

# Charles County Retail Assessment

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## I. Purpose

The purpose of this report is to provide the Charles County Board of Commissioners, County Administrator and residents of the county with information that will help to better understand the recent activity, national trends of retail closures, and what the Charles County Economic Development Department (EDD) is doing to support the retail industry in the County.

## II. Introduction

The closures of the Waldorf Sports Authority and HH Gregg stores in 2016 and 2017, respectively, may seem at worst a bad omen for the future of retail in Charles County, but are actually the result of shifting national trends in consumer buying patterns. Several other major retailers announced imminent store closings at the end of 2016/beginning of 2017, including Macy's (100 stores), JC Penney (140 stores) and Sears Holdings (108 Kmart stores, 42 Sears stores). All three retailers have stores in Charles County, none of which are slated to close in this most recent round.

Although much of the blame for the closure of brick and mortar stores is attributed to the popularity of online buying, it presently only accounts for 8% to 10% of retail sales nationally. Indeed, many experts contend that brick and mortar stores retain a large advantage with their face-to-face customer interaction, and that retailers and shopping centers that adapt to shifting consumer trends should survive and prosper.

The following report prepared by the EDD attempts to address national and local retail trends and how they may impact the future of retail development in the county. The EDD utilized a diverse variety of information sources in the preparation of this report including: multiple online and print media outlets; Site to Do Business, an online, fee based supplier of socioeconomic data; the International Council of Shopping Centers; and, face-to-face meetings with five (5) representatives of shopping center owners and developers with assets in Charles County:

- Simon Property Group (St. Charles Towne Center)
- Madison Marquette (The Shops at Waldorf Center)
- Greenberg Gibbons (Waldorf Station, proposed)
- Phillips Edison & Company (La Plata Plaza, Rosewick Crossing)
- S2 Capital Partners (Bryans Road Shopping Center)

The report is organized into the following sections: 1. Introduction; 2. Retail Definitions, a summary of the various shopping center types; 3. Retail Standard Guidelines, a description of how communities are served by shopping centers; 4. Local Retail Environment, a brief overview of the county's retail characteristics and infrastructure; 5. National Retail Trends, an assessment of where retail has been and where it's going, and; 6. Conclusion, an analysis of what the future may hold for retail in Charles County.

## III. Retail Definitions

The term "retail" generally refers to operations involved in the sale of goods, merchandise, or services from a fixed location, such as a shopping center or freestanding store. Retail can generally be classified into two major categories by building configuration: first, **general retail**, which is typically single tenant freestanding general purpose commercial buildings with parking; and second, **shopping centers**.

The definition of a **shopping center** is standard. As formulated by the former Community Builders Council of the Urban Land Institute (ULI) in the 1950s and reaffirmed over time, a shopping center is a group of commercial establishments planned, developed, owned, and managed as a unit related in location, size, and type of shops to the trade area it serves. It provides on-site parking relating to the types and sizes of its stores.

As the shopping center evolved, five (5) basic types emerged, each distinctive in its own function: the convenience, the neighborhood, the community, the regional, and the super-regional. In all cases, a shopping center's type and function are determined by its major tenant or tenants and the size of its trade area; they are never based solely on the area of the site or the square footage of the structures.

ULI defines the types of shopping centers that comprise the majority of retail development in the United States. For purposes of understanding terms and characterizations used in this report, the five (5) basic types of retail centers are summarized:

1. **Convenience Center** — Provides for the sale of personal services and convenience goods similar to those in a neighborhood center. It contains a minimum of three stores, with a gross leasable area (GLA) of up to 30,000 square feet. Instead of being anchored by a supermarket, a convenience center is usually anchored by some other type of personal/convenience services such as a minimarket.
2. **Neighborhood Shopping Center** — This type of retail center provides for the sale of convenience goods (foods, drugs, and sundries) and personal services (e.g. laundry and dry cleaning, hair-styling, shoe repair and tailoring) for the day-to-day needs of the residents in the immediate area. It is built around a supermarket as the principal tenant and typically contains a gross leasable area of about 60,000 square feet. In practice, neighborhood centers can range from 30,000 to 150,000 square feet.
3. **Community Shopping Center** — In addition to the convenience goods and personal services offered by the neighborhood center, a community center provides a wider range of soft lines (wearing apparel) and hard lines (hardware and appliances). The community center makes merchandise available in a greater variety of sizes, styles, colors, and prices. Many centers are built around a junior department store, variety store, super drugstore, or discount department store as the major tenant, in addition to a supermarket.

Although a community center does not have a full-line department store, it may have a strong specialty store or stores. Its typical size is about 150,000 square feet of gross leasable area, but in practice, it may range from 100,000 to 350,000 or more square feet. Centers that fit the general profile of a community center but contain more than 250,000 square feet are classified as super community centers. As a result, the community center is the most difficult to estimate for size and pulling power.

A power center is a type of super community center that contains at least four category-specific, off-price anchors of 20,000 or more square feet. These anchors typically emphasize hard goods such as consumer electronics, sporting goods, office supplies, home furnishings, home

improvement goods, bulk foods, health and beauty aids, and personal computer hardware/software.

4. **Regional Shopping Center** — This type of center provides general merchandise, apparel, furniture, and home furnishings in depth and variety, as well as a range of services and recreational facilities. It is built around two or more full-line department stores of generally not less than 50,000 square feet. Its typical size is about 500,000 square feet of gross leasable area, but in practice it may range from 250,000 square feet to more than 800,000 square feet. The regional center provides services typical of a business district yet not as extensive as those of the super-regional center.
  
5. **Super Regional Shopping Center** — A super-regional center offers an extensive variety in general merchandise, apparel, furniture and home furnishings, as well as a variety of services and recreational facilities. It is built around three or more full-line department stores generally of not less than 75,000 square feet each. The typical size of a super-regional center is about 1 million square feet of GLA. In practice the size can range from about 500,000 to more than 1.5 million square feet. Super regional centers have been typified by enclosed malls for over the past thirty years, but have been trending to open air “town centers” over the past decade or so.

#### IV. Retail Standard Guidelines

The concept of establishing retail standards for communities and neighborhoods is subjective. What is considered lacking or inconvenient to one person might be inconsequential or otherwise readily available to another, depending on a variety of factors including, but not limited to, mobility, income, personal taste or need, and perception. Consequently, there are certain basic criteria or thresholds that can be established to provide a framework for standards, which in turn can be refined through a process such as local market surveys, targeted supply analysis, etc. This section seeks to define standards for the trade area of a neighborhood’s commercial core (activity center) from the perspective of residents, rather than the perspective of a particular type of retail activity.

ULI has established minimum thresholds for market support for retail centers based on population, radius, and drive time. As a demonstration of the subjective nature of this analysis, it should be noted that ULI’s criteria and thresholds for GLA and trade area size (and by inference minimum standards) differ slightly from the ESRI approach. Taking them all into account can provide a balanced view of the topic and its implications on policy and planning decisions. The thresholds utilized in this section of the analysis are expressed in the following table.

**Table 1  
Standard Guidelines - Shopping Center Thresholds**

Center Type	Min. Population	Trade Area Radius	Driveshed
Neighborhood	3,000-4,000	3 miles	5-10 minutes
Community	40,000-50,000	3-6 miles	15-20 minutes
Regional	150,000	5-15 miles	20 minutes
Super-Regional	300,000	5-25 miles	30 minutes

Source: ULI; Charles County Economic Development

## V. Local Retail Environment

Greater Waldorf, and particularly the U.S. Route 301 corridor that passes through it, is a regional retail hub that serves all of Charles County, as well as parts of Saint Mary's and Calvert Counties in Maryland and King George County in Virginia. Additional significant retail supply resides on the 301 corridor in Brandywine, in Prince George's County just north of the county line, and the Town of La Plata. Charles County's retail inventory totals an estimated 8.9 million square feet of gross leasable area (GLA), with an 8.0% average vacancy rate for 2016. Vacancy is a measure of the total amount of physically vacant space divided by the total amount of existing inventory. Figure 1 shows major shopping centers in the area.

Charles County's three major shopping centers include: St. Charles Towne Center, a 1.1 million-square-foot enclosed mall with Kohls, Macy's, JC Penney and Dick's Sporting Goods as anchors; Waldorf Marketplace, a 475,000-square-foot open format shopping center with Safeway, TJ Maxx and Office Depot among its anchors, and The Shops at Waldorf Center, a 584,470-square-foot open format shopping center with Ross, LA Fitness and the Christmas Tree Shops among its anchors. By regional standards, the Charles County retail submarket is large. Which is why it remains a targeted industry for the County and is included in the EDD 5-year Strategic Plan.

CoStar, a nationally recognized commercial real estate information company, divides the Washington D.C. retail market into 21 submarkets in Maryland, D.C. and Northern Virginia. Submarkets are distinct geographies that serve to delineate a core group of buildings that are competitive with each other. Although Charles County is not included in CoStar's definition of the Washington D.C. retail market, it is considered as such for the purposes of this document, and represents a 22<sup>nd</sup> submarket. In terms of inventory, Charles County ranks 11<sup>th</sup> among the 22 submarkets with 8.9 million square feet. For comparison purposes, the much more populous Fairfax County has 25.0 million square feet of retail GLA. Neighboring Prince George's County is divided into three submarkets: North, 18.5 million square feet GLA; South, 12.6 million square feet GLA; and, East, 7.2 million square feet GLA. The total retail gross leasable area in Prince George's County is approximately 39.4 million square feet.

The amount of retail GLA per household and vacancy rates are instructive when assessing the supply and demand characteristics for specific geographies. In Charles County, there is approximately 159 square feet of retail GLA per household and a vacancy rate of 8.0% compared to Prince George's County with 125 square feet of retail GLA per household and a vacancy rate of 5.0% (the D.C. market average vacancy rate is 3.8%). The relatively high amount of retail per household suggests that Charles County's retail trade area likely extends to households outside the county, at least historically. The relatively high vacancy rate may be a reflection of the delivery of the 605,000-square-foot Brandywine Crossing to the local inventory.

Figure 1: Major Shopping Centers



Source: Esri Business Services; Charles County Economic Development Department

## VI. Current National Trends

The competition between conventional bricks and mortar stores and the rise of e-commerce and online retailing has been well documented. Estimates of the proportion of e-commerce sales in the U.S. currently range from 8% to 10%. While it is high in some categories such as books and music, it is small in some of the larger categories such as auto, food, and beverage. Nonetheless, a number of research sources believe e-commerce is capable of eventually achieving a 20% share, or even higher. But for that to happen, large spending categories need to gain more traction online. While the retrenchment of brick and mortar stores can be largely attributed to the rising popularity of e-commerce, it does not necessarily signal the demise of the physical store.

Using Macy's as an example, while they intend to close 100 stores through 2017, they will retain 628 locations. In a number of cases, stores will be closed as the value of the real estate exceeds their value to Macy's as a retail store. Furthermore, Macy's is making almost 20% of their sales via the internet, while understanding that brick and mortar locations offer a significant competitive advantage over strictly online competitors. By seamlessly integrating online shopping with physical storefronts, the retailer can provide customers with same-day pick up options and a convenient place to exchange and return merchandise.

Consumer preferences, technology and business conditions are rapidly changing. Now, when consumers visit shopping centers, they are looking for experiences that go well beyond traditional shopping. As shopper's expectations are becoming more complex, retailers and shopping center owners are reconfiguring and creating spaces that are more open, dynamic and adaptable in order to accommodate an all-inclusive shopping experience where people can shop, eat and play. Innovative malls and open air shopping centers are incorporating value added elements that attempt to recast the mall as the new downtown, including concerts, arts centers, spas, fitness clubs, and farmer's markets. The Washington Business Journal recently profiled a proposed new mixed use project at the Navy Yard in D.C. near the Washington Nationals ball park. The project is slated for 439 residential units, with a 55,000-square-foot retail component that will include eight bowling lanes, a bocce court, and three karaoke rooms in what is described as "eclectic space melding mountain lodge, Victorian and modern industrial design themes."

Sustainability concerns are causing some consumers to prefer mixed use developments where they can live, shop and work all within walking distance instead of having to get into a car and drive. These developments typically include open air malls that lend the atmosphere of a town center, especially when they incorporate mixed use real estate. Many of the shopping centers being built in urban and suburban areas are open and fully integrated with the landscape.

Trends in the distribution of food are mirroring retail, as restaurants have increasingly been taking share from grocery stores. Today, more restaurants offer online ordering, drive-through windows, parking spots for to-go pickup, and home delivery. At the same time, an increasing share of grocery store profitability and customer appeal comes from delis, cafes, and ready to eat meals.

While department store operators figure out a strategy for long-term survival, shopping center landlords will have to come up with innovative enticements to shoppers. Malls that are not currently in the process of repositioning and re-inventing themselves may be in jeopardy if department store anchors continue to close stores. Older community and neighborhood shopping centers will need to spruce up their appearances, diversify their brand mix and update their business models to remain competitive. Individual retailers will necessarily have to increase their understanding of how to engage with customers both in-store and online to remain viable businesses. Brick and mortar shopping centers can still retain their advantage over online shopping as destinations for entertainment and social interaction.

## **VII. Conclusion and Next Steps**

Retail is ultimately local and developers have to adapt concept and design to local opportunities, constraints and customers. A recurring theme in stakeholder interviews was the importance of the consumer experience in driving traffic. It can be food, entertainment, personalized offerings, assortment and location with endless possibilities and no single solution. It is our view that the storefront concept will continue to attract consumers, albeit in a different and ever evolving environment that offers a richer experience than the traditional shopping center models.

Local shopping center operators know all too well the challenges that will confront them in the next 18 to 24 months, and are adjusting their business models to respond to what may lay ahead. Charles County EDD will accelerate its support of this target industry sector through organized and deliberate assistance with retail retainment and recruitment efforts that will include, but not be limited to, the following:

- Conduct outreach to and collaborate with shopping center owners and operators;

- Actively participate in retail business organizations and advocacy groups such as the International Council of Shopping Centers and the Urban Land Institute;
- Keep public informed as we move through this transition; and,
- Monitor and advise on land use and regulatory issues.