

City of Sequim Retail Development Analysis

Background

Preliminary planning has begun for the development of a regional retail site within the city of Sequim, Washington. Placing the proposed development within the city is a departure from present retail development trends. Retail chains such as Wal-Mart, Sam's Club and super food market outlets such as Safeway, have, in recent years, tended to place their outlets in unincorporated areas, strategically located between small cities. Placing their stores in these locations has served to broaden their effective trade area by making their stores accessible to consumers on a regional basis. However, this has also often diminished the ability of smaller town retailers to draw shoppers, particularly in the case of Wal-Mart.

There are presently several big box outlets within Clallam County, Washington. These include Costco, Wal-Mart, and several super food markets. The drawing power of these outlets is evidenced in the fact that more than 40% of all Clallam County taxable sales are in the unincorporated areas.¹ Note the much higher sales per average sales per outlet in the unincorporated areas. It seems safe to assume that the big box outlets cited make the bulk of these sales.

Trade Area

The defined trade area encompasses all of Clallam County and most of Jefferson County. An estimated 88,788² persons live with the trade area. There are 37,958 households. Trade area taxable business sales (including retail sales and other taxable sales) neared \$748 million in 2001. Average sales per outlet were low throughout the trade area. Unincorporated Clallam County had the highest sales per outlet at \$87,958. Average trade area sales per outlet were just \$58,437.

Clallam County\Jefferson County Taxable Sales 2001³

	Outlets	Taxable Sales	% of Trade Area Sales	Average Sales per Outlet
Unincorporated Clallam County	1,993	\$ 175,301,190	37.0%	\$ 87,958
Forks	906	\$ 18,003,906	3.8%	\$ 19,872
Port Angeles	3,097	\$ 146,873,970	31.0%	\$ 47,425
Sequim	2,212	\$ 133,600,000	28.2%	\$ 60,398
Total Clallam County	8,208	\$ 473,779,066	100.0%	\$ 57,722

¹ Washington State Department of Revenue, "Taxable Retail Sales Comparison CY 2001."

² Claritas "Major Demand Summary Report," May 2002

³ Washington State Department of Revenue, "Taxable Retail Sales And Unit Count For All Cities and Counties In Washington State By Calendar Year Comparison."

Unincorporated Jefferson County	2,220	\$ 138,157,051	18.5%	\$ 62,233
Port Townsend	2,372	\$ 136,054,905	18.2%	\$ 57,359
Total Jefferson County	4,592	\$ 274,211,956	36.7%	\$ 59,715
Total Trade Area	12,800	\$ 747,991,022		\$ 58,437

A substantial amount of the local retail sales can be attributed to the large tourism and visitor volume the area experiences annually. An estimated 4.4 million persons visit the North Olympic Peninsula annually.⁴ Another 547,000 persons use the passenger ferry at Port Angeles. These visitors spent \$144 million in 2000.⁵

Local Buying Power

Reported retail sales, within the City of Sequim, comprise 97% of average household income. This ratio is obviously misleading and clearly reflects the spending of residents in the surrounding area. Retail spending in Clallam County comprises 21.9% of average household income. This ratio is comfortably within national averages.⁶ Applying the county ratio to the City of Sequim gives us an estimated local buying power of slightly less than \$44 million. This amount is about one-third of the actual expenditures made at Sequim retailers.

Average Household Sales and Estimated Buying Power⁷

	Population	Avg. Household Income	Retail Sales	Avg. Retail Sales per Household (Household Sales)	Avg Sales as % of Household Income	Estimated Buying Power
Sequim	4,435	\$31,038	\$133,600,000	\$30,124	97.1%	\$43,773,823
Clallam County	66,900	\$32,268	\$473,779,066	\$7,082	21.9%	\$686,475,886

The difference, between estimated Sequim's estimated buying power and actual retail sales, can be explained in terms of trade area. As shown at the following chart, 13,727 people live within a 3-mile radius of Sequim. This population's local household buying power is \$129 million. At 7 miles buying power increases to \$229 million. These numbers suggest that the current market area for Sequim is seven miles. These estimates do not include income generated as a result of non-resident (tourist) spending. This finding suggests that the primary retail trade area for existing merchants is 3 miles.

⁴ Source: Washington State Parks

⁵ Washington State Department of Tourism

⁶ Bureau of Labor Statistics, "Consumer Expenditure Survey," 1998-2000

⁷ Note: Buying power estimates include tourism expenditures

The estimated buying power within 15 miles is \$473 million. The estimated total trade area buying power is \$850 million.

Estimated Retail Buying Power Within 3, 7 and 15-Mile Radius of Sequim and Trade Area

Radius	Population	HH Income	% Retail Purchases	Buying Power per Household	Local Buying Power
3 miles	13,727	\$ 42,838	21.9%	\$ 9,402	\$ 129,057,284
7 miles	23,438	\$ 44,642	21.9%	\$ 9,798	\$ 229,637,016
15 miles	46,445	\$ 46,445	21.9%	\$ 10,193	\$ 473,429,849
Trade Area	88,788	\$ 43,740	21.9%	\$ 9,579	\$ 850,505,579

Market Considerations

The following table provides information regarding the number of establishments within the City of Sequim, 2001 retail sales by major standard industrial classification and average sales per outlet.

Food stores are the largest retail activity capturing 29.3% of the total current retail activity. There are 12 food outlets. Two of these outlets are a Safeway and a QFC. These two chain store outlets are felt to be of sufficient size and capability to compete effectively with the proposed new major supermarket.

Miscellaneous Retail is the second largest area of retail activity. The 51 stores in this category generate some \$31.7 million in sales and an average of \$621,000 per outlet. Miscellaneous retail is a broad category that includes drug stores, liquor stores, jewelry and stationary stores as well and a number of other outlets. It is anticipated that some of these categories will be represented in the proposed new outlet. The extent of this representation cannot be judged at this time. Some outlets such as antique stores, bookstores, drug and other proprietary stores, are not expected to be affected at all.

Eating and drinking establishments are the third largest retail activity, comprising 12.4% of current retail sales. These establishments should benefit from the increased foot traffic resulting from the drawing power of the proposed new outlet.

Building materials and garden supplies are the fourth largest sales area. The 12 outlets in this category grossed \$15 million in sales, an average of \$1.25 million per outlet. This category is expected to experience competition from a proposed big box home improvement center.

Auto dealers and gas service stations are not expected to be affected by the new developments. Sales in this category make up about 8.4% of the total sales.

Home furniture and furnishings make 8% of total retail sales. Some competition should be expected from the proposed new development.

The 4 general merchandise stores in Sequim generated \$7,900,000 in sales, or 5.9% of total retail sales and an average of \$1.97 million per outlet. These stores are a likely area of competition.

The four apparel and accessory stores in Sequim are expected to be affected by the development as long as apparel is one of the core goods offered by a big box tenant.

City of Sequim Current Retail Configuration⁸

SIC	Business Description	Sales	Establishments	% Total Sales	Avg Sales Per Outlet
	All Retailing	\$133,600,000	138	100%	\$1,214,161
52	Bldg Materials and Garden Supplies	\$15,000,000	12	11.2%	\$1,250,000
53	General Merchandise Stores	\$7,900,000	4	5.9%	\$1,975,000
54	Food Stores	\$39,100,000	12	29.3%	\$3,258,333
55	Auto Dealers, Gas & Svc Stations	\$11,200,000	10	8.4%	\$1,120,000
56	Apparel and Accessory Stores	\$1,400,000	5	1.0%	\$280,000
57	Home Furniture/Furnishings	\$10,700,000	17	8.0%	\$629,412
58	Eating and Drinking Establishments	\$16,600,000	27	12.4%	\$614,815
59	Miscellaneous Retail	\$31,700,000	51	23.7%	\$621,569

Placing the proposed new retail development within in the City of Sequim would affect sales in the unincorporated areas as well as the cities of Forks and Port Angeles by attracting shoppers to the Sequim retail development and its adjacent stores from a broader geographical area. With the inclusion of the proposed mall, the potential Sequim retail trade area is estimated at a 15-mile radius. The present retail trade area is estimated to be about 3 miles given the existing downtown retail store configuration.

⁸ Clarita's, "In City of Sequim, Summary Business Data Report For Selected Retail Categories," November 20, 2002

Big Box Attractions

Among the attractions of big box retail is:

- Lower prices
- Greater choice due to more retail square footage and increased shelf space
- Unlimited Parking
- Small outlets such as personal service and repair shops, restaurants, and boutiques that co-locate within the same development

Attraction such as these will draw shoppers from within a ten to fifteen mile radius. Placing the development next to the Sequim downtown core would place the above attractions within the city and in so doing substantially increase the number of persons coming into the downtown to take advantage of the new shopping opportunities. This increased auto and foot traffic would benefit the local merchants by bringing greater exposure to existing downtown retail outlets and subsequent increases in sales volume. The bountiful parking would place existing outlets within easy walking distance and would help alleviate current parking shortages. Shoppers can be expected to frequently combine shopping trips by visiting existing outlets as well as the mall. For example, a shopper may visit the mall and lunch at a downtown restaurant, or a shopper may visit the mall and the local hairdresser or dry cleaners. The probabilities are almost endless. The validity of this premise is best illustrated in the proposed size of the development itself.

As shown at the following table, the proposed new development will bring more than 358,000 square feet of retail space to downtown Sequim. In addition, an estimated \$85 million in sales would be generated based on typical sales per foot ratios, and over 1,000 new jobs created. These estimates do not include the increases that would result from the increased sales of existing merchants.

Proposed Square Footage, Retail Sales and Job Impact

	Square Feet ⁹	Est. Sales Per Sq Ft ¹⁰	Est. Total Sales	Est. New Jobs ¹¹
Big Box Retail	281,300	\$ 250	\$ 70,325,000	844
Food Store	57,560	\$ 200	\$ 11,512,000	138
Small Retail	20,000	\$ 175	\$ 3,500,000	42
Totals	358,860		\$ 85,337,000	1,024

⁹ Source: McConkey Development Company, Inc.

¹⁰ Source: Dollars & Cents of Neighborhood Shopping Centers, Urban Land Institute

¹¹ Sources: Department of Employment Security, Covered Employment and Wages, Clallam County 2001 and Department of Revenue, Quarterly Business Review, Annual Report 2001

Discussion

The size and location of the proposed development can be expected to have positive impacts on existing retail from increased visits within the larger trade area. The new employees can also be expected to have a small positive impact as they visit the downtown for dining and miscellaneous shopping trips to and from work. Although there is not sufficient data at this time to generate estimates of local sales increases, existing Sequim merchants should experience sales increases as a result of the increased foot and auto traffic.

One important factor in how well the existing retailers can compete for the increased flow of shoppers and retail spending is how the proposed center is positioned. An extreme lowest price format such as a Wal-Mart or K-Mart would most likely not be compatible with the existing merchants, because they would place downward pressure on local prices and not allow local businesses to compete from their core strengths of service and specialty items. However, a mainstream or "middle market" positioned center that emphasizes reasonable prices and standard types of consumer goods could coexist well with current retailers who can compete by offering more specialized selection, niche items and better customer service than the big box stores at prices only somewhat higher than those at the center. Downtown retailers have probably already been turning in this direction in response to the competitive threat of the Wal-Mart 10 miles from town.

By locating the proposed retail center next to the downtown area the city is expected to increase the potential for success not only of the new center but also of the established downtown retailers. Having the center built on a different site along the periphery of the city means a reduced chance of spillover retail shopping by visitors to the big box stores and an increased chance that the downtown will suffer reduced sales from the competition.

The possibility of creating a "town center" type development that ties together the new retail with the existing downtown core makes sense from an economic perspective and is highly recommended from the preliminary analysis.

Further support for these expectations will need to come from the proposed survey of trade area shoppers, which can provide statistical data on the anticipated usage of the proposed retail development and its impact on visits to the downtown retail core. The survey can validate the overall concept of the "town center" and provide direction for planning and marketing efforts.