

## **Chapter II: Economic Development**

## **Introduction**

### Retail Development as a function of Economic Development

Retail development is a significant component of a community's economic development strategy. Without question, healthy retail districts generate property tax revenue, draw people to a community, and paint a picture of economic vitality. New retail development may provide competition for existing retailers, but it may also attract more shoppers to an area, thereby providing support for neighboring businesses.

Yet, many economists would argue that retail has very limited economic development potential. Retail is a nonbasic industry, which means that it primarily serves the local population.<sup>61</sup> It does not bring new money into a region by exporting products or attracting outside dollars. In addition, most economists will argue that economic development can only occur at a regional level because economies function on a regional level, not a municipal level.<sup>62</sup> Shifting spending from one community to another only redistributes wealth within a region; it does not generate wealth for the region as a whole.

Despite this, retail development is not likely to lose its place among local economic development strategies. A mismatch of economic versus political geography leads local leaders to pursue investment for their jurisdictions.<sup>63</sup> Political leaders must consider how their decisions impact their constituents, and therefore, may give less weight to how they affect the region as a whole. Barnes and Ledebur write, "Local governments pursue economic development strategies for their jurisdictions that reflect the assumption that they are coherent economies with economically meaningful borders."<sup>64</sup> The microscopic view of each locale has effects on the region as a whole. To a local political leader, shifting spending to their community *is* economic development, even when that spending is drawn from within the region. Local leaders operate in a highly competitive environment where the ability to attract new investment is an important measure of their individual success and important to the economic health of their community.

This report discusses the relationship between retail development and sustainable economic development and then examines the economic impact of retail development. Specifically, it addresses the way in which location decisions affect economic impact, the impact created in terms of employment and wages, and the impact of big box retail on local retail.

### **Retail Development, Economic Development, and Sustainability**

Understanding that in the current political environment local retail development is considered to be economic development, the question still remains as to whether retail development is an effective economic development strategy for a municipality. Is retail

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<sup>61</sup> Emil E. Malizia and Edward J. Feser. (1990). *Understanding Local Economic Development*, Rutgers, NJ: State University of New Jersey, p.52.

<sup>62</sup> William R. Barnes Larry C. Ledebur. (1998). *The New Regional Economies: The U.S. Common Market and the Global Economies*. Thousand Oaks, CA : SAGE Publications, Inc., 1998, p.40.

<sup>63</sup> *Ibid.*, p.67.

<sup>64</sup> *Ibid.*, p.75.

development sustainable economic development? In this context, “sustainable” refers to the long-term impact of retail on a local economy.

In most communities, signs of a retail life cycle are evident. In the 1970s and 1980s, large enclosed malls were springing up in suburban communities across the country. By the 1990s, strip plazas with big box anchors began to take over. Today, new retail developments often take the form of “lifestyle” centers.<sup>65</sup> As new forms of retail gain popularity, older forms tend to fall out of favor. The retail life cycle has very real consequences for both older and newer communities, as new developments are most often built in newer communities, leaving older communities to contend with outdated, obsolete retail centers.

The retail life cycle was documented decades ago by Davidson, Bates, and Bass<sup>66</sup> and more recently by Lowry.<sup>67</sup> Both studies identify four stages to the life cycle of shopping centers: 1) innovation/birth; 2) accelerated development/growth; 3) maturity; and 4) decline. During the innovation/birth phase, retail establishments enter the market place and experience a sharp rise in sales because they offer a new product or unique experience. During the second phase, acceleration/growth, the number of similar types of stores or shopping centers grows rapidly. Individual retailers in this phase are focused on market expansion. At the maturity phase, competition is sharp, market share levels off, and strong retailers located in older shopping centers may relocate to new centers. Excess capacity may become an issue. In the final phase, decline, sales fall to a level where profits are limited and a developer must determine whether to reinvest in the center or shift resources to other interests.

Lowry notes that identifying the stage of the life cycle for a particular type of shopping center is difficult because a center’s age, competitive forces, changes in shopper behavior, and marketplace changes all affect a center’s vitality and determine how it moves through the various stages. Transportation linkages and the market position of a retail center’s anchor store(s) also have significant impacts. The interplay of these factors can cause an individual center to be in a different stage than other centers of a similar type.

Although both Davidson, et.al. and Lowry argue that retail managers and developers can adapt their strategies to prolong profitability and extend the retail life cycle, neither suggest that decline can be avoided. In fact, Davidson et.al. specifically state that “the institutional retail life cycle is a natural evolutionary process that is impossible to stop.”<sup>68</sup> Furthermore, the length of the life cycle appears to be contracting. Some experts currently estimate the retail life cycle to be twenty (20) years or less, depending on how the factors described above affect a particular center.

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<sup>65</sup> The term “lifestyle center” means different things to different people, but according to the International Council of Shopping Centers, lifestyle centers generally have the following attributes: a location near affluent residential neighborhoods; an upscale orientation; 150,000 sq. ft. to 500,000 sq. ft. of gross leasable area, an open-air format; and at least 50,000 sq. ft. of national specialty chain stores. Source: <http://www.aia.org/siteobjects/files/The%20Life%20in%20Lifestyle%20Centers.pdf> (accessed April 24, 2007).

<sup>66</sup> William R. Davidson, Albert D. Bates, and Stephen .J Bass. (1976). "The Retail Lifecycle." *Harvard Business Review* 54: p.89-96.

<sup>67</sup> James R. Lowry. (1997). "The Life Cycle of Shopping Centers." *Business Horizons* 40, no. 1: 77-86.

<sup>68</sup> William R. Davidson, Albert D. Bates, and Stephen .J Bass. "The Retail Lifecycle." *Harvard Business Review* 54, no. (1976), p.93.

Lowry noted that shopping centers have been around long enough to observe growth, maturity, and decline (and rebirth), which gives developers and retailers and opportunity to plan for changing conditions in the industry. If developers and retailers can plan for changing conditions, it would seem that planners and policy makers should be able to do so as well.

In *Shopping Towns USA* (1960), Gruen and Smith predicted some of the issues that would arise from shifting development patterns. They wrote,

“New highways and freeways will bring about a reorganization and reorientation of metropolitan traffic patterns. Fresh opportunities will open up for the locating of shopping centers. With the shifting patterns, it is likely that while certain existing shopping centers will gain through better accessibility, others may suffer.”<sup>69</sup>

Gruen and Smith address planning for growth, traffic, marketing, design, and engineering of shopping centers, but do not address planning for decline, despite the recognition that some centers would suffer. Little has changed since 1960 – most planners and public officials are still unprepared to address the consequences of retail decline.

## **Impacts**

### The Retail Life Cycle Illustrated in Northeast Ohio

Shopping centers can change, grow, or die. According to Lowry, owners must carefully evaluate the market potential of a mature or declining shopping center and decide whether it can be repositioned and move back to the growth phase of the retail life cycle. The outcome of such decisions can be seen across Northeast Ohio. For example, Severance Town Center and Westgate Mall demonstrate a strategy focused on change in order to adapt to new shopping preferences. Great Northern Mall represents an attempt to revive an existing shopping mall through growth. By contrast, Euclid Square Mall and Randall Park Mall illustrate the last option (death) – the consequence of a developer’s decision not to reinvestment.

Severance Town Center, located in Cleveland Heights, Ohio, was constructed in the early 1960s. It was Ohio’s first indoor shopping mall. The mall went through several changes in the 1970s and 1980s, attempting to adapt to different shopping preferences and to the highs and lows of various anchor stores. By the 1980s, the mall was seriously struggling. In the mid-1990s, the site was cleared to make way for the current shopping center – a “town center” anchored by several big box stores.

Approximately 10 years later, Westgate Mall in Fairview Park is experiencing a similar fate. The enclosed mall that existed on the site since the late 1960s was in a serious state of decline by the 1990s. In 2005, a plan was announced to demolish most of the existing structures and clear the site to make way for a lifestyle center. The new shopping center is expected to open in 2007.

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<sup>69</sup> Victor Gruen and Larry Smith. (1960). *Shopping Towns USA*. New York, NY: Reinhold Publishing Corporation, p. 267.

By comparison, Great Northern Mall in North Olmsted avoided the fate of other older, enclosed shopping malls built in the 1960s by expanding both the original structure and attracting new forms of retail to the immediate area. In the late 1990s and into the current decade, a number of new stores were added to and around the enclosed mall. It has become one of the region's largest shopping areas.

In contrast to the above examples, developers have not redirected resources to Euclid Square Mall or Randall Park Mall. Randall Park briefly held the title of "largest shopping mall in the world." When it opened, it made national news and drew huge crowds. Today, both Euclid Square Mall and Randall Park Mall remain largely vacant. Apparently developers have determined that these locations will not provide an adequate return on investment or that the risks are simply too great.

What made the difference in Cleveland Heights, Fairview Park, and North Olmsted versus Euclid and North Randall? The first three communities have a very strong residential base and a solid commercial core. There is little evidence of decline in any of these communities. Euclid and North Randall have struggled to some degree. The above-described examples show that retail developers respond to market conditions – they do little to shape market conditions. It has often been observed that "retail follows rooftops." This is an important point if community leaders continue to include retail development as a large component of their economic development strategy.

This is not to suggest that community leaders should not pursue retail development – a vibrant commercial core is an important component of an economically healthy community. A strong retail district helps to establish and maintain community vitality while a weak retail district can diminish vitality. Furthermore, the tax revenue that can be retained or generated by retail development is very important to municipal budgets. It does suggest that community leaders should carefully consider the type and amount of retail that is more likely to be sustained in their municipality over the long-term. The tax revenue that is generated from large-scale retail development is attractive, but over-retailing can create large holes in the community in the future. Communities need to consider the long-term impact of retail development if they want to achieve sustainable economic development.

#### Location as a Factor of Economic Development

Location is a central factor in selecting a proper area for retail placement. Location is the sum of multiple parts and is more than simply physical dirt and stone. Through proper placement of retail, retail can be an economic generator for a community.

By properly analyzing the benefits and costs of placing retail in a specific area, location can be a factor in economic development. For example, a 2004 study conducted of nine central Ohio communities found that retail development generates a net fiscal loss to local governments.<sup>70</sup> Specifically, retail generated an average net loss in those central Ohio communities of \$0.44 per square foot.<sup>71</sup> Often, a high cost is attributed to retail due to the high

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<sup>70</sup> Randall Gross. (2004). "Understanding the Fiscal Impacts of Land Use in Ohio." *Regional Connections: A Growth Strategy for Central Ohio*, p. 3.

<sup>71</sup> Ibid.

volume of traffic that retail use generates.<sup>72</sup> Such costs often outweigh the income tax revenues generated by the relatively low retail wages.<sup>73</sup> However, in one of the central Ohio communities (Upper Arlington, Ohio), it was shown that a well-planned mixed-use re-development can cross-subsidize retail costs through a balanced mix of office, retail, and residential.<sup>74</sup>

An analysis of certain Northeast Ohio communities demonstrates the influence that retail location has as a factor of economic development.

### Severance Town Center

Severance Town Center draws from the 50,700 residents in the immediate Cleveland Heights, Ohio area.<sup>75</sup> Originally constructed as one of the first enclosed malls in the country, Severance Town Center commenced significant renovations, transforming itself into an open-air, outdoor shopping center.<sup>76</sup>

#### Trade Area, Access, and Demographics

Located twenty minutes east of downtown Cleveland, Cleveland Heights, Ohio had a population of 18,814 residents within a 1 mile radius of Severance Town Center in 2000.<sup>77</sup> Over a six (6) year period, the population decreased by 3.4% to an estimated 18,171.<sup>78</sup> 21% of the households in that area have an average income between \$50,000 and \$75,000. While Severance Center never enjoyed highway access, the physical location sits in the immediate vicinity of East Cleveland, South Euclid, University Heights, and Lyndhurst. Although once a more vibrant shopping center, Severance Town Center has enjoyed increased sales due to the placement of big-box retailers such as Home Depot and Wal-Mart.

### Steelyard Commons

Steelyard Commons, the new urban shopping center located in Cleveland, Ohio, is expected to generate significant economic benefit to support such aspects as job creation and local neighborhood services.<sup>79</sup> Location placement of Steelyard Commons was a key factor. Unlike other areas throughout Northeast Ohio, the Steelyard Commons project was able to assemble over 1 million square feet for retail use.<sup>80</sup>

#### Trade Area, Access, and Demographics

Steelyard Commons enjoys a retail spatial monopoly. The shopping plaza was intentionally placed in an area immediately adjacent to downtown which allows the plaza to

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<sup>72</sup> Ibid.

<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

<sup>75</sup> Pinetree Commercial Realty, LLC. [http://www.pinetreecommercial.com/properties/seve\\_tow-cle/index.htm](http://www.pinetreecommercial.com/properties/seve_tow-cle/index.htm)

<sup>76</sup> Ibid.

<sup>77</sup> Ibid., referencing the 2000 Census

<sup>78</sup> Pinetree Commercial Realty, LLC. [http://www.pinetreecommercial.com/properties/seve\\_tow-cle/index.htm](http://www.pinetreecommercial.com/properties/seve_tow-cle/index.htm)

<sup>79</sup> First Interstate Properties, Ltd, "Cleveland's Steelyard Commons." 2005.

[http://www.steelyardcommons.com/econ\\_impact.asp](http://www.steelyardcommons.com/econ_impact.asp)

<sup>80</sup> First Interstate Properties, Ltd, "Cleveland's Steelyard Commons." 2005.

[http://www.steelyardcommons.com/place\\_making\\_1\\_2.asp](http://www.steelyardcommons.com/place_making_1_2.asp)

draw from surrounding areas such as Tremont, Ohio City, Old Brooklyn, along with the Flats and Clark-Metro neighborhoods.<sup>81</sup> Highlights of these adjacent areas include:

- Tremont, located just north of Steelyard Commons, has posted an 8.3% average annual increase in sale price of new single family homes during the last 13 years (which ranks #2 out of 16 Cleveland neighborhoods);
- Ohio City, located northwest of Steelyard Commons, has posted a 7.3% average annual increase in the sale price of new single family homes during the last 13 years (ranking #4 out of 16 Cleveland neighborhoods); and
- Downtown Cleveland, located two miles north of Steelyard Commons, has over 147,500 daily workers, which equates to the eighth largest downtown labor force in the nation.<sup>82</sup>

The immediate trade area has 320,812 people, and 34% of the households have a median income over \$50,000.<sup>83</sup> In 2000, city of Cleveland residents spent approximately \$1.3 billion in retail purchase at suburban stores.<sup>84</sup> As such, the new urban shopping plaza seeks to capture that revenue stream by offering residents a more convenient shopping location.

In addition, Steelyard Commons has immediate access to all the major highways. Specifically, I-71, SR 176, I-490, I-90, and I-77 are all in close proximity to Steelyard Commons. The one mile radius demographics include a 2006 average household income of \$34,630 and a 2006 median household income of \$29,437.<sup>85</sup>

#### External Factors that Impact and Influence the Location of Retail

Corporate marketing factors influence and impact site placement of retail. Corporate franchises, such as fast food restaurants and other national retailers, have internal marketing restrictions that prohibit their franchises from existing within a certain distance from each other.<sup>86</sup> Such restrictions are particularly devastating for cities like Bedford that are sandwiched between and among other dense cities such as Maple Heights and Bedford Heights. For example, because there is an Arby's (on Northfield Road) and a Wendy's (on Warrensville Center Road) in Maple Heights, the City of Bedford is precluded from placing another Wendy's within a two mile radius. Accordingly, the Wendy's in Maple Heights, Ohio draws revenues from Bedford residents; however, such revenues do not benefit the City of Bedford.<sup>87</sup>

#### Impact of Retail Development on Employment and Wages

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<sup>81</sup> First Interstate Properties, Ltd, "Cleveland's Steelyard Commons." 2005.

[http://www.steelyardcommons.com/econ\\_impact.asp](http://www.steelyardcommons.com/econ_impact.asp)

<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

<sup>86</sup> Information obtained from a February 21, 2007 telephone interview between E. Mark Young and Rebecca Kwiatkowski-Corrigan, Economic Development Director for the City of Bedford.

<sup>87</sup> Ibid.

Retail development directly influences changes in employment and income opportunities in communities. These types of changes may be temporary (e.g., construction projects or seasonal employment) or may constitute a permanent change in the employment and income profile of a community should the development project bring long-term job opportunities for community residents. Changes in income also influence the social environment in a number of ways such as raising or lowering the average standard of living for residents.

In the past couple of years retail development has boomed in the Northeast Ohio region and contributed to employment growth. Such growth is a key measure of regional economic performance. As shopping centers are developed, there is increased demand for workers.

Wages for retail sales fluctuate depending on a wide variety of factors. However it is not uncommon to see wages barely above the minimum wage requirements. Some salespersons are paid a regular and/or fixed salary, while many earn a combination of salary and commission. Successful commission-based employment depends on the real value or popularity of the merchandise they sell. Often, employee benefits are not associated with these types of jobs. However as an incentive, many retail stores offer employees a discount of as much as 10-25 percent off the merchandise in stock. A few of the larger department stores and retail chains offer life insurance, health and pension plans.

Many retail store sales positions are part-time only, with schedules of 20-35 hours per week. These employees are on duty during peak selling hours, including evenings and weekends. Because weekends are busy days in retailing, almost all employees work at least one of these days and have a weekday off. The life span of these sales positions and/or managerial positions varies. The average employee's employment period in retail spans from 1 to 2 1/2 years. The lack of benefits and low salary increases the turn over rate.

Retail establishments provide jobs for a less educated and less skilled workforce. For most sales jobs, no specific training is needed. On average, beginning sales jobs require no more than a high-school education. Good verbal communication skills are a plus and an out-going and courteous disposition is a requirement. Any additional training is normally on-the-job training in sales techniques and internal store policies.

Retail jobs generally do not provide an avenue for wealth creation. The aim of economic development is to create primary jobs that pay more than minimum wage, and increase the amount of income coming into a community from outside its market area. Primary jobs are defined as jobs that produce goods and services in excess of what can be consumed in the local marketplace.<sup>88</sup> This creates a flow of money into the community. For the purpose of economic development, the retail sector does not create export income.

According to research done by the City of Lake Dallas, Texas, shopping centers located within an area typically draw in money that has already been "created" by primary employers in that area. It is not "new money."<sup>89</sup> The research also indicates that "The indirect impact of

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<sup>88</sup> "Lake Dallas Texas Economic Development Corporation."

[http://www.lakedallas.com/lded\\_principles\\_eco\\_dev.html](http://www.lakedallas.com/lded_principles_eco_dev.html) (accessed April 2007).

<sup>89</sup> Ibid.



primary job creation is the creation of additional jobs. The demand for goods and services generated by the primary employer is increased and "indirect" or "spin-off" jobs are created."<sup>90</sup> Retailing does not create wealth. It is a product of "wealth" created by primary employment.

Although most jobs generated by retail development are not high paying jobs and may not lead to wealth creation, these jobs are essential and desirable segments of their community. Retail jobs allow for certain demographics to earn an income where they would not be able to in other market segments.

Today, more and more elderly citizens are working part-time in the retail sector. The pay provides a supplement to their retirement benefits and can stretch out their retirement savings. It also provides the elderly with social opportunities and a way to meet people and continue to be a contributing part of the community. Many older residents who have not adequately saved for retirement often need these types of jobs to make ends meet.

Another large portion of retail jobs is held by students. Retail is an ideal situation because these jobs require little or no prior experience. Also the jobs are available at hours that work around the school day and employers do not expect long-term commitments for these types of positions. These jobs can provide students the funds needed to help pay for school or can provide extra spending money.

Retail also provides second-job opportunities for many people. Often, people find that the compensation they receive from their primary job is not sufficient to live on or they may desire a special item or a vacation, which they cannot afford. In these cases, retail positions provide the second job or part-time work, which can provide the extra money. Many people take temporary jobs around the Christmas season to help pay for holiday gifts or other items.

Many of the new retail centers today are located in very exclusive areas and by having this mix in the workforce; it creates an overall better community dynamic and economy. A large majority of these big box and retail tenants in these types of areas pay higher wages than similar locally owned retailers.

In addition, when a retail center is going through the planning and construction phases, it will usually lead to the employment of people from that region. Construction professionals, architects, and engineers command a very high hourly rate. The average life span for these jobs is typically 6 months to 2 years – the span of the construction phase of the development. Construction jobs are normally full-time and, in 2004 the median hourly earnings of carpenters were \$16.78, the middle 50 percent earned between \$12.91 and \$22.62, and the lowest 10 percent earned less than \$10.36.<sup>91</sup> On average, construction jobs require experience and/or technical training in a specific area. For example, a carpenter learns his trade through formal and informal training programs with 3 to 4 years of both classroom and on-the-job training. Other skills required are manual dexterity, eye-hand coordination, physical fitness, and a good sense of balance.

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<sup>90</sup> Ibid.

<sup>91</sup> U.S. Department of Labor. <http://www.bls.gov/oco/ocos202.htm> (accessed April 2007).

The high level wages associated with construction, architecture, and engineering, and jobs may not directly impact the community where the retail center is going, but they will have a great impact on the economics of the region as a whole. As you start to look at the benefit of these projects to a region as a whole, you begin to see the trickle down effect.

### Movement of Retail Development in Northeast Ohio

In Northeast Ohio retail developments are leaving the city and development is occurring more rapidly in the first and second ring suburbs. As shopping centers are developed, the prime locations are found outside the city on the fringe. The shift in retailing location has left the city dismal.

General merchandise stores (SIC 5300) have grown considerably in the suburbs. In 1993, there were 43 establishments in the city of Cleveland and 209 in the suburbs.<sup>92</sup> By 2002 that number had increased by 2.3% in the City and 7.2% in the suburbs.<sup>93</sup> In this time period the number of jobs in the City declined 64% while they increased 11% in the suburbs.<sup>94</sup> It is evident that retailers are leaving the City at an alarming rate. Smaller local retailers are being forced out of business by the larger big box developments. The boom in suburban development has indirectly forced local city retailers to go dark. These events feed more suburban development.

Food stores (SIC 5400) have also been affected by the phenomena. From 1993 to 2002, the number of jobs declined 32% in the city and remained nearly constant (0.2%) in the suburbs.<sup>95</sup> Both the city and suburbs actually saw a decline in the number of establishments during this period, but the decline was greater in the city. The fact that employment in the city declined more rapidly than the number of establishments may be due to the fact that smaller food stores are more likely to survive in the city but larger and growing food stores are located in the suburbs. Grocery chains such as Heinen's and Zagara's have a large number of jobs and are generally located in the inner suburbs. This, however, becomes problematic. Many of the people who seek this type of employment live in the city, but the jobs are rapidly leaving the city. Although these jobs don't create wealth for a region, they can sustain a community and/or family.

This trend is similar in other areas of retail. Apparel and accessory stores (SIC 5600) in the city of Cleveland have also felt the effects the suburban shift. From 1993 to 2002 the number of jobs in the city declined 25% while jobs in the suburbs remained constant (0.4%).<sup>96</sup> Again, the number of establishments declined in both the city and suburbs but the decline was greater in the city. These figures can be explained by the abundance of dead retail strip malls in the city and inner-ring suburbs. Places like Euclid Square Mall and the closing of retailers in Tower City are prime examples.

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<sup>92</sup> State of the Cities Data Systems. <http://socds.huduser.org/>

<sup>93</sup> Ibid.

<sup>94</sup> Ibid.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid.

In miscellaneous retail (SIC 5900), the city experienced some job growth between 1993 and 2002 (14%) but the suburbs had a job increase of 28%.<sup>97</sup> The number of establishments during this time period increased slightly in the city (1.3%) and the suburbs (3.9%).<sup>98</sup>

Although the data collected range from 1993-2002, the patterns seem to be continuing. Retailers are continuing to develop in the suburban cities of Northeast Ohio. Every city and/or county in the region has or plans to equip itself with its own *Legacy Village*.

### The Effect of Big Box Retail on Economic Development

While retail is largely considered to have little impact on a region's economic development, big box retail can have a big impact in other ways. Cities across the United States use retail development as part of their larger overall economic development strategies. With increased tax revenues as the goal, many cities actively court large retail projects in hopes that the tax receipts will augment city coffers. Retail, depending on the size, shape, location and flavor, has varying effects on the economic health of a region.<sup>99</sup> Big box retail, though it is not always so cut and dry, oftentimes can have a detrimental effect on the economic health of a city.

Economic development can mean different things to different people and its definition is often stretched beyond its true meaning. Economic development is generally defined as the sustainable creation of wealth that works within the framework of community parameters to maximize the efficient and effective utilization of community resources for economic gain for the local population.<sup>100</sup> More simply, it is the process of creating wealth for as many people as possible within a defined area. When discussing retail, one city's economic development may be detrimental to the region's economy. Oftentimes, cities claim economic development when large retail centers break ground. This claim often fails to consider the larger economic development picture and may actually negatively affect the area's economy.

The economic health of individual cities within a region is never independent of one another. While one city may benefit by luring a large employer into its jurisdiction from a neighboring municipality, there is no sum gain for the entire region.

Economic development scholars often describe the effects of new investment in terms of the multiplier effect. This term refers to how many times dollars are re-circulated within a local economy before leaving through the purchase of an import.<sup>101</sup> Usually, the multiplier effect is used when discussing the effects of industrial production on a local economy. Unlike industry, earnings from retail businesses are not as beneficial to a community because they usually do not draw in money from outside the region. National chain store retailers can help to increase employment, however they generally remove more wealth from the local economy than they add. Therefore, there is not a sum gain from the development of additional retail establishments.

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<sup>97</sup> Ibid.

<sup>98</sup> Ibid.

<sup>99</sup> Texas Perspectives (2004). "Big Box Retail and Austin." (accessed April 18, 2007).

<sup>100</sup> [www.delawarecountybr.com/glossaryterms.htm](http://www.delawarecountybr.com/glossaryterms.htm) (accessed 4/18/2007).

<sup>101</sup> Truit, Tricia. "1." 11/04. <http://www.geo.coop/localmultipliereffect1104.htm> (accessed 4/15/2007).

Money spent at big box retailers, however, does have a different effect on the local economy than money spent at a locally-owned business. The profits generated by local businesses are often poured by into the community when the proprietor hires local printers, advertisers, attorneys, etc. to help him or her operate the business. Big box retailers are usually headquartered outside of the region, creating a net financial loss. One study shows that for every one dollar spent at a local retailer, forty-five cents is poured back into the economy.<sup>102</sup> The same study shows that only fifteen cents is returned to the local economy when a dollar is spent at a national chain store. Even though economic development scholars do not consider retail sales to be economic development, big box retailers do more damage by removing more dollars from the local economy when compared to local independent stores.

While most big box development tends to occur on the suburban fringes, the Steelyard Commons retail development in Cleveland has recently opened in the heart of an urban area. The merits of this controversial development have been actively debated in the region. As a requirement for permitting this development to go forward, the developer paid for a local retail impact study to be performed (mjb consulting). While studies show that the urban area of Cleveland is underserved by retail, a new big box center could have a detrimental effect on existing businesses.<sup>103</sup> The study predicted mixed results for local businesses.<sup>104</sup> In terms of economic development, Steelyard Commons would cause some local independent businesses to fail. Nearby supermarkets, low-priced apparel stores, and large chain drug stores will face the greatest risk by the big box tenants that will occupy Steelyards. Interestingly, other independent businesses may see increased profits due to the additional traffic that the new center would attract. These businesses are the ones that fill niche needs that the big boxes cannot supply. The positive effect that Steelyard may have is that it will increase the number of jobs available to Cleveland residents and it will improve the local tax base through increased income, sales and property taxes.

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<sup>102</sup> Ibid.

<sup>103</sup> Cleveland City Planning Commission, "Retail: goals, issues and policies."  
<http://planning.city.cleveland.oh.us/cwp/SummaryGoals.php?section=ret> (accessed 4/18/2007).

<sup>104</sup> Michael Berne. "Big Centers and Neighborhood Business Districts: Impact Analysis and Competitive Strategy." 11/21/2006, p.1-5.

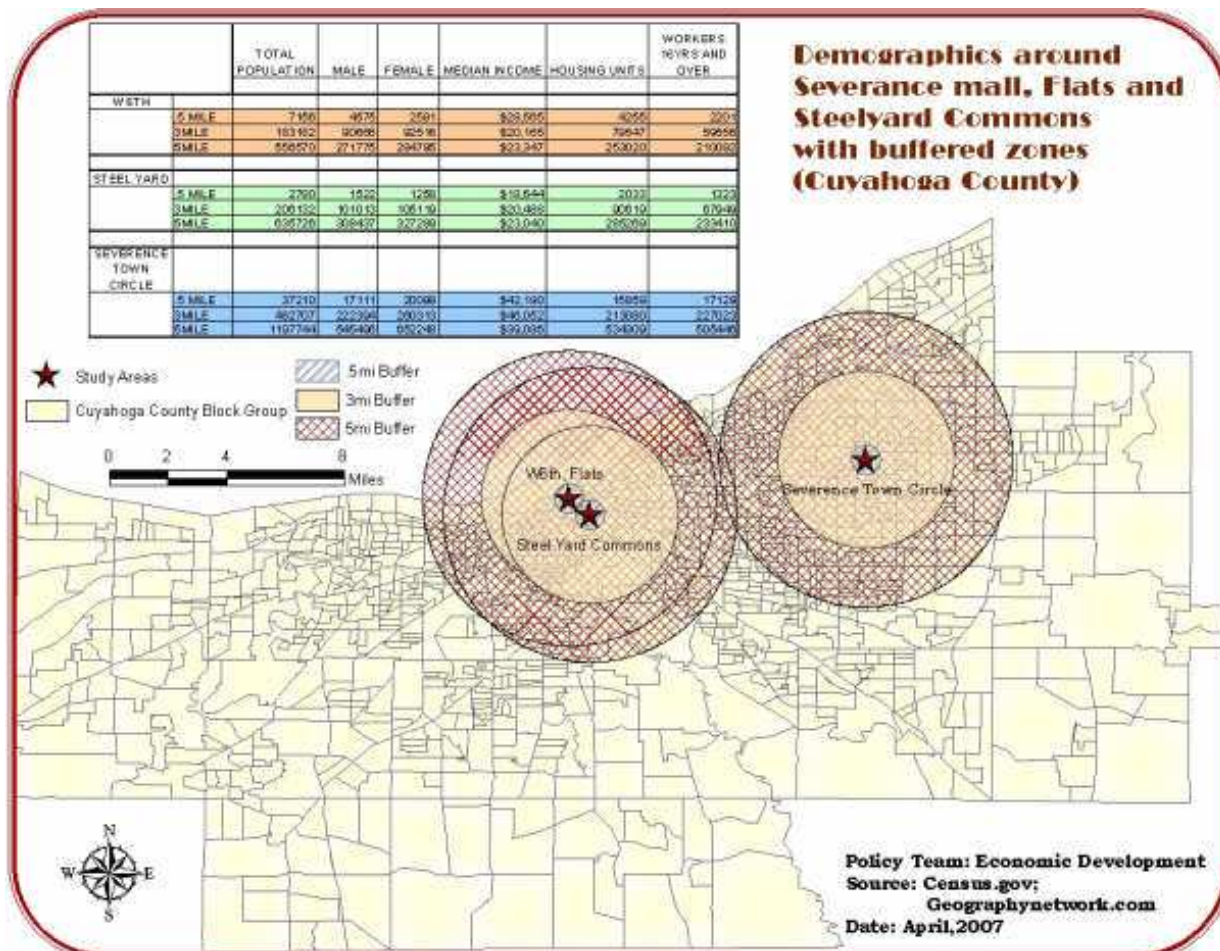


Figure 2.1

## Policy Recommendations

### Increasing the Economic Sustainability of Retail Development

Public officials, planners, economic development specialists, and other community leaders may have limited ability to impact the retail life cycle, but they can make decisions in recognition that a life cycle exists.

First, community leaders should make a realistic assessment of what retail development will bring to the community – this includes both the costs and benefits. Again, a strong commercial district is important but leaders should not buy into false promises or be unrealistic about the economic benefits of retail development.

Second, retail development should only be pursued as one element of an economic development strategy. Diversification is crucial – without a strong residential base (and in some cases, a strong industrial base), municipalities will have limited success in sustaining a strong commercial base. Retail *responds to* the market. Furthermore, when community leaders seek to attract retail, they should give careful consideration to type and mix of retail that is appropriate for their municipality based on what already exists in the community and surrounding

communities. Developers will do careful market research, but they will likely focus on relatively short-term profits, not the long-term economic vitality of a city.

Third, municipalities can take measures to prevent over-retailing by conducting a thorough assessment of what the market can support and by adopting policies that place controls on retail development. These policies may include revising the zoning code to prevent retail development in areas where other uses are more appropriate, limiting the size of individual retail establishments or shopping centers, or limiting the amount of retail that can be included in mixed-use projects.

Finally, when municipal leaders are in a position to negotiate with retail developers, they should consider potential re-use strategies if a big box store or shopping center goes dark. Although a city may have limited control over what private land owners do with their property, developers often receive financial incentives to build at a particular location. This provides an opportunity to build clawbacks into the agreement. If a retailer opts to close a store or a developer allows a shopping center to remain vacant after a specific period of time, a city can attempt to stipulate what happens to the property. It is often argued that demolition and site preparation costs are the greatest barriers to redevelopment.

Davidson et.al. stated that “retailing will continue to be an area of turbulence and uncertainty for some time to come.”<sup>105</sup> Sustainable development is defined as development that meets the needs of the current generations without compromising the ability of future generations to meet their own needs. Too often, retail development focuses only on current needs – and it takes less than a generation for the compromises to be felt.

#### Maximizing Economic Development Based on Retail Location Decisions

In utilizing retail as a tool to generate economic growth, careful consideration must be given as to the location for such retail projects. Placing retail in a specific, targeted area determines whether that retail will survive or fail. In modern society the old adage of “If you build it, they will come” is no longer a viable retail strategy. Instead, retailers must accommodate and locate near their respective target markets. Busy consumers currently demand retail that combines convenience and shopping selection. As such, the following policy recommendations should be considered in determining the proper location for retail:

Because retail often generates a net fiscal drain, a fiscal impact analysis should be employed to outline and forecast whether a location is ripe for retail. Fiscal impact analysis is a powerful tool for examining the costs and benefits of various land uses, for prioritizing projects and infrastructure investment, and for assessing development alternatives.<sup>106</sup> Fiscal impact analysis tests the annual costs and benefits of development on local government budgets.<sup>107</sup> In particular, the analysis weighs, compares, and attributes budgetary costs (provision of infrastructure, delivery of services, administration, etc.) with benefits (taxes, fees, etc.) for land

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<sup>105</sup> William R. Davidson, Albert D. Bates, and Stephen J. Bass. "The Retail Lifecycle." *Harvard Business Review* 54, no. (1976), p.96.

<sup>106</sup> Randall Gross. (2004). “Understanding the Fiscal Impacts of Land Use in Ohio.” *Regional Connections: A Growth Strategy for Central Ohio*. p.5.

<sup>107</sup> *Ibid.*, p.7.

use.<sup>108</sup> Examples of benefits include, but are not limited to, real and personal property taxes, fees, income taxes, and user charges. While examples of costs include, but are not limited to, infrastructure, police, sanitation, emergency medical services, fire, and administrative services.<sup>109</sup>

Location of retail centers should be planned in conjunction with the local government in that community. Private/public partnerships are encouraged whenever possible. Rather than place retail in the heart of a community, a balance should be reached whereby retail can exist in a high traffic count area that will not compromise the integrity of the community. For example, retail has conveniently congregated around the I-271/Chagrin interchange. Not only is that retail placement convenient and accessible, but that location does not displace the core of the community. Similarly, a new exit ramp was constructed at I-271 and Harvard Road in order to provide greater accessibility to the Harvard Park Shopping Center. By contrast, Severance Town Center is located in the heart of Cleveland Heights, Ohio. In fact, the shopping center is adjacent to Cleveland Heights City Hall and the Cleveland Heights Police Department. If Severance Town Center were to go dark, that entire core area of the city would be affected and the community at large would suffer as a result of that void. In the event that retail fails, having a location on the outskirts of a community provides an excellent opportunity for conversion or redevelopment into another viable industry alternative. Consequently, placement of retail should strike a balance in the community.

Location incentives are a necessity to enhance the success of a retail development. As illustrated by Steelyard Commons, very few areas have the ability to amass large land parcels for development. Thus, certain less developed areas have more of a competitive advantage over others. Similarly, newer cities have a competitive advantage over older cities in Northeast Ohio. Evaluating the political climate and partnership potential of local and county government is a must. In addition to financial incentives, communities should also provide incentives to place retail in certain, pre-determined areas (i.e., entertainment zones/districts). For instance, favorable zoning and relaxed restrictions may encourage retailers to voluntarily locate in specific areas. Finding a cooperative local government that will collaborate to secure incentives for development can be the difference between developmental success and failure.

Private/private partnerships should be promoted and encouraged for retail. In particular, various types of retail should continue to partner with other types of retail and entertainment. The synergy created by a mixture of food and beverage services with clothing, furniture, and other general retail creates an entire shopping/entertainment district and also enhances sustainability. Just as important is the marketing of entire areas as a whole district. Examples of this include the Coventry area in Cleveland Heights, Ohio and Cedar Center shopping plaza, located at the boarder of South Euclid and University Heights, Ohio.

#### Increasing the Employment and Wage Benefits of Retail Development

Increasing the wage benefits for a retail employee is a very tough policy to enact. Due to the inherent nature of retail positions, it is very difficult to change compensation strategies adopted by retail corporations. Retailers work like any other company, in that their primary

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<sup>108</sup> Ibid.

<sup>109</sup> Ibid.

objective is to maximize profits. Since the average retail employee does not need any prior experience or education, the labor pool for these positions is rather large and their earning potential is low. Many times the wages paid are not enough to live on. The communities in which these retailers are trying to locate must take the lead in requiring at the very minimum, a wage level that reflects living standards. The community has the upper hand in these types of situations. The municipality can block retailers and developers from coming into their communities. Communities should use their position as leverage, requiring that retailers or developers compensate retail employees by giving them livable wages and/or provide health benefits. Many retail employers including Starbucks provide tuition assistance programs and management training.

One of the latest initiatives that we see from some communities deals with accountable development. Communities can negotiate a Community Benefits Agreement (CBA) which affects big box retail stores. A CBA is a legally-enforceable contract between a private or public developer and a community coalition. The agreements typically obligate the affected developer to pay living wages and, in many cases, to establish hiring and living wage goals for tenant and contract employers at these sites. CBAs often include first source hiring agreements that require businesses and commercial interests to work with a specified labor market intermediary in order to fill specific types of job openings.

As it relates to economic development, the focus should be to retain existing retailers. Attracting new retailers will not enhance a city's or regions wealth. Retail in Northeast Ohio needs to be managed not expanded.

#### Increasing the Benefits and Mitigating the Negative Effects of Big Box Retail

Because big box retail does not increase economic development in a region unless it draws in money from outside the area, the region should look to attract retailers that will bring in consumers from the outside. The region should also look to foster the development of independent and local retailers over national chains due to the fact that they retain more dollars in the region. Other regions have incorporated strategies to improve the climate for small businesses.<sup>110</sup> Loan and grant programs are a popular strategy. As a city with limited resources, Cleveland could set up tax-incremental financing districts, perhaps in areas where new big box retail centers are proposed. This strategy would use the increased tax revenue from these developments and use it to support new local enterprises.

Cleveland could also seek to limit future big box developments as a strategy. As was attempted earlier, legislation could be passed that would limit the size of retail establishments that sell groceries.<sup>111</sup> This would eliminate the threat of Wal-Mart Supercenters and SuperTargets to area small businesses. Other strategies could include impact studies, impact fees and vacant box legislation that forces big box developers to put up a bond that would be used to pay for the demolition of the big box if it goes dark.

While other areas have provided examples that Cleveland could use to stem the development of big box centers, this region needs to address the issues that are particular to the region. The leaders of the seven-county region should meet to work towards a regional retail plan that

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<sup>110</sup> The Hometown Advantage, "1-3." <http://www.newrules.org/retailer/mir.html> (accessed 4/10/2007).

<sup>111</sup> Ibid.



prevents the over-saturation of big box retail and provides an equitable tax-sharing solution that serves to strengthen the region as opposed to creating a region that fights within itself for fool's gold.