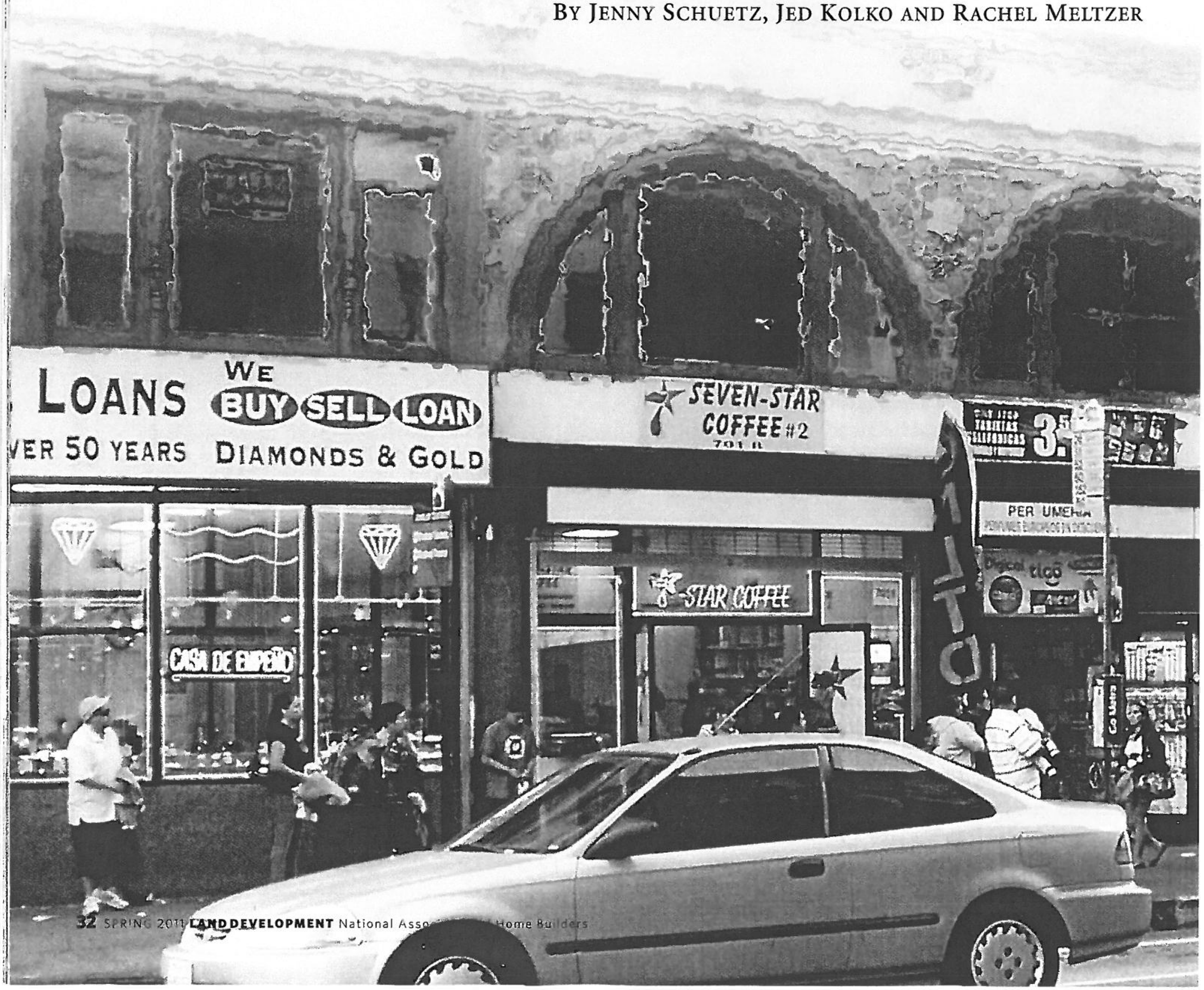
The MIRAGE and REALITY of RETAIL DESERTS

By Jenny Schuetz, Jed Kolko and Rachel Meltzer



AS POLICYMAKERS INCREASINGLY ASK DEVELOPERS to create mixed-use projects for our nation's cities and towns, and "New Urbanism" is touted as a planning goal, we need to understand what attracts and retains retailers, and whether low-income neighborhoods indeed have less access to a range of retail goods and services.

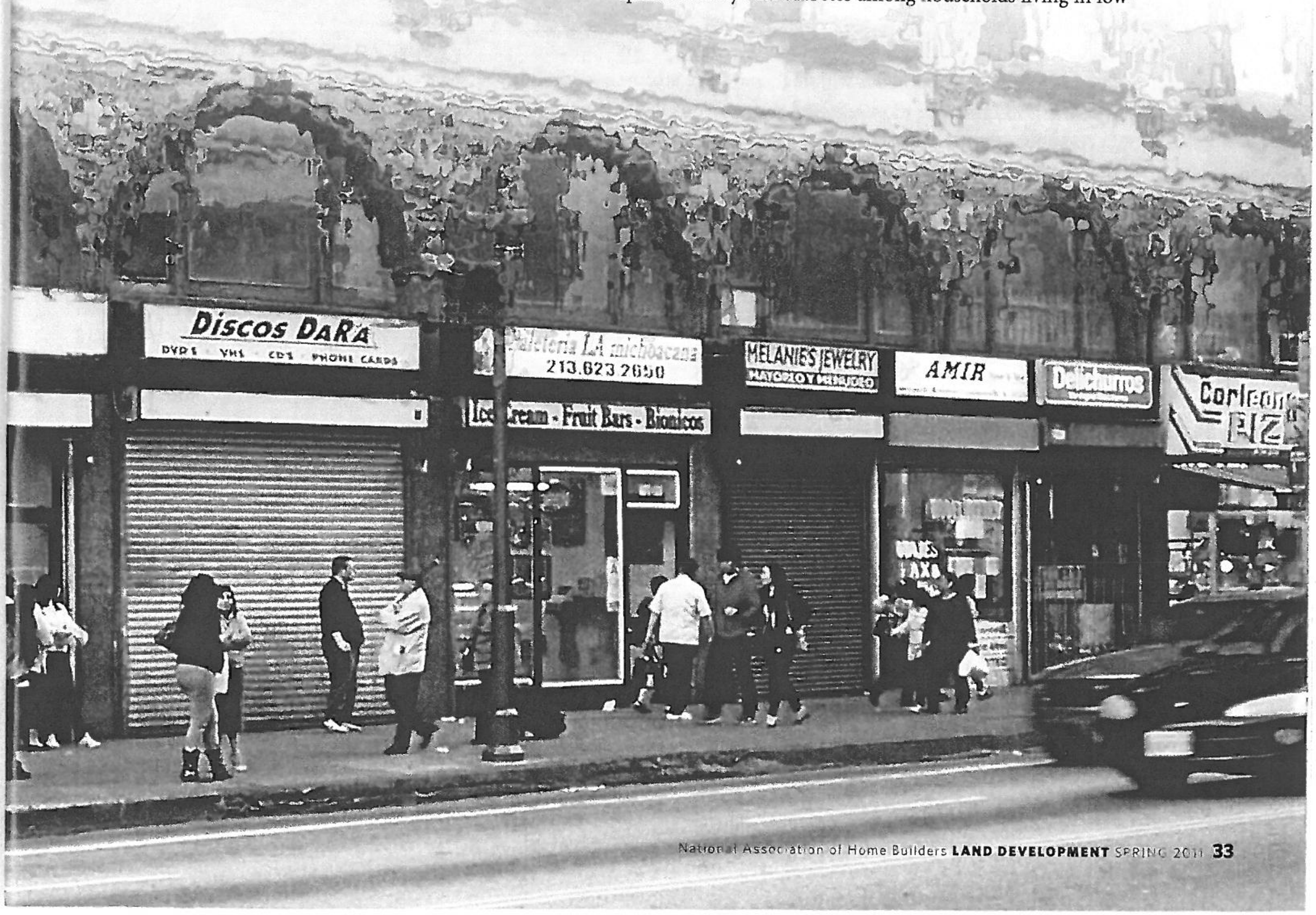
What Makes a Neighborhood?

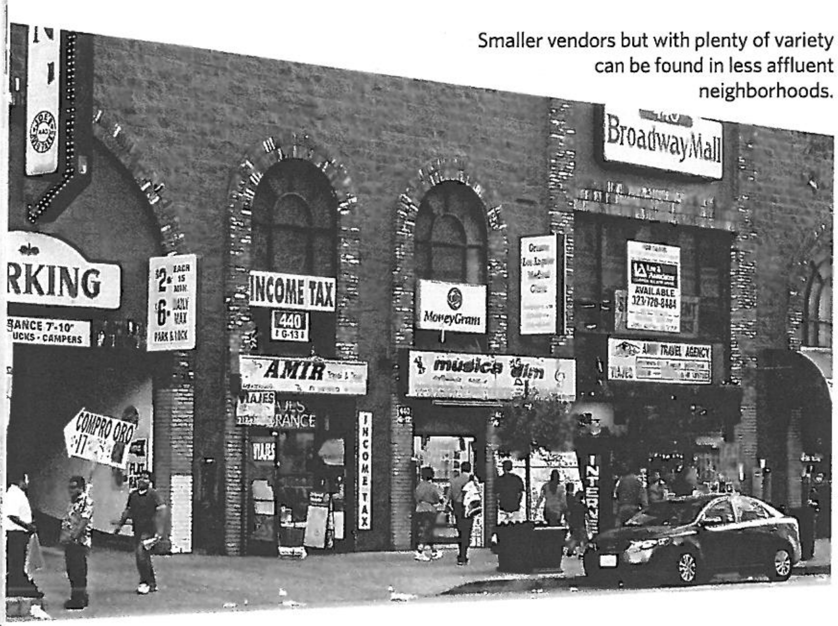
As Jane Jacobs vividly described in her classic, *Life and Death of Great American Cities*, a bustling city street corner offers a varied tableau of urban life. Shoppers flow out of local markets with arms full of groceries or emerge from the dry cleaners carrying plastic-wrapped bundles of clothes. Diners at the sidewalk tables of restaurants and coffee shops enjoy a view of passing pedestrians and the city bustle along with their meals. These actions woven together make up the fabric of urban neighborhoods—places where residents can live, work and play.

But not all neighborhoods are created equal.

High quality schools, clean and verdant parks, trendy restaurants and a variety of shops are amenities that many households seek out when choosing where to live, and these mixes are commonly found in high-income neighborhoods around the country. At the same time, affluent communities present an attractive location for retail establishments because of the higher levels of purchasing power and demand for a wide range of specialized goods and services. In fact, many wealthy urban locations have come to be associated with upscale shopping and entertainment such as Manhattan's Fifth Avenue, Chicago's Magnificent Mile and Beverly Hills's Rodeo Drive. Also, neighborhoods that have been gentrified in recent decades, such as Boston's South End and San Francisco's Mission District, now attract stores and restaurants that appeal to the newer, richer residents.

At the opposite end of the income spectrum are poor urban neighborhoods, which usually are ill-equipped to attract desired retail establishments. In fact, low-income neighborhoods are widely referred to as food or retail "deserts" not because they are devoid of all food or retail, but because they are populated with an overabundance of fast food restaurants and liquor marts, and lacking in the fresh produce and healthy choices that grocery stores provide. This deficiency is believed to contribute to widespread obesity and diabetes among households living in low-





Smaller vendors but with plenty of variety can be found in less affluent neighborhoods.

income neighborhoods. However, most studies of "food deserts" have been small scale, focusing on one or two neighborhoods in a single city, which makes it difficult to generalize the results.

A closer look, however, reveals the diversity of issues involved.

At First Glance

It may seem like an obvious fact that high-income neighborhoods will have more retail access. This is because high-income households have more disposable wealth to spend on goods and services, and neighborhoods with higher average income are desirable locations for most retailers. However, one factor that complicates matters is that commercial development may meet more resistance in richer neighborhoods. If proposed retail would cause nuisances, such as traffic, noise or safety concerns, higher income neighborhoods may resist, and those neighborhoods likely have the time and ability to block commercial development through zoning and political pressure. Ironically, low-income neighborhoods, while offering retailers less local purchasing power, may be more apt to welcome merchants and restaurants as a source of jobs, goods and services.

Additionally, the income of residents and nearby residents is only one of several factors that may affect the level and types of retail in a given neighborhood. Another major factor is the cost of operating retail establishments, which differs from high- to low-income neighborhoods and by the nature of neighborhood costs. For example, rents in affluent areas are likely to be higher. Conversely, security costs and employee turnover rates may be higher in low-income neighborhoods. Retailers are primarily motivated by profit maximization, which takes into account the net impact of all cost components. And even if higher incomes do not translate into greater numbers of purchases, such income usually attracts better quality products and services, which often translates to higher profit margins. Thus, higher neighborhood income should induce higher retail density of establishments, even in the face of potentially high location costs.

However, "retail" covers many types of stores. The relationship between neighborhood income and retail density may vary by type of good or service offered, ownership structure (such as whether it's a chain or independent) and establishment characteristics, such as physical size or quality of products. For instance, while high income households are likely to eat at restaurants more frequently or purchase more expensive clothing and home furnishings, it is unclear whether they purchase higher amounts of basic necessities, such as groceries and toiletries. Also, some retail establishments serve their immediate neighborhood and therefore depend on the purchasing power of nearby residents, while other retailers and restaurants might be destinations for people from throughout a city or beyond.

Even within product types, there is much variety and uncertainty. For example, many assume higher-income households favor sit-down restaurants to fast food and upscale grocery stores selling organic produce to general grocers. Anecdotal evidence also suggests that affluent households prefer to patronize locally owned stores over "Big Box" retailers and other national chains. These distinctions suggest that, although high-income neighborhoods may have a greater number of certain types of retail establishments (upscale retail goods), they may have fewer of other types (general retail establishments), which requires a more nuanced definition of "retail deserts."

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The definition of "desert" is challenged by the plentiful retail that urban areas often offer.

More affluent neighborhoods, such as Fifth Avenue in New York, tend to have more expensive shopping and dining, but less to offer people seeking everyday products and services.

SHUTTERSTOCK

A new research paper, "Is the 'Shop Around the Corner' a Luxury or a Nuisance? The Relationship Between Income and Neighborhood Retail Patterns," examines retail patterns in 6,700 neighborhoods throughout the 58 largest metropolitan areas in the United States.[1] The study used the National Establishment Time-Series (NETS) database, which is based on the Dun & Bradstreet business register and contains addresses, sizes, industrial categories, and firms' structures for nearly all business establishments in the U.S. from 1992 to 2006. The NETS dataset was combined with data on neighborhood income and other characteristics from the 1990 and 2000 decennial census for the new research paper.

The preliminary findings reveal several important trends that suggest "retail deserts" need further definition.

Some Results

The study found that, for the overall retail and food service sectors, employment density in a neighborhood increased with rising household income. Given that high-income households have more disposable income to spend on all retail goods and that eating at restaurants is more expensive than eating at home, it is not surprising that employment density in these sectors is positively correlated with neighborhood income.

On the other hand, the study found no correlation between neighborhood income and employment density in supermarkets and drugstores. This finding may be because both supermarkets and drugstores sell primarily daily necessity items, which are consumed by both low- and high-income residents. Still, the results contrast with a notion that low-income neighborhoods are largely bereft of grocery stores. A distinction between high- and low-income neighborhoods emerges, however, when establishments are classified as either part of a chain or independently owned: neighborhood income has a positive correlation with employment density for chain supermarkets and drugstores, but a negative correlation for independent stores of both types. The data does not reveal any information about the quality or price of products offered in those two types of stores, though it seems likely that small, independently owned grocery stores and drugstores offer a narrower range of products, or higher prices than large, chain counterparts.

For clothing stores and laundry services, the study found no significant correlation between income and employment density, both when looking at all firm types and when separating establishments by whether or not they are part of a chain. Again, this may reflect the fact that, like supermarkets and drugstores, clothing and laundry are necessities for households of all income levels. Although employment density in food service overall is positively correlated with neighborhood income, there is no significant difference between employment in chain versus independent restaurants. For clothing stores, laundry and food service, ownership structure may not be indicative of product quality or price. That is, chain clothing stores and restaurants exist to serve the high, middle and low market segments, as do independent stores in these categories (chain laundries are a small segment of the laundry market).

Across all retail categories, a strong positive correlation exists between neighborhood income and average *number* of employees per establishment. Together with the results on employment density, this implies that low-income neighborhoods actually have a larger number of establishments for some types of retail—for example, supermarkets, drugstores and clothing—but these establishments are much smaller than those in higher-income neighborhoods. Again, this result contrasts with the typical picture of "food deserts."

Although the study reveals some interesting and unexpected patterns, it also raises new questions in the discussion on "retail deserts."

First, the study brings up the question of why there is such a consistently strong relationship between income and establishment size. This contradicts the expectation that more affluent neighborhoods will block the development of larger, typically chain, establishments. Is this due to differences in operation costs of serving higher income neighborhoods or lower willingness by large firms (especially regional or national chains)

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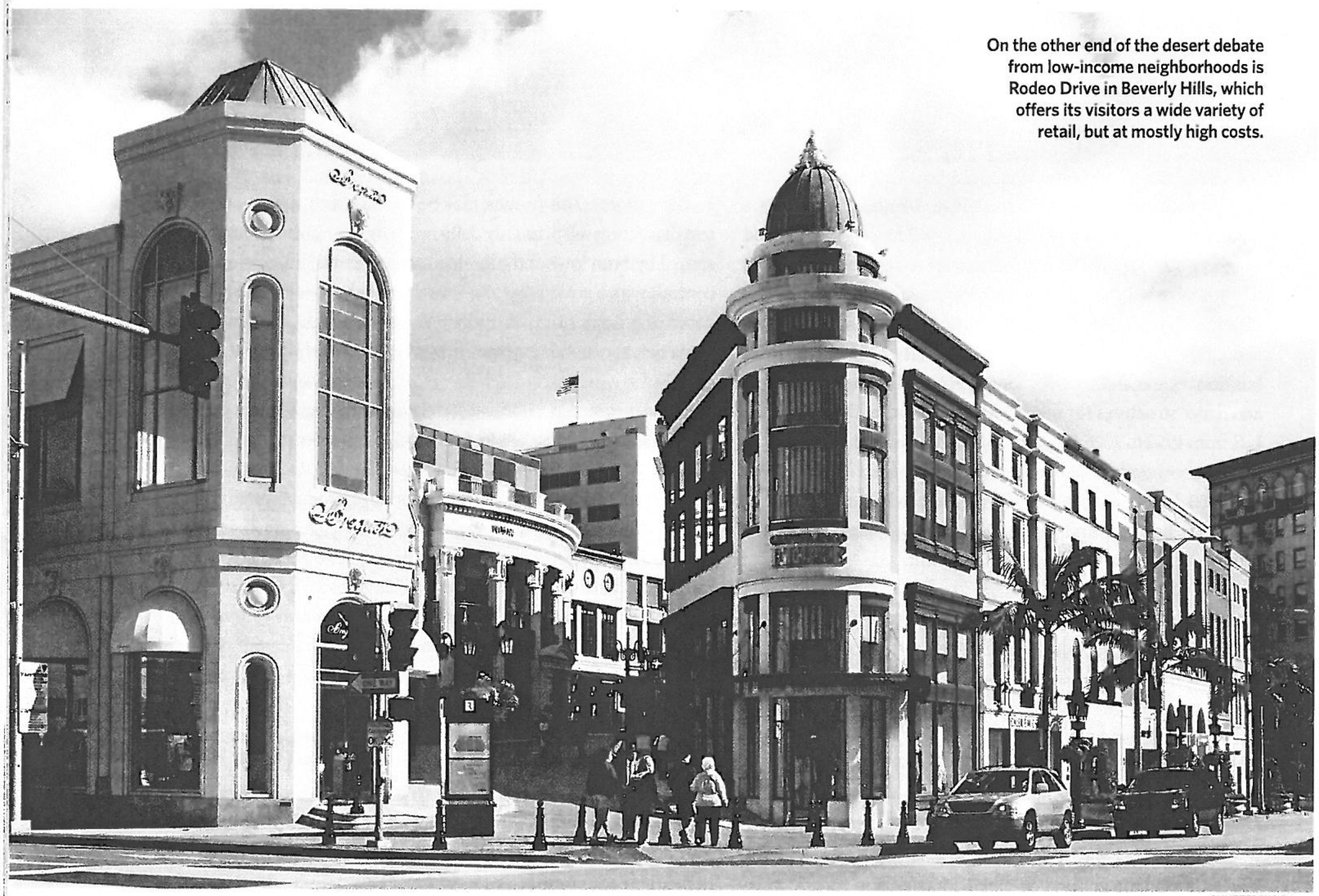

On the other end of the desert debate from low-income neighborhoods is Rodeo Drive in Beverly Hills, which offers its visitors a wide variety of retail, but at mostly high costs.

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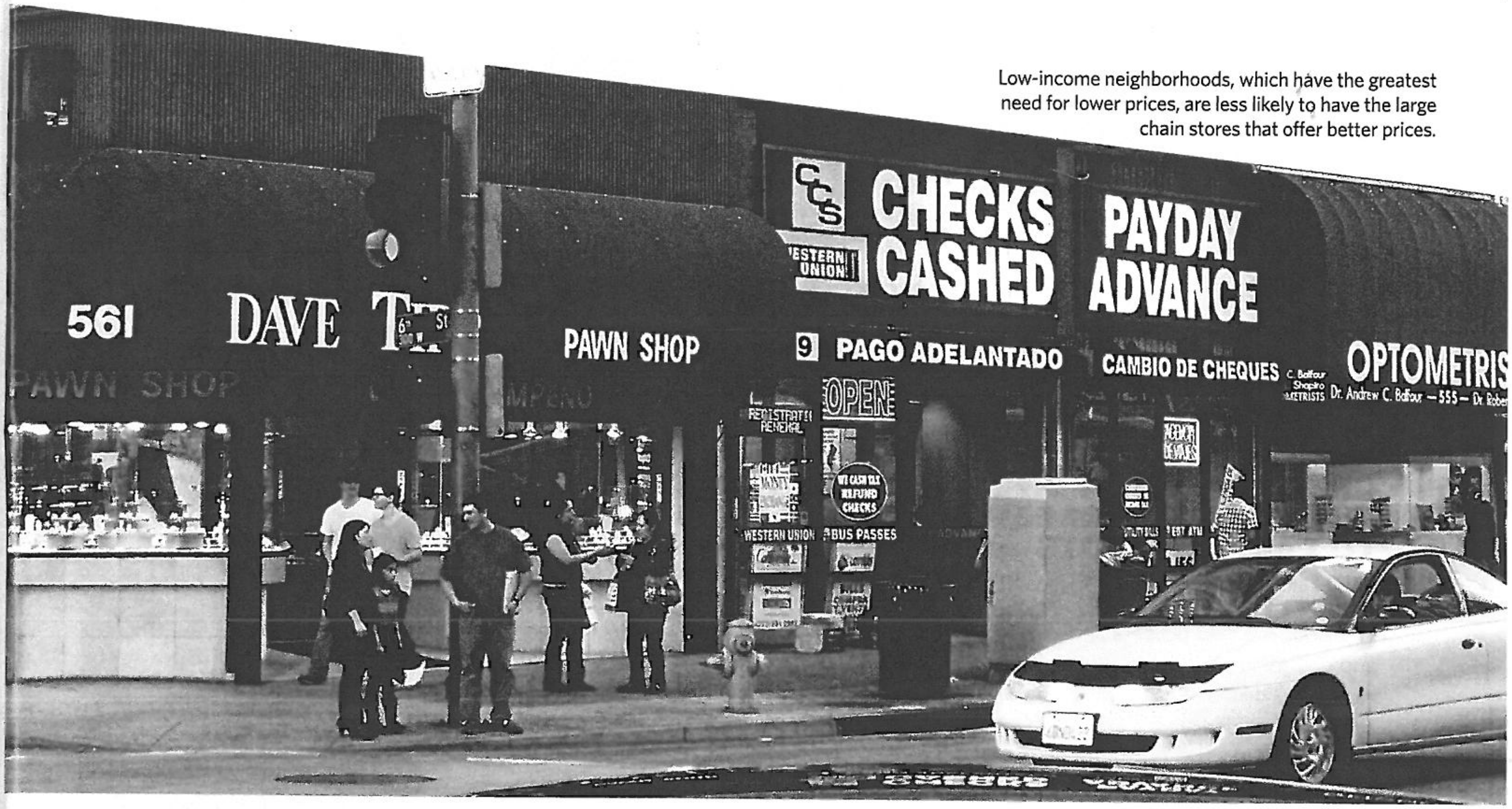

Low-income neighborhoods, which have the greatest need for lower prices, are less likely to have the large chain stores that offer better prices.

Food vendors offer their wares on the streets of Los Angeles

to enter markets perceived as more risky? And are more affluent residents actually lobbying for these larger retailers?

Low-income households seem to have the most to gain from lower prices, yet they are less likely to benefit from the economies of scale enjoyed by large chain stores. Is this because there are differences in household buying patterns between the different income levels that could explain the prevalence of smaller mom-and-pop stores in low-income neighborhoods? For example, perhaps low income households have less access to cars and are more dependent on smaller local stores, or have less storage space and are forced to make more frequent trips. Or is this disparity explained by relatively higher operations costs, such as security requirements, for chain retailers to locate in low-income neighborhoods? The current data do not allow for testing of such alternative explanations; we would need to know more about household buying patterns to answer this.

Overall, the study concludes that whether "retail deserts" exist depends largely on how they are defined. The study confirms there are large and significant disparities in retail access in poor neighborhoods—smaller supermarkets and drugstores with potentially less diverse products, less employment in retail overall and in food service. That being said, in general, the results did not match up with prior case study research that found low-income neighborhoods have fewer supermarkets and restaurants. And the gap in retail access between high- and low-income neighborhoods was far smaller when looking at retail types that serve basic necessities than those that rely on discretionary income.

Harlem's 125 Street may not resemble Fifth Avenue, and the stores along Broadway in downtown Los Angeles are not the same ones lining Rodeo Drive. But as any visitor walking along those streets can attest, none of these neighborhoods are barren of commercial activity, raising questions whether "retail desert" is the right label. LD

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[1] Schuetz, Jenny, Jed Kolko and Rachel Meltzer. Sept 23 2010. "Is the 'Shop Around the Corner' a Luxury or a Nuisance? The relationship between income and neighborhood retail patterns." http://ssrn.com/abstract=1681734.