Improving Developer-Municipal Planner Communication Through a Shared Language

A Municipal Planner's Guide to Shopping Centers and Retail Demand Terminology and Service Ratios

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Abstract: *The developer's basic objective is to build an economically viable project in the shortest possible time with the least restrictions. The municipal planner's goal is to build a whole community in accordance with the guidance of an Official Plan. These two goals may conflict initially but can usually be resolved when both parties understand each other's terminologies and goals. This article attempts to illuminate some of the differing terminologies and development issues.*

Measurements of Building Space

In the United States, Canada and the United Kingdom, the shopping center and retail sectors measure space in terms of square feet (sf), a unit of area used in the imperial and U.S. customary measurement system. Despite Canada's switch from the imperial to the metric system for many other measurements (e.g., road distances converted from miles to kilometers or liquid units changed from gallons to liters) in the 1970's, the nation's shopping centre industry continues to use the imperial system for counting retail space.

Canadian government bodies, from regions to cities and municipalities, measure buildings in square meters. One square meter (sq m) is equal to 10.76391 sf, usually abbreviated to 10.8 sf. Since these two measurements are frequently used independently, by different parties, for the same building, it is a good practice to use both in all documents dealing with a building.

Gross Leasable Area vs. Gross Building Area

Shopping center developers and owners measure their properties in terms of *Gross Leasable Area* (GLA), or "the total floor area designed for tenant occupancy and exclusive use, including basements, mezzanines and upper floors. It is measured from the center line of joint partitions and from outside wall faces."[1] Expressed in sf or sq m, GLA is the area for which tenants pay rent and the area that produces income for the tenant. Since it lends itself readily to measurement and comparison, GLA has been adopted by the shopping center industry as its standard for statistical comparisons.

Municipalities typically define retail buildings in terms of *Gross Building Area* (GBA) rather than GLA. This definition includes common areas, service areas, vertical penetration (ducts/elevator shafts) as well as utility and support areas necessary for the development but not generating any direct revenue for the owner. Enclosed parking areas are normally excluded. By definition, GBA is usually larger than GLA but it can be identical, particularly for open-air centers. There is little public information available on the relationship between GLA and GBA.

Based on my original research and the assistance of six Canadian shopping center developers and owners, I was able to assemble a representative sample of enclosed and open-air centers in Canada. Data were collected on 14 regional malls ranging in size from about 400,000 to 2.2 million sf. The "efficiency" ratio (i.e., GLA divided by GBA) ranged from 66.1% to 86.5%. The median value was 75.3%. Information was also obtained on nine open-air centers, such as power and lifestyle centers, ranging in size from about 74,000 sf to some 520,000 sf. The efficiency range was 84.9% to 100%. The median value was 95.9%.

Due to the potential significant difference between these two measurements, it is essential to define these terms when dealing with development application permits and zoning issues in order to avoid unnecessary complications.

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[1] *ICSC's Dictionary of Shopping Center Terms, Fourth Edition* (International Council of Shopping Centers, New York, 2012), p. 63.

Retail Service Ratios

Retail service ratios are frequently used to assess the degree of existing service levels, for comparison purposes or in order to test the need for additional space. Such ratios usually encompass all retail facilities found in typical shopping centers and retail areas and include associated service space, such as financial and personal services, as well as eating establishments.

Service ratios express the amount of retail and related service space available in a market area, usually as sf per capita. The existing ratio is calculated by dividing the inventory of such space by the population. ICSC estimates U.S. shopping center space at about 23.6 sf per capita in 2015. This measurement includes shopping centers of all sizes. The Canadian ratio is 16.5 sf per capita but it only includes shopping centers larger than 40,000 sf of GLA.[2] Thus, the two measurements are not directly comparable. Nevertheless, the Canadian ratio is likely below the U.S. ratio, even if an adjustment could be made.

In the U.S., total retail and service space is estimated at 54.7 sf per capita.[3] There is no similar information for the total Canadian market. However, based on my own research, typical ratios for municipalities and cities in total range between 30 and 40 sf per capita, in part reflecting the planning constraints applicable in most Canadian localities. The service ratio for small communities and suburban areas is lower and typically ranges between about 15 and 20 sf per capita because such localities cannot supply the full range of all store types, due to market size.

The establishment of service ratios for retail space is relatively simple, but that for service space depends on the definition employed. For example, if a medical/dental facility, an insurance office or a health club is located in a shopping center, it is included in the retail service category. However, if these uses are freestanding and outside established retail areas, they may not be included in the normal retail service category. Similar issues arise with the definition of office space and "other service" space. When conducting a market study, the inclusions or exclusions in the service category usually depend on a consultant's opinion.

Furthermore, there are retail establishments that are usually not part of the stated service ratios but are occasionally included in such ratios that are more closely defined as commercial rather than retail and service ratios. These include automobile dealerships, repair services, service stations, funeral parlors and a large range of office uses. For example, a market study for an Ontario municipality that included a larger-than-normal range of service use indicated a service ratio of 52 sf per capita whereas the "standard" definition for the same municipality would have shown about 30 sf per capita. Thus, in order to understand the service ratio, it is important to know the definition employed.

Employment-Related Retail Demand

Properties zoned for employment use are set aside for industrial and office employment, as well as warehousing and institutional use but not major retailing. Employment areas may allow retail associated with industrial use but usually to a maximum of 15% of a building's size. A suburban property zoned for retail use is more valuable than one zoned for employment use due to the difference in the potential income stream. This provides an incentive by an owner of an employment–zoned property to seek a total or partial rezoning from employment to retail use. The applicant for such a zoning change frequently argues that, for development purposes, the inclusion of a full assortment of retail is essential, to serve the local employment base and to attract employment development.

A retail market demand analysis is usually based on the resident population of a municipality. As such, it includes all retail expenditures made by employed persons of that municipality as well. The research question then must focus on the location of the employment. For example, in some suburban communities, more employed local residents may be working outside their municipality than non-resident employees working locally. Thus, there would be a net outflow of employee retail expenditures (e.g., those expenditures made by employees during the workday). The reverse could also be the case, or the inflow/outflow could be in balance. In any case, there is no additional "employment retail expenditure" that is over and above the total expenditure calculated for the market other than that related to the inflow/outflow issue.

There is some validity in the argument that an employment area could benefit by the availability of retail services and limited assortment of retail stores, particularly those servicing the local employment establishments (for instance, an office supply store). Financial services, such as bank branches, and eating facilities could also be appropriate. However, a full assortment of retail facilities would only be feasible if such

[2] Sf per capita figures are derived from the "Total Shopping Center GLA per 100 Inhabitants" line in "Country Fact Sheets" for the U.S. and Canada in ICSC's *QuickStats* portal, retrieved Aug. 15, 2016.

[3] In 2015, total shopping center GLA represented 43.0% of total retail GLA, according to the U.S. "Country Fact Sheet" in *QuickStats*.

a development could serve a nearby population base as well.

The question, then, must focus on the most appropriate location for such a retail destination, i.e. should it be located adjacent to or within a residential area or within an employment area? An employment area on its own cannot support a full array of retail facilities for a very simple reason: suburban employment areas do not generate evening and weekend business, so a comprehensive retail development in such areas is neither warranted nor economically feasible.

Retail Employment

Supporting a large range of employment opportunities is a high priority for all municipalities. Retail employment comprises a large proportion of total employment. For example, in the City of Toronto, retail employment was equal to 10.4% of all employment in 2014. Similarly for the York Region, in 2015, retail employment amounted to 12.0% of total employment, only slightly less than manufacturing employment at 15.0%. Nevertheless, retail employment is frequently looked upon as being of secondary importance because of its association with minimum pay and part-time work. For the City of Toronto, part-time workers accounted for about 23.2% of all employees in 2014. The proportion of part-time employees in the retail sector is significantly higher, partly because of the hours of operation of a retail business.

A retail business usually operates between 70 and 100 hours per week, compared with a normal working day for other sectors of 35 to 40 hours a week. In fact, some retail businesses are open 24 hours a day. This obviously means that employees must be present during all opening hours of the store. Since individual employees do not work from store opening to closing, they work in shifts or part time. Each business day requires more than one normal shift.

Retail employment is usually expressed as, say, 1 employee per 400 sf of retail space, for a typical shift, which would also be equal to 2.5 employees per 1,000 sf of store space, another measurement used frequently. However, because retail employment is largely part-time, such ratios tend to reflect full-time equivalent employment rather than the total. The actual number of employees engaged in the retail sector is higher. ICSC data regarding the size of shopping center facilities and associated employment indicates that retail employment in Canadian shopping centers averages 2.9 persons per 1,000 sf of GLA.[4]

Retail frequently offers young people their first work opportunity. Many employees prefer part-time work because it allows them time for other activities in their daily schedule. Furthermore, many people can only accept part-time work because of other commitments such as bringing up children or because they are students. Moreover, part-time work is welcomed by many persons retired from their regular job. Retail businesses also employ significant management personnel that would command a higher-than-basic earning level elsewhere.

Because of its size and significance in the local economy and the performance of a necessary function, retail employment should be more readily welcomed by a community rather than being criticized because it may be of lesser value than industrial or office employment.

E-Commerce

E-commerce will play an increasingly significant role in the planning for future retail space. Current Official Plans of cities, regions and municipalities occasionally mention e-commerce without, however, recognizing its likely impact on the demand for existing and future retail space. E-commerce is growing three to five times faster than traditional retail sales, although from a smaller base. This growth should nevertheless have a direct impact on the future demand for "bricks and mortar" retail space. It should affect particularly non-market dominant retail centers, where retailers should increasingly require less space to serve the same customer base. Omni-channel retail relies, in part, on purchase fulfillment from warehouses rather than stores. This reduces the need for storage space within a store, thus permitting a smaller store size. Furthermore, e-commerce could eliminate the need for some stores altogether. This will create vacancies in some shopping centers, not all of which will be filled by other stores. The share of stores exclusively selling goods, or pure retail, may decline in such centers and may be replaced by retail-oriented service tenants and other complementary land uses, particularly residential. Hence, the redevelopment of existing centers, which may also be facilitated by increasing land values, will become a development opportunity for most municipalities.

It should be stressed that e-commerce will not eliminate the need for well-planned and well-tenanted retail centers. It may, in the short run, reduce the need for such space. Based on empirical consumer research conducted by our firm, estimated online purchases by Canadian consumers were at a minimum of 5.0% of retail sales in 2015. Taken in isolation, if a municipality had an

[4] Derived from dividing 2015 data for shopping center-inclined employment (1,688,306) by total GLA (588.6 million sf), taken from ICSC's Country Fact Sheet for Canada, current as of Aug. 31, 2016.

assumed retail inventory of, say, 40 sf per capita before e-commerce became a factor, then 2.0 sf per capita (5% of 40) of retail space would now have been replaced by e-commerce, resulting in a current inventory of 38 sf per capita. Should, for example, e-commerce grow by another 5.0% in the future, for a total of 10.0%, then an additional 1.9 (5.0% of 38) sf per capita of retail space could become redundant. The change in the need for retail space can represent an excellent opportunity for redevelopment, emphasizing mixed-use and retail related service space as well as other complementary land uses.

However, retailing is in the midst of a period of dynamic change. At this point it is difficult to tell exactly how existing brick-and-mortar retailers will adjust their supply chains to meet the needs of future consumers. Nor is it clear to what extent traditionally online-only retailers will continue to open physical locations that will counteract the trends noted above.

Conclusion

A shared language between builders and planners, as well as a comprehensive understanding of the current metrics applicable to the shopping center and retail industry, can go a long way toward conflict resolution. Understanding each other's goals and constraints can lead to a more mutually satisfying outcome. This paper highlights a few areas that municipal planners must frequently address, without necessarily having the day-to-day knowledge of factors impacting the retail industry.

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