

RETAIL COMMERCIAL SYSTEMS STUDY
RETAIL SURVEY & MARKET PROJECTIONS
AND
INPUT TO COMMERCIAL POLICY REVIEW
MUNICIPALITY OF CHATHAM-KENT, ONTARIO
JULY 31, 2003

Acronyms

FCTM:	Food & Convenience Type Merchandise
DSTM:	Department Store Type Merchandise
OSC:	Office Supplies & Computers
HATBA:	Home & Auto Supply and Tires, Batteries & Accessories
HIRM:	Home Improvement Related Merchandise
GLA:	Gross Leasable Area
CBD:	Central Business District

Introduction

The following “Retail Commercial Systems Study” was commissioned by the Municipality of Chatham-Kent to project the Municipality's future retail commercial space needs and the most appropriate blend of commercial activities to best satisfy community needs and complement rather than jeopardize existing retail commercial operations.

With little growth projected outside the Chatham Community, and with relatively moderate growth projected within the Chatham Community, this study is consequently focused on the needs within the former City of Chatham.

The Retail Commercial Systems Study recognizes the historical stable to declining population base throughout Chatham-Kent, but adopts for projection purposes the high population growth scenario presented in Lapointe Consulting Inc.'s study entitled “Chatham-Kent Demographic And Housing Trends And Projections, April 2003”. The Lapointe study suggests that an appropriate growth management population target “should take into account Chatham-Kent’s strategy of attracting growth along the 401 corridor by designating additional industrial lands as well as other proactive economic strategies” to help stem the population declines that began in the early 1990’s.

The purpose of the empirical research and market projections is:

- to test the adequacy of the retail commercial hierarchy to meet the projected needs,
- to generate a number of planning and development options,
- to assist in ranking the planning and development options through subsequent stakeholder input and public consultation, and
- to assist in reviewing the Official Plan’s commercial policies and hierarchy for accommodating growing retail commercial demands within the Chatham Community.

This research will provide market input into an overall “commercial policy review”. The commercial policy review is a planning exercise that involves selecting amongst options a preferred retail strategy for existing retail commercial areas and any newly created retail commercial designation(s) if warranted or required.

The research compares the projected growth in market demands with the existing and potential supply of retail commercial space. A number of designations and proposals are also assessed in terms of the advantages and disadvantages of particular locations in the Chatham community.

Part of this exercise examines the impacts on the existing retail structure created by new potential retail development. The impact tests assist in developing the recommendations outlined in this report.

This Retail Commercial Systems Study incorporates a number of empirical research components of a neutral nature that both the Municipality of Chatham-Kent and FirstPro Shopping Centres (owners of North Maple Mall, now approved by Council for expansion, but subject to an appeal to the Ontario Municipal Board) and their retail consultant, Malone Given Parsons Ltd. (MGP) agreed to conduct jointly to avoid the costs of both parties having to conduct similar investigations independently over the same time period.

The following empirical research was prepared by or under the supervision of MGP and shared on an equal cost basis with the Municipality of Chatham-Kent:

- retail/commercial floor space inventory (by the Dalvay Group under MGP’s direction),
- customer intercept surveys (by MGP), and
- consumer telephone survey (by MGP on an agreed upon survey questionnaire).

MGP’s electronically exchanged empirical data are reproduced in the appendices of this study and are applied in market demand projections beyond the 2003 base year in 2005 and 2006, thereafter proceeding in five-year intervals to a horizon year in 2021.

The Retail Commercial Systems Study evaluates the potential magnitude, mix, and timing of future additions to the existing retail/commercial infrastructure that are warranted in the medium to long term, including new format retailing, all within the context of a number of options and preferred strategy for accommodating new retail commercial demands.

The market investigations form the first part of the implementation of the preferred retail commercial strategy.

The second part (with Dillon Consulting Limited) will involve the development of Official Plan policy recommendations and any land use designations that flow from the market input.

Approach

Future retail commercial needs are quantified using a four-fold approach:

- (1) on the supply side, to evaluate the existing inventory of retail commercial space in the Municipality of Chatham-Kent;

- (2) on the demand side, to assess the current retail expenditure patterns of Study Area residents, and to estimate future market demands and supportable space in the medium term to long term (from 2006 to 2021) in the following retail commercial sectors:

Retail:

- Supermarket portion of FCTM (Food & Convenience Type Merchandise)
- Specialty Food portion of FCTM
- Department store portion of DSTM (Department Store Type Merchandise)
- Specialty DSTM (or non-department store portion of DSTM)
 - General Merchandise
 - Drugs/Cosmetics
 - Apparel & Accessories
 - Hardware and Home Furnishings
 - Durables
 - Semi-durables
- Home & Auto Supply and Tires/Batteries/Accessories (HATBA)

Wholesale:

- Home Improvement Centre (HIC) spending

Personal Service

(e.g. Video Rental, Barber/Beauty, Travel Agency, Tanning, Photography, Dance, and Other Studio, Shoe Repair & Other Repair Services, Dry Cleaner/Laundromat/Laundry, Wine/Beer Making, and Other Personal Services such as Locksmith, Caterer)

Restaurant (Fast Food/Sit-down/Licensed/Unlicensed)

Liquor/Beer/Wine (L/B/W)

- (3) to project future local office (Finance/Insurance/Real Estate or FIRE and Services to Business Management or SBM) and hospitality (hotel/motel) demands based on per capita space planning ratios applied to population growth, and
- (4) to recommend an appropriate future distribution of retail commercial designations for accommodating medium to long-term retail commercial demands (projected over an 18 year forecast period to the year 2021).

The study adopts 2005 and 2006 as key medium term test years, all factored against a **2003** base year.

Assumptions

A basic assumption underlying this study reflects the general marketplace expectation that the per capita income and expenditure levels of Study Area residents will not be eroded by economic instability.

It is also assumed that the customer intercept and consumer telephone survey data provide valid benchmarks of the current expenditure patterns of Study Area residents.

Other assumptions or clarifications are made at appropriate points in the text.

A major change affecting the assumptions would warrant re-visitation of the study findings.

All calculations are expressed in terms of the **2002** value of the dollar updated to the **2003** base year value by the assumed real growth for each retail commercial category investigated.

Study Area Delineation

The defined Study Area (or trade or service area) consists of a Primary Area encompassing the Chatham Community, as well as two Secondary Areas to the east and west of Chatham.

Secondary Area East includes the Communities of Blenheim, Bothwell, Dresden, Eberts, Erie Beach, Erieau, Highgate, Ridgetown, Thamesville, and rural areas.

Secondary Area West includes the Communities of Wallaceburg, Charing Cross, Tilbury, Tupperville, Wheatley, and rural areas.

Chatham and its Secondary Areas are constrained by the market influences of Windsor and Detroit, Sarnia, and London, each of which are about an hour's drive from Chatham. Leamington also exerts some market influence on Chatham.

Under such constraints, Chatham's service area cannot expand geographically to any measurable degree, with the result that the Secondary Areas will remain a relatively stable component of Chatham's trading geography and population base.

It is assumed that the current inventory of retail commercial space in the Primary Area (Chatham) will derive consistent market support from within these boundaries (85% to 95%), with the estimated base year inflow support varying by retail commercial category investigated:

- Department Store @ 11.0%
- Specialty DSTM @ 12.0%
- HATBA (Canadian Tire, etc.) @ 10.0%
- HIRM @ 8.0%
- Supermarket @ 6.5%
- Specialty Food @ 6.5%
- Personal Services @ 5.0%
- Restaurant @ 15.0%
- Liquor/Beer/Wine @ 15.0%

Study Area Income & Expenditures

Appendices A-1 and **A-3** provide regression equations that link per capita household incomes in the Primary and Secondary Areas to per capita FCTM, DSTM, HATBA, HIRM, Personal Service, Restaurant, and Liquor/Beer/Wine expenditures.

Appendix A-2 features the 2002 Ontario per capita FCTM, DSTM, HATBA, and HIRM expenditures.

Appendix A-3 calculates per capita household income indexes (1996 Census data) and per capita expenditure indexes for the Study Area based on the footnoted regression equations and relative to the provincial average. The average per capita household incomes in the Primary Area, Secondary Area East, and Secondary Area West are respectively **7.9%**, **11.7%** and **7.3%** below the provincial average.

Appendix A-4 calculates the per capita expenditures by retail commercial space category for Chatham's Primary and Secondary Areas.

Appendix A-5 provides a breakdown of the historical distribution of Ontario food spending between supermarkets, specialty food stores, and WMC's (warehouse membership clubs).

Study Area Population Projections

The population data beginning with the 2001 census in **Table 1** are adjusted upwards by the percentage undercount footnoted at 3.05545% as estimated by Lapointe Consulting Inc..

The Study Area population (adjusted for the undercount) is projected to grow by about 14,100 persons, or from a rounded 2001 base of 111,000 persons to 125,100 persons by 2021.

A major share of the growth (**70%**) is slated for the Primary Area, which will grow from a 2003 base of an estimated 46,305 persons to over 55,400 by 2021. The Secondary Area East is projected to grow modestly by about 1,800 persons. The Secondary Area West is projected to grow by about 2,400 persons.

The projections are based on Lapointe Consulting Inc.'s estimates in the study entitled "Chatham-Kent Demographic And Housing Trends And Projections, April 2003".

For purposes of this analysis, the high growth scenario is adopted from the Lapointe study as an appropriate growth management population target that takes into account Chatham-Kent's proactive strategies for attracting growth to stem recent population declines.

The growth allocated to the two Secondary Areas is based initially on their proportionate shares of the 2001 population, but adjusted modestly downwards for both Secondary Areas in future years while the Primary Area's share rises in line with its 70% growth allocation. The details of the population growth allocations are featured in **Appendix A-6**.

Study Area Floor Space Inventory

Appendix B provides a detailed inventory of existing FCTM, DSTM, HATBA, HIRM, Personal Service, Other Service, Restaurant, Bank/Trust, Liquor/Beer/Wine, Vacant, and other space within the urban and rural portions of the Study Area.

As can be seen in the summary tables at the beginning of Appendix B, the existing inventory in the Primary Area (Chatham) consists of approximately **2.73 million square feet** of retail commercial space broken down as follows:

<u>FCTM space:</u>	@	286,800 sf	@	10.5% of total space
Supermarket	@	210,300 sf	@	7.7% of total space
Specialty Food	@	76,500 sf	@	2.8% of total space
<u>DSTM space:</u>	@	975,300 sf	@	35.7% of total space
Dep't Store	@	270,200 sf	@	9.9% of total space
Specialty DSTM	@	705,100 sf	@	25.8% of total space
HATBA	@	102,200 sf	@	3.7% of total space
HIRM	@	40,100 sf	@	1.5% of total space
<u>Services:</u>	@	1,010,300 sf	@	37.0% of total space
Restaurants	@	245,300 sf	@	9.0% of total space
Bank/Trust	@	87,800 sf	@	3.2% of total space
Liquor/Beer/Wine	@	25,500 sf	@	0.9% of total space
Personal Services	@	156,100 sf	@	5.7% of total space
Other Services	@	495,600 sf	@	18.2% of total space
Vacancy	@	233,700 sf	@	8.6% of total space
Other Retail	@	26,500 sf	@	1.0% of total space
Second Hand Goods	@	53,900 sf	@	2.0% of total space
TOTAL	@	2,728,800 sf	@	100% of total space

Appendix E provides a list of big box and baby box chain stores typically found in power centers. Most of these store types are not currently represented in the Primary Area.

The list is not exhaustive, and does not represent prospective stores expected to enter the Chatham market over the projection period. Instead, it represents a range of tenancies found in markets with threshold populations of 80,000 persons.

The competitive structure of such baby box stores in surrounding regionally serving markets with even higher populations will probably preclude some of the listed stores from entering the Chatham market, particularly the larger regionally serving tenants of 40,000 square feet to over 120,000 square feet. However, a number of smaller baby box chain stores of up to 20,000 square feet can be expected to enter the Chatham market before 2011.

Study Area Expenditure Potentials

Tables 2 to 8 calculate expenditure potentials for the DSTM, HATBA, HIRM, FCTM, Personal Service, Restaurant, and Liquor/Beer/Wine (L/B/W) expenditure categories by multiplying the projected population base by corresponding per capita DSTM, HATBA, HIRM, FCTM, Personal Service, Restaurant, and L/B/W expenditures.

The expenditure potentials incorporate real growth factors (exclusive of inflation) beyond the 2003 base year to 2016 (with the exception of HIRM which is allocated real growth to 2011). Real growth per annum compounded of 1.5% is applied to DSTM, HATBA, and HIRM

expenditures, 1.0% to FCTM expenditures, 0.5% to Personal Service expenditures, and 0.25% to Restaurant and L/B/W expenditures.

Market Demands And Residual Space Estimates

Tables 9 to 17 calculate residual square footages for department store DSTM, specialty (or non-department store) DSTM, HATBA, HIRM, supermarket, specialty food, personal service, restaurant, and L/B/W space. These residuals are summarized in **Table 18**.

The residual square footages represent “ease of entry” calculations without sales transfers against existing facilities. As such, the residual square footage calculations provide a conservative measure of the timing and amount of new space that the market can absorb. These calculations provide an overall framework for commercial development that can then, through planning policy, be directed to various existing and/or new locations in Chatham.

For each retail commercial category investigated, a range of sales performance per square foot for new space is applied to the residual dollars available (i.e. low, mid, and upper range estimates). These are featured in the bottom portion of the tables.

The residual calculations incorporate certain assumptions related to the splits between department store and specialty DSTM spending, and between supermarket and specialty food spending.

The **29.0%** base year department store share of DSTM spending in Chatham exceeds the **20.9%** provincial average. A subsequent increase to **29.5%** over the balance of the projection period assumes a somewhat higher future share with the modest expansion of Wal-Mart. The base year and future shares in the Secondary Area East (**28.0%** and **28.5%**) are somewhat higher than in the Secondary Area West (**27.0%** and **27.5%**).

The calculations also assume a supermarket share of FCTM spending of **78.0%** in Chatham, which exceeds the **71.0%** provincial average. A subsequent increment to **78.5%** over the projection period assumes a moderate rise in future supermarket representation. The base year and future shares in the Secondary Area East and the Secondary Area West amount to **73.0%** and **73.5%**.

Local capture rates of department store DSTM, specialty DSTM, HATBA, HIRM, supermarket, and specialty food, Personal Service, Restaurant, and L/B/W spending are estimates based on the consumer telephone survey results featured in **Appendix C**.

Appropriate levels of inflow are based on the customer intercept survey results featured in **Appendix D** and consultant judgment, although the inflow levels for the HIRM, personal service, restaurant, and L/B/W categories are based on consultant judgment and the performance estimates for the existing inventory of such space.

Tables 9 to 18 incorporate the retail floor space measurements tabulated by retail node in **Appendix B**, the local capture rates derived from the consumer telephone survey in **Appendix C**, and the inflow levels estimated from the license plate surveys featured in **Appendix D**.

Department Store Residuals:

In **Table 9**, the market share assumptions yield a base year sales performance level for the existing Zellers of \$190 per square foot GLA on 72,200 square feet. This moderately exceeds the average performance for this department store chain.

The Sears store performs well at an estimated \$300 per square foot.

The Wal-Mart performs at an estimated \$495 per square foot, or more precisely over \$500 per square foot if a 3,000 square foot allocation is made for concessions within the store.

The department store DSTM residuals are augmented by a moderate increase in inflow that is predicated on the small 6,375 square foot expansion of the 126,000 square foot Wal-Mart at North Maple Mall.

The test performance levels range from \$500 to \$550 per square foot, which are representative of market entry and medium term sales performances of Wal-Mart.

Chatham will probably not attract another major department store in the medium to longer term. A more probable expectation is for the major department stores to seek a more specialized and limited presence with such operations as the Hudson Bay Company's Home Outfitters store, or a Sears Whole Home furniture store (i.e. in addition to the 72,000 square foot Sears).

In **Table 9**, the sales of the expanded Wal-Mart (\$69.5 million) are subtracted from the Total Potential Chatham Local Capture to yield small post-expansion residuals. These would not support additional department store space.

At test performance levels of \$500 to \$550 per square foot, an expanded Wal-Mart of an assumed 132,375 square feet would be warranted by 2005 without transfers.

Specialty DSTM Residuals:

In **Table 10**, the base year sales performance of the existing specialty DSTM space is productive (\$245 per square foot GLA on 705,100 square feet).

The residual calculations make no allowance for the existing space to achieve sales gains over the projection period for the reason that fewer opportunities would present themselves for the existing specialty DSTM retailers to expand or upgrade their premises in response to the new competition.

The specialty DSTM residuals are distributed by five specialty DSTM categories on the overleaf portion of **Table 10** (i.e. general merchandise, apparel and accessories, household furnishings, drugs and cosmetics, and durables and semi-durables). The distribution of the residual potentials is based in the first place on estimating the percentage shares of specialty DSTM spending that each specialty DSTM category would obtain, and in the second place, testing each specialty DSTM category at productive sales performance levels representative of new space.

A number of designations and development applications have the potential to exceed the available specialty DSTM residual potentials by **2011** depending on how quickly they might proceed individually. Collectively, the potential specialty DSTM square footage tallied for subsequent DSTM impact tests ranges from **270,000** square feet to **589,000** square feet (i.e. excluding the small expansion of Wal-Mart). The lower range is premised on the delay of two potential major developments.

The potential draw downs of the lower test allocation of 270,000 square feet exceed the specialty DSTM residuals by about **184,000** square feet by **2006** tested at the mid-range performance level of \$300 per square foot, **114,000** square feet by **2011**, and **37,000** square feet by **2016**. The draw downs would fall almost within the margins of the identified mid-range residual by 2021.

The potential draw downs of the higher test allocation of 589,000 square feet exceed the specialty DSTM residuals by about **503,000** square feet by **2006** (again tested at the mid-range level of \$300 per square foot), **433,000** square feet by **2011**, and **356,000** square feet by **2016**. The draw downs would substantially exceed the margins of the identified mid-range residual by 2021 (by 328,000 square feet).

The implication is that with the potential for significant transfers against (i.e. sales losses by) existing specialty DSTM retailers, the sales performances of the new space will remain depressed relative to performances they might otherwise achieve under market equilibrium conditions. Hence, the impact tables test potential new specialty DSTM space allocations at performance levels less than \$300 per square foot.

Timing, distribution, and sequencing of the specialty DSTM development are therefore important considerations in seeking to mitigate the potential for significant sales transfers.

HATBA Residuals:

In **Table 11**, the HATBA retailers achieve a reasonably productive sales performance estimated at \$205 per square foot GLA on 102,200 square feet.

The residual square footages are relatively small by 2006 (about 5,000 square feet), 2011 (about 12,000 square feet), and 2016 (about 20,000 square feet). This sector will probably grow in small increments or expansions as the market warrants.

Home Improvement (HIRM) Residuals:

In **Table 12**, the base year HIRM sales productivity is estimated at \$525 per square foot on 40,100 square feet -- a productive performance. This reflects the strength of the Rona operation at almost half the HIRM inventory.

The expenditure potentials are a combination of retail and contractor spending, and are patterned on the provincial average. Average do-it-yourself and buy-it-yourself conditions can be expected in Chatham.

However, contractor sales can vary significantly depending on individual market conditions, and low growth markets such as Chatham's suggest average levels of contractor sales (here estimated at 30% of total sales). Because of the inclusion of contractor sales, the test performance levels are relatively high at \$400 to \$500 per square foot.

With inflow projected substantially above current levels, the residuals in **Table 12** can support a new large-scale home improvement centre in the **2005** to **2006** period.

The opportunity for significantly reducing outflow exists for a larger facility such as the Home Depot given the outflow levels to its sister stores in London, Windsor, and Sarnia. A number of sites in Chatham could support a facility of this scale.

Supermarket Residuals:

In **Table 13**, the base year supermarket sales productivity is estimated at \$483 per square foot on 210,300 square feet. This aggregate sales performance level approximates the provincial average, although certain individual supermarkets fall below this level.

Moderate increases in the supermarket shares of FCTM spending in the Primary and Secondary Areas imply moderate reciprocal impacts on specialty food spending.

The implication of Loblaw Properties Limited expanding its Zehrs store at North Maple Mall and potentially expanding its smaller store in the Zehrs Plaza is that the post-expansion market will be moderately over-stored.

The residuals indicate that over and above the Zehrs expansion at North Maple Mall, the market could absorb about 20,000 square feet of new supermarket space by 2011, 40,000 square feet by 2016, and 50,000 square feet by 2021. The Zehrs Mall expansion would create transfers if it proceeded in the same time frame (i.e. a first full year in 2005).

The implication is that the sales of the new supermarket space would come in and remain at much lower levels due to the potential over-storing, and that the two Zehrs (Loblaw-bannered) stores may cannibalize their own sales as part of a corporate rationalization before sufficient residual potential emerges after 2011.

Hence, the directional impacts implied against existing supermarkets are not investigated further.

Specialty Food Residuals:

In **Table 14**, the base year performance estimate of specialty food retailers is below average at \$284 per square foot GLA on 76,500 square feet.

The residual sales demands are tested at higher sales performance levels (\$325 to \$375 per square foot) to provide a conservative measure of warranted square footages.

The residuals range from about 2,500 square feet by 2006, 8,000 square feet by 2011, and over almost 15,000 square feet by 2016.

Personal Service Residuals:

In **Table 15**, the base year performance of personal service space is also relatively low at \$100 per square foot on 156,100 square feet.

Residual demands are tested at somewhat higher sales performance levels (\$200 to \$250 per square foot), again to provide a conservative estimate of warranted personal service space.

The identified residuals range from about 4,500 square feet by 2006, 9,000 square feet by 2011, and over 14,000 square feet by 2016.

Restaurant Residuals:

In **Table 16**, the base year performance of restaurant space is reasonably productive at \$206 per square foot on 245,300 square feet.

Hence, no allowance is made for the existing restaurant space to achieve sales productivity increases before any residual space is calculated.

The restaurant residuals range from about 12,000 square feet by 2006, to over 22,000 square feet by 2011, and to over 32,000 square feet by 2016.

Liquor/Beer/Wine Residuals:

In **Table 17**, the base year L/B/W sales productivity is estimated at a productive level of \$503 per square foot on 25,500 square feet.

The residuals range from about 2,000 square feet in 2006, to 3,000 square feet by 2011, and to over 4,000 square feet by 2016.

Summary of Residual Space Across All Categories

Table 18, entitled “Study Area Summary Demands & Residual Space”, summarizes the low, mid, and upper range estimates of projected residual space derived in **Tables 9 to 17**. The residual square footages are subject to distribution assumptions discussed in a subsequent section of the study.

The residual square footage estimates for the various space categories are totaled for each year in the forecast period, excluding any vacancy uptake, which currently averages a relatively high **8.6%**.

The department store and supermarket residuals are low because they are calculated as post-expansion residuals after the North Maple Mall expansions of Zehrs and Wal-Mart.

The mid-range estimates yield the following residual retail commercial space totals:

- **220,000** square feet (rounded) by 2006,
- **380,000** square feet (rounded) by 2011,
- **540,000** square feet (rounded) by 2016, and
- **610,000** square feet (rounded) by 2021.

The additional residual retail commercial space represents a 20% (rounded) increase of the existing space compared to a population increment of 20% (rounded) over the period 2003 to 2021.

Uses Excluded From Residual Space Estimates

The residual space estimates exclude “other” services and bank/trust space, which are not analyzed in this study.

The residual space estimates also exclude local office space for which space planning ratios, applied to Chatham’s population growth, are used to generate the space demands featured in **Table 19**. The local office space is confined to the FIRE (Finance/Insurance/Real Estate) and SBM (Services to Business Management) categories. The space planning ratios of 4.5 and 5.0 square feet per capita closely approximate the current per capita provision of local office space (4.4 square feet per capita including medical, dental and veterinary office space).

Hospitality demands are also excluded from the residual space estimates. **Table 20** calculates hospitality demands for additional full service and budget hotel rooms, based on population growth in Chatham. No material demands are generated until 2016. These estimates are subject to any changes in existing facilities, such as new facilities, expansions, or closures (e.g. Rainbow Motel). Hence, this is not a rigorous analysis, although some general observations can be made. The current inventory of hotel/motel facilities (895 rooms) is featured in **Appendix F**. Full service rooms (476) moderately outnumber budget rooms (419). The “Wild Zone” (a 65,000 square foot indoor amusement facility with 14 rides and attractions) is an example of a good tourist attractor that helps to boost occupancy rates at the Wheels Inn (Chatham’s largest full service hotel with 350 rooms). General occupancy rates are helped by the fact that Chatham is a “hockey town”. A destination facility for conventions is a needed attractor to complement Chatham-Kent’s proactive industrial strategies.

Summary of Vacant Commercial Properties in Chatham

The following summary of vacant commercial properties in Chatham has been prepared by Storey Samways Planning Ltd. by memorandum dated July 15, 2003:

Neighbourhood Commercial (NC):	17.73 acres	(11 properties)
Highway Commercial (HC1)	68.52 acres	(15 properties incl. Sprackman)
Industrial (I) (with Special Provisions)	<u>12.39 acres</u>	<u>(1 Property – Tatro Properties)</u>
TOTAL	98.65 acres	(27 properties, 5 unserviced)

Of the 27 properties, 5 are not serviced, the largest is 17.5 acres (Sprackman = 2 properties), the smallest is 0.25 acres, and the average is 3.65 acres.

The land area represented by the Tatro Properties Limited’s land plus the Sprackman lands in south Chatham totals 29.9 acres, which would support about 320,000 square feet (i.e. 135,000 square feet on the Tatro Properties land at 25% coverage, and 184,000 square feet on the Sprackman lands).

The NC lands could support an additional 190,000 square feet (rounded), and the balance of the HC1 lands (54.22 acres) could support an additional 590,000 square feet (rounded).

In total, the vacant commercial land supply could support **1.1 million** square feet or roughly double the residual demands identified in the residual analyses by 2021 (**610,000** square feet).

From this perspective alone, no consideration should be given to designating new lands for commercial space in Chatham unless compelling market and planning reasons suggest otherwise.

Specialty DSTM Impact Analyses

The mid-range specialty DSTM residuals calculated in **Table 10** approximate:

- **86,000** square feet by **2006**,
- **156,000** square feet by **2011**,
- **233,000** square feet by **2016**, and
- **261,000** square feet by **2021**.

Tables 20(a) and **Table 20(b)** calculate potential impacts caused by the amount of specialty DSTM space that existing designations or any newly proposed designation could accommodate. The test allocations for such space range from **589,000** square feet (rounded) to **270,000** square feet.

These test allocations exceed the mid-range specialty DSTM residuals shown above, thereby implying that not all such specialty DSTM space can proceed in the short to medium term without significant sales transfers. Hence, it is unlikely that all of these site allocations will proceed.

However, to address the issue of potential sales transfers relative to the assumed scale, timing, and distribution of such space, DSTM impact analyses are conducted under two (2) impact scenarios:

- the first scenario assumes specialty DSTM test allocations for the North Maple Mall expansion, the Thames-Lea Plaza expansion, Canril Phases 1 & 2, Tatro Properties site and the Sprackman site, for a total of **589,000** square feet of new specialty DSTM space, and
- the second scenario assumes specialty DSTM test allocations for the North Maple Mall expansion, the Thames-Lea Plaza expansion, and Canril Phases 1 & 2, but assumes that the Tatro Properties site and the Sprackman site will be delayed beyond 2011, for a total of **270,000** square feet of new specialty DSTM space

These two scenarios are used to assess the advantages of particular locations and to inform any recommendations as to the most appropriate commercial hierarchy for Chatham. It should be noted that these scenarios are estimates for impact test purposes and may change over time.

These two specialty DSTM impact scenarios are more fully described as follows.

Scenario 1 Impact - Table 20(a):

<u>Test Year</u>	<u>Site</u>	<u>Use</u>	<u>Square Feet</u>	<u>Sales/sf</u>
2005	North Maple Mall Exp'n	Specialty DSTM	80,000 sf	\$250
	Thames-Lea Plaza Exp'n	Specialty DSTM	30,000 sf	\$250
	Canril Phase 1	Specialty DSTM	80,000 sf	\$225
	Subtotal		190,000 sf	\$239
2006	North Maple Mall Exp'n	Specialty DSTM	80,000 sf	\$250
	Thames-Lea Plaza Exp'n	Specialty DSTM	30,000 sf	\$250
	Canril Phase 1	Specialty DSTM	80,000 sf	\$225
	Tatro Properties Site	Specialty DSTM	135,000 sf	\$200
	Subtotal		325,000 sf	\$223
2011	North Maple Mall Exp'n	Specialty DSTM	80,000 sf	\$250
	Thames-Lea Plaza Exp'n	Specialty DSTM	30,000 sf	\$250
	Canril Phase 1	Specialty DSTM	80,000 sf	\$225
	Tatro Properties Site	Specialty DSTM	135,000 sf	\$200
	Canril Phase 2	Specialty DSTM	80,000 sf	\$200
	Sprackman	Specialty DSTM	184,000 sf	\$200
	Subtotal		589,000 sf	\$213

These test allocations are derived as follows:

- North Maple Mall @ 80,000 Square Feet of Specialty DSTM:
 - 38,900 sf pad space @ 85% assumed specialty DSTM
 - Plus 46,873 sf mall space @ 100% assumed specialty DSTM
 - Equals 80,000 sf (rounded)
- Thames-Lea Plaza Expansion @ 30,000 Square Feet of Specialty DSTM:
 - 35,000 sf space @ 85% assumed specialty DSTM
- Canril Phase 1 @ 80,000 Square Feet of Specialty DSTM:
 - 50,000 sf space @ 80% assumed specialty DSTM
 - Plus 40,000 sf space @ 100% assumed specialty DSTM
 - Equals 80,000 sf (rounded)
- Canril Phase 2 @ 80,000 Square Feet of Specialty DSTM t:
 - 100,000 sf space @ 80% assumed specialty DSTM
- Tatro Properties @ 135,000 Square Feet of Specialty DSTM:
 - 12.4 acres @ 25% coverage assumed specialty DSTM
- Sprackman @ 184,000 Square Feet of Specialty DSTM:
 - 17.5 acres @ 24% coverage assumed specialty DSTM

The directional impacts fall within acceptable tolerances in **2005 (minus 8.0%** against existing department store and specialty DSTM space) if no further development proceeded.

With the entry of Tatro Properties in **2006**, the directional impacts are unacceptable (**minus 18.5%** against existing department store and specialty DSTM space).

However, the additional entry of Canril Phase 2 and Sprackman in **2011** would yield severe impacts (**minus 29.1%** or **minus \$57.3 million** against existing department store and specialty DSTM space). Under these size, distribution, and sequencing assumptions, these impacts are consistent with multiple store closures and potentially blighting, although Sears and Zellers would survive at significantly reduced productivity. The expanded Wal-Mart would be the least affected.

Impacts by **2021** would be eliminated given that additional department store and specialty DSTM residual growth of \$64.1 million would exceed the sales transfers of \$57.3 million in 2011. Moreover, sales gains above the base year levels would be achieved by the existing DSTM space assuming that the new space does not achieve higher productivity than tested.

Scenario 2 Impact - Table 20(b):

<u>Test Year</u>	<u>Site</u>	<u>Use</u>	<u>Square Feet</u>	<u>Sales/sf</u>
2005	North Maple Mall Exp'n	Specialty DSTM	80,000 sf	\$250
	Thames-Lea Plaza Exp'n	Specialty DSTM	30,000 sf	\$250
	Canril Phase 1	Specialty DSTM	<u>80,000 sf</u>	<u>\$225</u>
	Subtotal		190,000 sf	\$239
2006	North Maple Mall Exp'n	Specialty DSTM	80,000 sf	\$250
	Thames-Lea Plaza Exp'n	Specialty DSTM	30,000 sf	\$250
	Canril Phase 1	Specialty DSTM	80,000 sf	\$225
	Subtotal		190,000 sf	\$239
2011	North Maple Mall Exp'n	Specialty DSTM	80,000 sf	\$250
	Thames-Lea Plaza Exp'n	Specialty DSTM	30,000 sf	\$250
	Canril Phase 1	Specialty DSTM	80,000 sf	\$250
	Canril Phase 2	Specialty DSTM	<u>80,000 sf</u>	<u>\$250</u>
	Subtotal		270,000 sf	\$250

The directional impacts fall within acceptable tolerances in **2005** and **2006 (minus 8.0%** and **minus 4.8%** respectively against existing department store and specialty DSTM space) if no further development proceeded.

Without the Tatro Properties and Sprackman test allocations, the additional entry of Canril Phase 2 in **2011** would yield sales gains (**positive 0.2%** or **\$0.4 million**). The expanded Wal-Mart would retain its pre-expansion sales volume. Should no further specialty DSTM space proceed beyond these test allocations, then the prospects beyond 2011 are for the new and existing specialty DSTM space to achieve subsequent gains in productivity. These gains would eventually mirror the test performance levels in the specialty DSTM residual analysis.

Review of Major Commercial Centres

North Maple Mall:

- Opened in 1973
- Extreme northern location relative to downtown
- Woolco conversion to Wal-Mart in 1994
- Second largest shopping centre @ 264,711 square feet GLA
- Needs refurbishing to reposition itself relative to competition
- Existing Wal-Mart @ 126,000 square feet
- Existing Zehrs @ 65,700 square feet
- Existing Winners @ 23,500 square feet
- Wal-Mart Phase I expansion to 132,375 square feet
- Zehrs Phase I expansion to 125,000 square feet (excluding 20,000 square foot mezzanine)
- New mall space @ 46,873 square feet
- New pad space @ 38,900 square feet
- Total Phase I expansion by 137,278 square feet to 401,989 square feet GLA
- Additional permissions for Wal-Mart Phase II expansion by 50,000 square feet to 182,375 square feet
- Additional permissions for Zehrs Phase I expansion by 15,000 square feet to 140,000 square feet (excluding 20,000 square foot mezzanine)
- Additional permissions for Total Phase II expansion by 65,000 square feet to 466,989 square feet GLA

Thames-Lea Plaza:

- Opened in 1964
- Northwest location relative to downtown
- K-Mart conversion to Zellers and Price Chopper in 1998
- Largest shopping centre @ 272,900 square feet
- Zellers @ 72,200 square feet
- Price Chopper @ 19,400 square feet
- Canadian Tire @ 82,600 square feet (2000 opening)
- Staples @ 26,200 square feet (2000 opening)
- Zellers potential expansion into Price Chopper space to compete with Wal-Mart
- Price Chopper potential relocation
- 35,000 square feet of site capacity left (Dover property)
- Thamesview Lodge Nursing Home (9 acres) as potential expansion lands in 2 years
- Further expansion would require relief from District Commercial cap of 275,000 sq. ft.
- Expansion lands suitable for large scale Home Improvement Centre

Downtown Chatham Centre:

- Opened in 1984
- Third largest shopping centre @ 227,000 square feet
- Sears @ 72,000 square feet
- Sport Chek @ 16,500 square feet replaced Food Basics in 2001
- Large concentration of small national chains
- Few vacancies

Review of Approved Commercial Sites

Tatro Properties Limited Site (745 Richmond St. at Irwin St.):

- 12.4 acres approved for commercial uses
- Site of former Ministry of Transportation garage
- Industrial designation with commercial permissions
- Lands suitable for large scale Home Improvement Centre
- December 2002 tentative deal for severance for 90,000 square foot Home Depot (note: the deal fell through when the Canril proposal emerged)
- Alternative potential for 135,000 square feet of specialty DSTM space
- Potential expansion lands at rear (8 acres) and beside (8 acres)

Sprackman Site (Park Ave. W., north side, between Bloomfield Rd. and Howard)):

- 14.4 acre easterly portion
- 3.1 acre westerly portion
- approved for 184,000 square feet commercial
- all lands subject to flooding
- not developed since approvals in 1998

Review of Unapproved Commercial Sites

Canril Corporation Site (St. Clair St. west side of Hwy. 40, near Pioneer Line):

- 40 acres seeking approval for commercial uses
- across the street from North Maple Mall
- **Phase 1: 2004**
- Home Improvement Centre @ 110,000 square feet (Home Depot)
- General Merchandise @ 40,000 square feet
- Other retail @ 50,000 square feet
- **Phase 2: 2009**
- General Merchandise @ 100,000 square feet
- Other retail @ 20,000 square feet
- Total permissions sought @ 320,000 square feet

CONCLUSIONS

The short to medium term market opportunities to 2011 are limited by moderate population growth in the Primary Area (Chatham) and Secondary Area East and Secondary Area West.

This study adopts the high growth scenario in Lapointe Consulting Inc.'s population projections for the Municipality of Chatham-Kent, but makes adjustments to allocate the growth to the constituent municipalities, with 70% of the total growth of 14,100 persons by 2021 accruing to the Chatham Community.

The industrial park on Highway 401 is Chatham-Kent's real hope for employment and population growth to reverse recent population declines.

Despite adopting the high growth scenario, the short to medium term residual opportunities are more influenced by outflow recovery and increased inflow assumptions than by the population growth.

Because so little growth accrues to the communities outside Chatham, the residual and impact calculations are focused on Chatham.

This study identifies residual demands across the Department Store, Specialty DSTM, HATBA, HIRM, Supermarket, Specialty Food, personal service, restaurant, and Liquor/Beer/Wine categories.

An important finding of this study is that the potential square footage on available commercial lands exceeds by a two-fold factor the residual demands across these store categories, even without any uptake of currently vacant stores.

The implication is that a new commercial designation would not be needed unless there were compelling reasons why prospective tenants, particularly box retailers, would not locate on any of the approved commercial lands. To date, this has not been shown to be the case.

In fact, a revitalized and expanded North Maple Mall, as well as an expanded Thames-Lea Plaza would have considerable influence on the locational decisions of prospective box tenancies.

However, it is not the total residual demands across all store categories, but the specialty DSTM residuals that are key to the distribution of new retail shopping opportunities.

This study has identified the following mid-range specialty DSTM residuals:

- **86,000** square feet (rounded) by 2006,
- **156,000** square feet (rounded) by 2011,
- **233,000** square feet (rounded) by 2016, and
- **261,000** square feet (rounded) by 2021.

Another important finding of this study is that the amount of specialty DSTM space in approved or proposed commercial developments in the short to medium term (by **2011**) would exceed these specialty DSTM residuals:

- **Impact Scenario 1:** Five (5) sites at up to **589,000** square feet of specialty DSTM space by **2011**, and
- **Impact Scenario 2:** Three (3) sites at up to **270,000** square feet of specialty DSTM space by **2011**.

In examining these impact scenarios, the conclusion is reached that the approved expansions of the North Maple Mall and the Thames-Lea Plaza would fall within the margins of residual space, and hence are reasonably characterized as being in the public interest.

The Canril Corporation's recent proposal for a new power centre near the North Maple Mall would impose leasing competition on the Tatro Properties permissions for expanded retail commercial uses on former industrial lands, as well as the Sprackman permissions in the south end of Chatham.

Should the Canril, Tatro, and Sprackman sites proceed in the short to medium term together with the expansions of the North Maple Mall and the Thames-Lea Plaza, severe sales transfers would be exacted on existing specialty DSTM retailers throughout Chatham.

Another important finding of this study is that a large scale Home Improvement Centre such as Home Depot, the Building Box, or a larger Rona-Cashway is warranted in large measure due to the high levels of HIRM expenditure flowing out of Chatham-Kent to London, Windsor, and Sarnia. This potential anchor store could theoretically locate on the Canril, Tatro, or Sprackman lands. Without securing such a tenant, the Canril, Tatro, and Sprackman proposals are weakened by not having a substitute anchor. Without a substitute anchor, it is unlikely that any of these sites could be developed to their respective site capacities with retail uses. Should Canril be approved, then the development opportunity for the Tatro and Sprackman sites would be effectively removed.

The question of where anchor tenancies should locate is a planning issue relating to two options. The first option is to distribute the retail opportunities across the Chatham Community to prevent any one commercial node from becoming so dominant that other existing nodes are unable to effectively compete.

The second option is to concentrate retail opportunities in a single node that would create synergies through a comprehensive array of new format stores.

The Canril proposal would conform to the second option. One concern is that with potentially two power centres in one node (Canril and North Maple Mall), other commercial uses may seek to relocate in order to maximize their sales volumes. A second concern is that two power centres would create demand for commercial (i.e. non-retail) uses in the same vicinity, thereby further strengthening the node. A third concern is that the node would become so powerful an attractor that the planned functions of other existing retail nodes would be impacted negatively, not only within Chatham, but Wallaceburg and Dresden in particular. A fourth concern is that development pressures may be exerted for the conversion to commercial of additional lands between the Canril and FirstPro sites and the current urban/rural boundary.

The commercial policy review is the recommended process for ranking the planning options for accommodating new retail commercial uses that Chatham clearly needs in order to repatriate outflow.

The commercial policy review is a necessary next step because this market study has demonstrated that not all the lands with commercial permissions can proceed in the medium to long term, and lands seeking new permissions are competitive with those already approved.

The strength of larger markets in London, Windsor, and to a lesser degree Sarnia (all within an hour's drive from Chatham) will continue to attract outflow from Study Area residents even as the Study Area achieves threshold population levels for greater local representation of the store types now capturing Study Area outflow.

Development of a retail structure that reduces this outflow should be an important goal of the commercial policy review, recognizing that in Chatham greater retail representation of box stores and the reconfiguration of North Maple Mall into a power centre come relatively late in the cycle of such retail trends.

RECOMMENDATIONS

The following recommendations flow from this market impact study:

- That a distributed retail commercial structure, rather than a concentrated structure with one dominant retail commercial node be the working premise behind reviewing the planning options in the commercial policy review;
- That urban areas on full services be given preference over Greenfield areas for incremental infill, redevelopment, and intensification as the market warrants;
- That the cap on District Commercial centres be increased or removed in line with current retail trends; and
- That no new designations be approved until the commercial policy review is completed with stakeholder input and adequate public consultation.