketplace, the Burlington Business Association and other key stakeholder groups and representatives. Prior to the site visit, the TEG/AM team will provide a data request list to the City to determine what information is available. This would include all existing reports (with special emphasis on plans and analyses completed within the past five years, but also including the 2002 Market Insite Group study and the IDA team report, among others. The consulting team will specifically review the studies completed by Allen and Brooks, of South Burlington on the markets for Office, Retail, Residential/Apartments and Parking. During the site visit, TEG/AM will utilize the comprehensive inventory of downtown and waterfront businesses currently being created by the City, as well as pending development requests in the study area summarized in the Allen and Brooks reports, and an overview of pending competitive retail developments in the Williston Road area, in South Burlington, or toward Shelburne.

The team will also conduct up to twenty interviews beginning with project initiation meeting and continuing over the course of the project as well as up to five selected community and business groups to garner input and share project findings. The TEG/AM team will review relevant reports and distill data that could inform the Market Feasibility Analysis. TEG/AM will also participate in confidential interviews with selected developers and property owners to better understand obstacles they may face in addressing market opportunities (these meetings may occur as part of the project initiation meeting or may be scheduled as part of a subsequent site trip, depending upon schedule. To the extent available, the consultants hope to receive aggregated data on sales productivity per square foot, either by specific operators (as available), aggregated in data collected by others, as industry standards by retail category, or as

Downtown & Waterfront Plan – Retail and Real Estate Market Analysis

a combination of these sources. As data is available, the team will update previous market findings according to the most recent relevant information, demographics, etc.

Task 1 Deliverables: *Site visit and project initiation meetings, data collection, study and data review, and confidential developer/property/business owners.*

Meeting and Reviews completed according to the revised schedule, or as amended by agreement

TASK 2 OVERVIEW OF LOCAL AND REGIONAL TRADE PATTERNS AND CAPACITY

Early in the process (or as scheduled by the City), TEG/AM will conduct stakeholder interviews with key organizations, data sources, property owners, and public officials in Burlington. The purpose of these interviews will be to research local and regional trade patterns affecting retail sales, concentrations of retail clusters such as the large format stores on Williston Road (especially WalMart, Home Depot and others). We will consider industry standards and local information on trade radius patterns generated by destination stores as compared to the destination characteristics of Downtown Burlington/Church Street Marketplace/Burlington Town Center, as well as seasonality patterns that may affect spending (academic year monthly spending vs., summer month/tourist spending, for example). The overall sales potentials of the Burlington consumer populations (resident, worker, student, visitor/tourist) will also be explored as a baseline comparison for future sales allocations based on achieved rents, available lease terms and reported sales taxes (by category) to the Vermont Department of Taxes. This information will serve as the basis for preparation of an overview of local and regional trade patterns, with preliminary assessment of downtown’s relative share, relationships between retail clusters in greater Burlington, and other factors.

Task 2 Deliverables: *Annotated Power Point presentation documenting findings on Local and Regional Trade Patterns and capacity to address opportunities*

Draft Completed according to the revised schedule or as amended by mutual agreement

TASK 3 DOWNTOWN MARKET ASSESSMENT AND ANALYSIS

This task will represent the major level of effort for the Retail Market Feasibility Study, as its findings and conclusions will determine many of the key demand determinants that would shape a downtown retail development program, potential market voids and missing elements, projected changes in demographic and market segments and incremental sales potentials. TEG/AM agrees with the analytical sequence approach described in the RFP’s Anticipated Work Tasks, and our approach will generally follow that sequence. Each subtask is described below.

Downtown & Waterfront Plan – Retail and Real Estate Market Analysis

3.1 Market Definition – The TEG/AM team will document and analyze the consumer subgroups to be included in the Market Feasibility Study, including area residents, area workers/employees, students and visitors/tourists. While each group is represented in the Downtown/Waterfront Study area, in our experience, their relative values to retail expenditures can vary considerably. As general guidelines, we have learned that resident, employee and visitor expenditures can all play a part in successful downtown areas, but all three are not equally important as primary sources of sales, productivity and retail vitality. For example, in a downtown market in which there is a sufficient range of offerings to capture a substantial (but not total) share of proximate consumer expenditures and assuming investment-level costs and sales productivities, every new downtown resident supports between 4-7 square feet of retail, every new worker (even if a downtown resident, as well) supports an additional 2-5 square feet of retail, and every visitor and student supports somewhere between .5 and 1.5 square feet of retail in the downtown study area. The retail value of downtown residents is multiple times that of students and visitors, although all these submarkets are needed to round out seasonality differences and keep the area vital, and should be considered in creating an optimal retail mix of uses. TEG/AM will collaborate to analyze the relative value of the 15,000 plus students near downtown, the impact of close-in/downtown residents and workers and the study area’s ability to compete on price, operating hours and accessibility as part of the market definition. This task will involve extensive analytical review and cooperation between TEG and Arnett Muldrow & Associates.

3.2 Market Segmentation and Demographic Analysis -- Based on the market definitions determined in 3.1, available information on incremental planning and development capacity for growth in the study area and the potential to sustain downtown/waterfront retail sales, the TEG/AM consulting team will develop a comprehensive demographic analysis of each consumer group, using census-based data, visitor spending data from the State of Vermont and information from university-industry sources on average spending among undergraduate and graduate student populations to inform assumptions about existing and potential sales, spending patterns and trends in the amount and distribution of disposable income levels.

3.3 Retail Leakage and Retail Shares -- Using aggregated sales tax data from the Burlington, South Burlington, Winooski, Colchester, Williston and Shelburne zip codes, as well as other sources (and including Arnett Muldrow Associates data), the team will assess the distribution of total retail sales across the region and will analyze the sales leakage according to relative market density and submarket definitions. This analysis will inform both potential incremental sales potentials as well as strategic directions to re-capture, sustain and draw new expenditures downtown from targeted markets, and within the context of the existing competitive environment (please also see Task 3.6).

3.4 Retail Mix Analysis, Growth Potentials, Local/Regional Traffic Assessment -- This subtask will combine the data findings of the previous analysis with the behavioral and tenant mix experience which the TEG team has in other downtown areas across the country. An inventory of retail businesses will be reviewed as to mix allocations, apparent market orientation, synergy with adjoining retail uses, number of national/chain-affiliated retailers and

Downtown & Waterfront Plan – Retail and Real Estate Market Analysis

locally owned businesses, and relative occupancy costs (reviewed as a function of rent levels and property values). Because retail is always changing, and sometimes market forces beyond local conditions can affect the mix (Burlington is fortunate to retain the Borders Bookstore anchor use on Church Street – this is a positive indication of its sales productivity, occupancy costs and profitability), there is never a constant, optimal retail mix. Maintaining the flexibility to work with property owners, retailers and regulatory officials is critical in adjusting to industry changes and business owner priorities. TEG will consider the ownership patterns, any available data about leases and typical/specific lease terms, and inquiries to the City, to Church Street Marketplace and Burlington Town Center regarding potential retailer interests in the Burlington market as context for consideration of the existing and potential mix. Our team has many years of experience in the complexities of adjusting the tenant mix in multiple-ownership downtown areas and will bring this knowledge to the assessment of downtown Burlington’s mix.

3.5 Downtown Burlington Competitive Position Analysis -- Paralleling many other cities, as the competitive retail context has grown in the Burlington area, downtown has lost a share of the sales that formerly had no other options. Residential growth toward South Burlington, Williston and other areas has attracted grocery-anchored shopping centers and strip malls, and the cluster of big box stores off Route 2 in Williston has created a major competitive destination for price-sensitive shoppers who go to WalMart, Home Depot, PetsMart, Bed, Bath & Beyond and other retailers. Downtown Burlington has a character that none of the other competitive areas can ever have, and has retained a role as both a specialty shopping district (particularly with the redevelopment of the Town Center and the presence of Macy’s) as well as the unique specialty stores, established dining destinations at all price levels and the events that draw area/regional residents downtown throughout the year. But downtown is not easily proximate to all submarkets, and parking is an issue. Additionally, there is at least 1.5 million square feet of retail space in Burlington that did not exist fifteen to twenty years ago. This means that, like all downtowns, Burlington should direct its efforts toward serving the most logical submarkets, should seek expansion of offerings within reasonable development parameters that will protect its special character and experience and look ahead to introduce new retailers that will strengthen the existing mix and reinforce its niche in the regional marketplace. The physical character, assets and opportunities for an urban experience in a rural state all suggest that downtown Burlington has an important role to play in future retail development. The task 3.5 analysis will consider and relate downtown’s position to competing retail clusters in the greater Burlington area, how accessibility and offerings affect future growth potentials and retail voids and the role for walkable environments, bike lanes, regional transit and parking to mitigate perceptions about access.

3.6 Zip Code Analysis and Future Studies -- Completion of Task 3.6 will be a collaboration and cooperative effort, with the primary level of effort for this task to be completed by Arnett Muldrow & Associates. The zip code analysis identify customer origination and migration patterns to provide an accurate, real time depiction of Downtown Burlington and the Waterfront’s trade areas and retail trade patterns. The team will rely on the cooperation of local businesses to track customers over a seven to ten day period; the specific dates for data collection will be discussed with the City to assess the level of applicability of the zip code

Downtown & Waterfront Plan – Retail and Real Estate Market Analysis

analysis over a longer time period. Arnett Muldrow & Associates and local partners will seek to encourage participation by as many businesses as possible, and will perform analysis related to the zip code survey. The consultant team will also work with local business groups to help them conduct the survey. To the extent possible through the data, differences in seasonal spending patterns will be analyzed to reflect local experience with regard to university academic seasons, summer visitation, and other seasonally-based variables. Based on the data collected, the zip code analysis will provide an analysis of the customer base populating downtown Burlington and the Waterfront, as well as the impacts that local consumers and visitors have on the downtown market. This will also provide the basis for analysis of projected sales and consumer spending patterns, as well as a sales gap analysis (sales surplus and leakage estimates) for more than fifty major retail categories and subcategories. Lifestyle traits of major consumer market segments and area households will also be analyzed to provide a basis for marketing strategies, delivery systems and messages targeted toward specific market segments and audiences. If possible (based on collected data) the team will correlate distant-zip code sources as “browsers” and identify district-based browsing down to the block level. All this data will inform subsequent recommendations for “top prospect” businesses and retailers for the Downtown area and the waterfront, as well as projected sales forecasts and expanded retail offerings.

3.7 Identify Downtown Retail Voids and Recruitment Opportunities -- Determining retail voids in the downtown market will combine the findings of the preceding four subtasks (Retail Leakage, Retail Mix, Competitive Position and Zip Code analysis). In our experience, retail voids may be defined as missing/under-represented product categories, dining alternatives by price level or cuisine, specific operators tailored to underserved target markets, or a combination of these and other characteristics. The ability to recruit retailers to fill the voids is a combination of providing market information, selected use of incentives (if available), an integrated recruitment effort involving local property owners and real estate brokers, a flexible regulatory environment and concurrence on an overall downtown tenant strategy that all parties can support.

3.8 Identify Potential Retailers Niches and Categories to Fill the Voids -- Identify potential retail niches and categories which best fit the need to fill retail voids. Although the Burlington Market is not a major city in population, the presence of a number of regional/national retailers headquartered in the area (Ben & Jerry’s Homemade, Lake Champlain Chocolates, Magic Hat, Burton and Bruegger’s for example) suggests that the creative culture and quality of life in Vermont can also attract retail concepts that can grow from locals to nationals. As possible for the recommended niches and retail categories, we will provide examples of relevant operators to illustrate the relative quality and price levels for downtown Burlington.

3.9 Forecast Potential Sales Increment by Addressing Voids -- Incorporating the potential to fill retail voids that will complement the existing mix in downtown Burlington, the TEG/AM team will forecast the incremental sales which could be added by recruiting in new operators. The basis for the sales projections will combine a balance of local sales productivity assumptions, occupancy costs as a percentage of gross sales, industry standards for sales by

Downtown & Waterfront Plan – Retail and Real Estate Market Analysis

category and/or operator and our judgment about sales capture rates from the targeted submarkets, by void category. TEG/AM is generally more conservative in making these types of projections, as an unrealistic estimate can set expectations that are not achievable, or suggest occupancy costs that are not sustainable, if property owner requirements are not in synch with market and operating realities. The forecast will be differentiated from estimated sales generated by the existing mix of retail businesses downtown and near the waterfront, so that the incremental benefits can be understood by the City and other stakeholders.

3.10 Recommendations to Recapture Retail Opportunities and Customer Base -- Subtask 3.10 will aggregate the findings, conclusions and suggested retail void strategies developed in the preceding subtasks into concise recommendations on how to best recapture retail opportunities and the customer base(s) they represent. TEG/AM's recommendations will include:

- Specific actions for the City, Church Street Marketplace/Burlington Town Center, and other property owners, including policy actions, development process issues, and potential financial incentives
- Operating suggestions (such as hours of operations, engagement in events and festivals, as appropriate, promotional marketing of downtown Burlington and how to best manage the evolution of retail in the downtown and waterfront areas as the city and the region changes).
- As information on potential infill/redevelopment sites is available, recommended locations for retail expansion, use clusters, and parking/transit implications of future retail (and other land use) growth in downtown and on the waterfront
- Proven methods that have structured retail recruitment efforts – staffing needs, budgeting, timing, partnerships, retail/property owner involvement, marketing and other factors affecting success
- Comments on relative benefits and considerations about each market segment sought for recapture/expansion

Task 3 Deliverables: *Annotated PowerPoint report and client presentation on the Downtown/Waterfront Market Assessment and Analysis, including explanatory text, tables and charts, projections and recommendations. The PowerPoint will be suitable for posting on the City website after client review and final comments are incorporated.*

Draft completed by July 15, 2011 according to the revised schedule or as amended by mutual agreement

TASK 4 IMPLEMENTATION STRATEGY

Task 4.1 Recommended Implementation Strategy, Responsibilities and Timeline -- The final scope of work task will be to develop a recommended strategy for Implementation of the Retail Program for Burlington's Downtown and Waterfront areas. We anticipate that this task

Downtown & Waterfront Plan – Retail and Real Estate Market Analysis

will be completed concurrently with the Task 4 Marketing Recommendations, as, in our experience, the two efforts are interdependent and highly inter-related. To reposition a downtown area's retail identity and mix is a long-term effort, supported by a series of incremental projects, partnerships and marketing programs that all reinforce a common direction over time. There will be steps that can be undertaken within the first three months, others that may take a year or more, and others that are not likely to be realized for two or more years (or so our experience suggests). Just as Burlington is taking a longer view of environmental and conservation goals, we believe it practical to consider the downtown retail feasibility program to be a multi-year effort as well. Because retail is a function of supporting markets, we believe it may take several years to integrate the planning and development objectives being explored in parallel studies to be achieved, but there are also near-term activities that should take place as soon as possible.

Retail development in a single owner location such as U Mall is easier, as the total site control and decisions relating to land use are centralized in one place and with a single set of financial objectives. Downtown areas require more complex and flexible solutions, as different property owners have differing profit priorities, investment capacities and levels of interest in getting involved in a downtown renewal project. Out-of-town/absentee owners may have less interest in participating than local property owners; operators who lease space may be affected by misinformed or unreasonable owner expectations. A workable implementation program will acknowledge these factors and allow for adjustments over time to capitalize on opportunities, keep focused on the overall leasing/tenant mix strategy and build a foundation for continuing efforts in the future. The implementation strategy created for the Downtown/Waterfront study area will detail a series of actions that will implement the retail retention and recruitment approach, the marketing program activities (over time) and allocate potential implementation responsibilities to organizations, governmental agencies/units, public-private partnerships and/or other management structures that would be involved in carrying out the retail plan. The actions will also be arrayed over a schedule of months and years, according to apparent funding support, sequential activities, time to organize new initiatives and to allow for contingencies and relationships between outcomes and next steps (for example, the retail marketing and recruitment actions may not be possible until a person or role is identified to focus on the needed steps).

Components in the draft final report and presentation will include:

- Executive Summary highlighting key findings and recommendations
- Market Analysis including resident, employment, student population and visitation/tourism trends, descriptions of prevalent consumer market segments and lifestyle traits
- Zip code analysis, sales gap and sales leakage analysis
- Competitive analysis of Downtown and the Waterfront in the greater regional retail context
- Recommendations for 'top prospect' business and retail categories, with representative operators, as relevant

Downtown & Waterfront Plan – Retail and Real Estate Market Analysis

- Recommended implementation strategy including short, medium and long-term actions, roles and responsibilities for participating partners
- Appendix Section incorporating tables, charts, strategy board illustrating actions, responsibilities and roles, templates for zip code and other research documents, etc.

Task 4 Deliverables: Annotated PowerPoint report and client presentation on Downtown/ Waterfront Implementation Strategy

Draft completed and jointly submitted and presented on Friday, August 12th, 2011 or as amended by mutual agreement

TASK 5 FINAL REPORT DOCUMENTS

Assuming that the client review of the joint submittal of Tasks 4 and 5 is completed within a week of receipt (anticipated as August 19, 2011), TEG will provide a final report, combining all five tasks as a comprehensive annotated PowerPoint report presentation, which will be provided to the City by the week of August 31, 2011. The TEG team will also prepare an annotated summary presentation for stakeholders.

Task 5 Deliverables: Final Report Document and Summary Annotated Presentation for Stakeholders

Completed by week of August 31, 2011 or earlier, as amended by mutual agreement