Development in Underserved Retail Markets

A summary of a discussion of the challenges and recommendations for improving the process of retail development in underserved, urban markets.

Co-written by
International Council of Shopping Centers
and
Business for Social Responsibility
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The International Council of Shopping Centers (ICSC) is the trade association for retail real estate. Founded in 1957, its now more than 40,000 members in the U.S., Canada, and more than 75 other countries include owners, developers, retailers, lenders, and other professionals as well as academics and public officials. ICSC’s Alliance Program is an effort dedicated to fostering relationships and strategic alliances between the public and private sector. These critical partnerships assure that growth and prosperity are sustained in our communities. In this effort, local and regional meetings and deal making sessions serve as the forum to introduce the intricacies of the shopping center industry to representatives of state and local governments and community-based organizations. In addition, these forums provide the public sector with the opportunity to share the complexities and issues that face local communities today.

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Development in Underserved Retail Markets

A summary of a discussion of the challenges and recommendations for improving the process of retail development in underserved, urban markets

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Lack of retailers is a critical issue for many communities across the nation, particularly in inner-cities. At least three major studies in the last few years concluded that urban markets remain underserved because retailers misunderstand the potential of these markets.

The International Council of Shopping Centers (ICSC) and Business for Social Responsibility (BSR) both began independently looking at the issue in the late 1990’s. ICSC through its Alliance Program tried to respond to comments from local governments such as ‘why are we having so much trouble getting retailers to come to our community?’ BSR began an initiative in 1999 as a response to retailers who wanted to access the untapped opportunities in America’s underserved urban markets. Both ICSC and BSR learned from all of the parties involved in retail development that while a lack of accurate market information was an important problem, the explanation of why inner-city locations are underserved goes far beyond that single issue. For example, BSR learned, among other things, that retailers often face significant challenges working with local governments in the siting and development process.

The two organizations developed a unique partnership to stimulate a dialogue between all retail development process participants. The goal of the partnership is to address the challenges and obstacles more comprehensively and ultimately facilitate development in underserved markets.

Background on Survey and Results

It was against this backdrop that ICSC and BSR undertook the first step in this effort to stimulate dialogue—a survey to determine the primary challenges retailers face when locating in underserved urban markets and what changes or incentives would facilitate the development process. For the purpose of the survey, we defined these markets as low-income urban communities that have inadequate access to products and services.

The survey found that eleven factors are regarded by more than 80% of the respondents as significant obstacles to entry into underserved markets (i.e., factors rated “very significant” or “somewhat significant”). These factors are, in descending order of importance:

1. Crime/perceived crime
2. Insufficient concentration of the retailer’s target customer
3. Lack of consumer purchasing power for the retailer’s product
4. Potential shrinkage
5. Rent
6. Build out/rehabilitation costs
7. Site identification
8. Inadequate parking
9. Higher operating costs
10. Construction and development costs
11. Lack of amenities to attract out-of-neighborhood employees

A complete copy of the survey and results is attached as Appendix A.
Introduction

The results of the underserved markets survey clearly indicate that there is a far broader range of issues than just consumer spending power that determine whether retailers locate stores in underserved markets. Post survey, ICSC and BSR members recognized that it was not enough to simply identify the issues and concerns that inhibit development in underserved urban markets. As an industry, we needed to take a more pro-active, definitive approach to address the issues.

In this spirit, the survey results were used to stimulate a broader conversation about what can be done to address the challenges and barriers identified. A select group of public officials, developers, brokers and retailers was convened to discuss these survey results in depth, and compile tangible recommendations to address the concerns. This document tries to capture the spirit of discussions that were held.

ICSC and BSR both recognize that this document is a summary of the discussions of that forum and not necessarily an all-inclusive list of recommendations. There are many cities, local communities, retailers, and developers already successfully working in underserved markets with a broad range of expertise, experience, and knowledge on this subject that were not represented at the meeting.

We also want to emphasize that we are in no way trying to simplify the issue or lay blame with any one stakeholder or interest group. It is our hope that the survey and recommendations developed at the forum will provoke thought, stimulate dialogue as well as serve as a catalyst in the formation of new partnerships and relationships, information sharing, and educational sessions. Our end goal is to help promote retail development in underserved markets.

Summary of Forum Dialogue and Recommendations

The participants in the discussion concurred that development is a complicated process and retailers alone are not responsible for markets remaining underserved. Participants agreed that, while there are many important parties involved in the development process, such as brokers and financial intermediaries, there are four critical interest groups that can work individually and in partnership to overcome the challenges and obstacles to development in underserved markets. The four key interest groups are:

- The Community (residents, community-based organizations)
- The Government (elected officials and professional staff)
- Developers
- Retailers

All affected parties must implement a very comprehensive plan, to ensure the effective execution of a very positive, safe, and successful entry into underserved markets.

Ultimately, it is retailers in partnership with developers that drive development. Therefore, it is important for the public officials and community leaders to understand the “cycle” of economic development in general and the retail development process specifically in order to have realistic expectations for development and to work productively with developers to meet the development objectives of the community. For example, even if all the identified challenges and issues are addressed, in most cases there will still be a necessary progression to the retail
development of underserved markets - often beginning with fast food restaurants and drug stores, progressing to grocery stores and discount apparel and shoes and eventually ending with specialty retailers and higher priced concepts.

In general, the participants in this discussion agreed on the following key points that affect retail development in underserved markets:

- Crime is a significant issue. However, in some cases, it is the perception of crime, rather than actual crime statistics, which influence development decisions.
- It is important for retailers and developers to develop good early working relationships with the community and public safety officials.
- With increasing diversity across America, there was a consensus that many retailers’ traditional target customer profile may not represent the more diverse marketplace of today and the future.
- Traditional market data and analysis may be inaccurate or misrepresent the economic potential and purchasing power of underserved markets.
- Many municipalities would benefit from more targeted marketing and communications strategies.
- It can take longer and may be more complicated to develop in an urban area, which translates to higher costs. Reducing the cost and time it takes to develop can help promote more development in underserved markets.
- Cost of site preparedness and rehabilitation can be more expensive in these markets.
- While urban markets are generally more pedestrian friendly, the reality is people still need cars/parking or access to transportation.
- Operating costs are often higher in urban, underserved markets, but this can be offset by the higher sales potential of these markets.
- Accessibility to public transportation, and improved safety and security can help recruit and retain employees.
- Government tax incentive programs can assist in reduction of operating costs.

About This Document

Rather than address each challenge/survey response individually, the recommendations are divided into four major areas: A) Public Safety; B) Market Identification/Site Selection Issues; C) Development and Construction Issues; and D) Retailers’ Operational Issues. Each section highlights suggestions or steps the four interest groups (communities, local governments, developers, retailers) can use to address the issues, help promote a better climate for development, and bring needed services to underserved communities.
A) PUBLIC SAFETY

Survey results indicated, and discussions during the issues forum supported, that crime and perceived crime are very high on the list of challenges and/or concerns facing retailers and developers when considering entry into underserved markets. Participants generally agreed, however, that often it is past history and/or the perception of crime rather than actual current crime statistics that motivate or influence development decisions. The group agreed that local governments and community groups must face this issue head on in their efforts to attract retailers and developers to create new businesses within their specific market area.

Participants agreed that this issue is best addressed when local governments and community groups work in concert with each other. One suggestion was the formulation of a strategic approach perhaps through the development of a pre-packaged crime initiative. This program could be designed to address both the developer and retailer concerns for safety of their employees, potential customers, and community residents.

In addition, retailers and developers must accept some measure of responsibility for developing good early working relationships with community (neighborhood groups, community leadership) and public safety officials (local government).

Suggestions to Four Critical Interest Groups

The forum participants identified several recommendations that could be considered by each of the four interest groups to offset the effects of crime or perceived crime against the benefits of entry into underserved markets. These are as follows:

**Community**

- **Partner with local government to develop strategies to address crime issues**—Community groups can work with local police to develop safety, security, and prevention strategies that benefit local residents as well as businesses. Individuals in the community can also become involved in crime prevention programs such as Neighborhood Watch. Support the local government with their marketing initiatives and efforts to overcome perceptions of crime.

- **Involve police, and police leadership in developing patrol patterns, based on store openings and operating hours.** New stores can be “challenged” by security issues in the beginning. Local police may need to have a stronger presence in the very beginning.

- **Encourage support for new retail ventures in the community.**

**Government**

- **Careful evaluation of crime statistics**—Local governments should carefully evaluate crime statistic reports on a community or market basis. When statistics do not support public perception, the local government could proactively present that data to potential developers or retailers. When statistics indicate potential problems with crime in underserved markets, then governments should work to develop initiatives and strategies to reduce crime in those areas and market those initiatives or efforts to potential developers and retailers.

**Section Highlights:**

- Crime is a significant issue. However, in some cases, it is the perception of crime, rather than actual crime statistics, which influence development decisions.
- It is important for retailers and developers to develop good early working relationships with the community and public safety officials.
• **Develop proactive prevention strategies**—Local governments should identify potential development locations and prepare a strategy to address crime and safety concerns up front before development is begun.

• **Develop marketing and communication strategies to address perceptions of crime**—Out of town brokers or developers may be unfamiliar with a community and their decisions may be influenced by past negative media reports about a neighborhood. Local governments can actively market their communities, challenge media on fairness in reporting and encourage media to highlight the positive attributes of urban communities, rather than continuing to focus on past historical crime reporting.

• **Focus on public access to sites**—Cities can work with local community and transportation planners to create effective public transportation routes and transfer stations that increase safety and reduce the potential for crime.

• **Collaborate with local police and police leadership**—Police need to be more responsive to retail requests. Cities could facilitate the placement of police sub-stations in shopping centers and establish or modify existing patrol patterns.

• **Evaluate the impact of design requirements upon safety**—Cities may need to adjust lighting, design and accessibility requirements in ways that support safety. For example, parking may need to be convenient to the front door as opposed to often more desirable remote parking or rear parking.

**Developers**

• **Modify parking**—In areas where there is a perception of high crime, developers may need to create parking that is convenient to the front door, as opposed to removed parking. They also need to provide visible, well-lit parking lots.

• **Consider installing appropriate fencing**—Developers may want to consider installing fencing as a strategy to promote safety and security. For example, some developments have found fencing in front of the stores to be a successful deterrent, while others have installed fencing along the entire perimeter. However, it is important to be aware that fencing can be a sensitive issue in many communities and developers who want to create successful shopping centers need to be sensitive to the community’s viewpoint.

• **Incorporate security considerations into facility design**—Developers need to create visibility and develop structures that protect storefronts. They should install high-intensity lighting in the front and back of the shopping center store.

• **Establish early relationships with law enforcement**—Developers need to establish community and local law enforcement relationships as soon as a site is identified or construction is started, well before any stores are open.

• **Provide financial assistance to retailers**—Developers may need to make allowances in common area maintenance (CAM) costs for retailers to offset security costs and create a visible security presence.

**Retailers**

• **Create a close working partnership with community and police to address all community concerns that effect store presence**—Retailers also need to develop early relationships (before store opening) with local police department and formulate joint partnerships with police and community leaders to address issues that might lead to potential crime.
• **Share success stories**—Retailers need to be willing to share successful strategies that will help other companies learn how to enter and operate in underserved markets successfully.

• **Adapt security strategies for urban markets**—Retailers should hire and train members of management from local community to complement existing management staff. They should develop a management-training program that emphasizes a personalized, hands on approach of doing business in urban markets. Retailers may need to make modifications that include design, security training, management selection, (do managers represent the community) and hiring practices (from within the community) to facilitate success in these markets. Internal loss prevention programs must be non-threatening, include increased internal security, increased security training, and customer interaction.

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**Example 1**

**Incorporating Security Into Facility Design**

San Diego, the City Heights Retail Village, a 110,000 sq. ft. neighborhood shopping center anchored by an Albertsons supermarket, was developed as the last phase of a master redevelopment plan spearheaded by the City. The first component of that plan was the development of a police substation one block away from the shopping center site. The shopping center project was developed by a joint venture comprised of CityLink Investment Corp. and The Retail Initiative, Inc. The Mid-City Police Sub-Station and Community Gymnasium opened in 1996 and reportedly helped reduce the crime rate in the City Heights neighborhood by 39% in the 4 years subsequent to its opening. It was the first component of a master redevelopment plan that included a new public library, an elementary school, a community college, and the shopping center. The sub-station includes a high-ceiling gym and 2,850 sq. ft. second story which is used as a meeting place for community activities. The sub-station is not part of the shopping center site, but is across the street within the immediate vicinity.

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**Example 2**

**Incorporating Police Presence**

Westland Plaza in Jackson, Mississippi was the state’s first modern-style shopping center. However, by the early 1990s time and changes in area demographics led to a significant decline of the center. According to Harold Lathon, Director of Economic Development for the City of Jackson at the time, “The center had deteriorated to the point where it was not only unsightly but crime was making it a real problem.” Westland Plaza Associates acquired the center in 1986. In 1996, they brought in Stirling Properties to take over the leasing and management with a mandate to enhance value for the owners and restore Westland Plaza as a neighborhood center. Stirling took measures to counteract possible crime and vandalism by requesting a police presence in the center. As a result, a 2,500 square-foot Neighborhood Enforcement Team (NET) facility, staffed by the Jackson Police Department, was opened. In addition to the NET facility, Stirling Properties performed a complete overhaul of the shopping center including a new parking lot, high powered parking lot lights to assist in the deterrence of crime and to promote safety, new facades, and new pylons. There has been a significant drop in reported crime from 1999 to 2002. During the redevelopment, the center retained all existing tenants, renewing and renegotiating their leases and having them revamp their tenant spaces and signage. Improvements at Westland Plaza have significantly strengthened the center with 84% of retail space leased by the end of 2000 and tenants reporting increased sales and increased foot traffic. This center has once again become the definition of a neighborhood center with a food store, post office, and the daily neighborhood conveniences along with about 28 soft good apparel related stores.
Our survey of retailers indicated that many retailers believe that underserved markets do not have enough of their target customers or have enough purchasing power. The consensus from the discussion was retailers and developers need to look at different models and types of market data that more accurately capture the potential of urban, underserved markets. Participants acknowledged that a lack of solid market data has been a barrier for many corporations entering these markets. Traditional market analysis (e.g. using indicators such as household income to project sales) has been proven inadequate. For example reported income is often underestimated for low-income people, as it does not factor in the cash economy, which is a significant and growing source of income. New and innovative market indicators (concentrated buying power, spending patterns) combined with information from other businesses operating in these communities can provide a more accurate picture of the potential opportunities.

In addition to identifying customers and measuring purchasing power, survey respondents considered identifying and locating adequate sites a significant challenge. The group forum agreed that lack of experience in urban markets, fewer location options, and smaller parcel sizes can make identifying an adequate site in many of these markets difficult for both retailers and developers.

Suggestions to Four Critical Interest Groups

Forum participants had the following suggestions for ways the four interest groups can address market identification and site selection challenges in underserved markets:

**Community**

- **Help with market preparation**—The community can work to improve the visual standards, presentation and quality of local businesses and retailers. In addition, local community development corporations (CDCs) and faith-based organizations can be valuable partners in site preparation and development.

**Government**

- **Provide quality data on the potential of the market**—Cities need to be aware that traditional demographic data is not always accurate and timely and needs to be supplemented and enhanced to reflect the true make-up of a community and available customer base, such as different spending habits and buying patterns. Many local governments can take a more proactive approach to improve the marketing of their constituencies to potential retailers and developers. This includes providing better and more customized data on high potential local markets, focusing on site opportunities in the market area, and community buying potential.

- **Identify sites ready for development**—Local governments can highlight sites to retailers and developers and assemble land necessary for development.

- **Create foot traffic**—To create traffic in these markets and increase the potential customer base, government and developers can collaborate to locate services such as bill-paying centers featuring

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**Section Highlights:**

- With increasing diversity across America, there was a consensus that many retailers’ traditional target customer profile may not represent the more diverse marketplace of today and the future.
- Traditional market data and analysis may not adequately measure the economic potential and purchasing power of underserved markets.
- Many municipalities would benefit from more targeted marketing and communications strategies.
utility companies, the department of motor vehicles, cable companies, postal services, etc. However, communities should designate sites for government use which are adjacent or near to sites for retail development, not on the best sites for retail development.

- **Market and communicate local opportunities**—There are many steps cities can take to market and communicate development opportunities. They can facilitate or conduct tours of urban markets, or collaborate with local real estate professionals to bring retailers and developers to available sites. Websites are an increasingly important means of communication for marketing inner-city retail sites. Creating comprehensive marketing strategies can also help make urban neighborhoods more competitive.

- **Help develop and recruit franchisees**—Cities should develop programs that can help retailers identify potential local franchisees and facilitate access to capital and technical assistance for franchisees. In addition cities may need to think of more aggressive tactics such as absorbing and reformatting retail concepts that have become outdated (e.g. lot depths may need to be redesigned and deepened in many traditional business corridors). This will need to be preceded by aggressive development/business planning.

**Developers**

- **Don’t over-simplify markets**—Part of the challenge of developing in underserved markets is they are not homogeneous communities that lend themselves to “cookie-cutter” type developments. There is a greater need to consider natural physical barriers to neighborhoods (interstates, public transportation), as well as local traffic patterns when conducting market analysis.

- **Customize market analysis**—Data analysis has to incorporate the most current and available statistical data. Developers may need more sophisticated market analysis that captures the potential of underserved markets such as different spending habits and buying patterns.

- **Develop relationship with local real estate professionals**—Local brokers and real estate professionals are familiar with underserved markets and able to identify potential sites and development opportunities.

**Retailers**

- **Bridge the information gap**—Much of market analysis, such as standard ring analysis, can underestimate these markets. Retailers need to consider the difference in spending habits, purchasing power and population density in urban markets. For example, customers in underserved markets may spend more on apparel (including brand names) than their counterparts in other markets. Companies may need to create “mini markets” or a smaller focus to better capture market opportunities.

- **Form strategic alliances with other retailers**—Companies who want to enter these markets can be more successful through forming strategic alliances with companies who have experience in underserved markets.

- **Adjust formats**—Some retailers have found that traditional suburban prototype stores are not always successful in urban markets. Retailers should evaluate the creation of smaller prototypes or multi-story formats to increase the potential for financial success.

- **Re-evaluate target customer**—With changing demographics in America, retailers may need to re-evaluate or expand the profile of their target customer.
• **Consider outside operators**—Many retailers are leaning more heavily on the franchise system as a way to enter underserved markets. In some instances, the new franchisee may not be familiar with urban markets, and retailers may need to offer technical assistance and other types of support to them. Retailers can also develop partnerships with other organizations to help identify franchisees in local communities and offer support through financing packages and training.

• **Develop relationship with local real estate professionals**—Local brokers and real estate professionals are familiar with underserved markets and able to identify potential sites and development opportunities.

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### Example 1

**Targeted Marketing and Communication**

Retail Chicago is an aggressive outreach program established by Chicago’s Mayor Richard M. Daley to work with retailers, brokers and developers and introduce them to the city’s underserved, but densely populated communities. The program serves as a “One Stop Shop” to address the retail development sectors questions regarding TIF programs, tax incentives, Enterprise and Empowerment Zone funding, and expedite the retailer’s entry into the city. Retail Chicago’s goal is accomplished through one-on-one meetings with developers and retailers; attendance at Alliance and other local ICSC programs; taking elected city officials to ICSC’s annual Spring Convention where the elected officials and staff have pre-arranged appointments with retailers; maintaining a website with current information on Retail Chicago and Department of Planning and Development programs, and conducting Ward tours with the elected officials and representatives of the retail industry to communicate mid- and long-term development goals for each community. Retail Chicago also maintains a current data base of active retailers, brokers and developers, has a quarterly newsletter and has on-going contact with over 120 community agencies in Chicago (Chamber of Commerce, community development corporations, etc.) which allow the program to quickly provide “real time” site information and development opportunities to retailers and developers.

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### Example 2

**Customized Market Data**

The Endeavour Company is a for-profit real estate development company formed for the purpose of providing development assistance to entities engaged in urban revitalization and development. Over the last two years, the Endeavour Company has been engaged in cities across the country in assisting municipalities, community-based organizations and faith-based institutions in revitalizing their urban neighborhoods or pursuing real estate development projects. A critical part of the revitalization process has been the re-introduction of national and regional retailers to the urban marketplace. One of the critical tasks to achieve this re-introduction has been the accurate representation of community market data. Through a joint effort with the City of Milwaukee Department of City Development, the Helen Bader Foundation and the University of Wisconsin-Milwaukee Extension, the Endeavour Company developed statistical indicators based on non-traditional data sets like Claritas and National Decision Systems. These statistical indicators and their non-traditional data sets included: household income numbers based on State of Wisconsin income tax returns instead of more dated Census information; retail spending power per square mile based on accurate household income numbers and industry standard calculations for determining consumer expenditures for each retail segment; and, working age tax Filers, based on State of Wisconsin income tax returns, to demonstrate workforce density. The Endeavour Co. has found that through non-traditional data sets presented in a manner in which retailers are used to reviewing market data, a community can better define and market itself based on more accurate and realistic neighborhood statistics.
C) DEVELOPMENT AND CONSTRUCTION ISSUES

The rankings of survey responses show that there are also issues and concerns related to construction and development. The overall cost of a project is a key part of the development equation, and in an urban market it’s a given that the factors of time and money are usually even bigger.

All things being equal, the construction, development and rehabilitation cost is often a major deal breaker. While many of these challenges are not unique to underserved markets, but are in fact encountered in most urban locations, they can have negative impacts on attracting development to underserved communities. In addition, meeting the local governments parking requirements is often a challenge in underserved markets because of the cost and the size of available parcels of land.

The focus group included a cross section of developers that have completed projects in underserved markets, and they concurred that one of the primary challenges they face in developing in urban markets is increased amount of time it takes to formulate the deals due to multiple parcel owners, cumbersome approval and permitting processes and cross-governmental approvals (layers of approval process). These issues can increase the amount of time to complete a project two-fold. In development time equates to money so the increased amount of time increases the cost of the project for the developer and the retailer.

Suggestions to Four Critical Interest Groups

**Community**

- **Be more flexible on design issues**—Many redevelopment projects include historic preservation issues. Being realistic about the cost and being willing to collaborate with a developer on meeting the historical and aesthetic needs of a neighborhood can mean the difference between the success and failure of a project.

- **Work with local government to identify and market sites**—Working with government officials to identify and market sites will make it easier and quicker for developers to identify sites that are ready for development.

- **Understand the nature of the development process**—When recruiting retail to a previously underserved market it is important for the local community to understand the requirements of successful development, such as the need for retail concentration and co-tenancies. For example, this may mean the need to initially develop much larger parcels of land to bring in a large group of retailers at once.

- **Assist in land assembly**—Community groups and community development corporations can help with the land assembly and participate in the development process.

**Government**

- **Facilitate site assembling/acquisition**—If retailers or owners won’t release leases and/or land, local governments may need to use condemnation rights to move the development process forward. Cities should consider implementing programs that can provide land at a low or reduced cost.

- **Identify and market sites**—In order to reduce the amount of time for a developer, and therefore the overall cost, governments should help identify and market sites that are ready for development.

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**Section Highlights:**

- It can take longer and be more complicated to develop in an urban area, which translates to higher cost. Reducing the time it takes to develop, and therefore the cost, can help promote more development in underserved markets.

- Cost of site preparedness and rehabilitation can be more expensive in these markets.

- While urban markets are generally more pedestrian friendly, the reality is people still need cars/parking or access to transportation.
• **Market financial incentives**—Local governments should make retailers and developers aware of tax credits and other financial incentives that will help offset the cost of development in these markets.

• **Streamline and expedite application process**—Cities should streamline their application processes. The time schedule to take advantage of tax incentives is too long and the process is too cumbersome; developers cannot hold properties for the time required for the entire process of necessary reviews and approvals to be completed. There is a perception by the development community that many of these programs are too cumbersome and time consuming, and are, therefore, not used to offset development costs when evaluating new locations.

• **Revise code requirements**—Often codes and ordinances are in place that hinder the redevelopment process, do not support mixed-use development or creative use of limited urban space.

• **Recognize the importance of parking**—Cities need to acknowledge the importance of parking and modify existing codes or implement new ones that recognize that many urban residents will use cars to shop and provide for creative ways to meet parking standards.

• **Evaluate condition of Brownfield sites**—By conducting Phase 1 and Phase 2 assessments of Brownfield sites, local governments can determine the extent of contamination and provide more certainty in assessing environmental issues and remediation costs, and this can help developers better evaluate the cost of development.

• **Publicly fund infrastructure improvements**—Local governments can help offset development costs and can leverage a number of funding mechanisms, including tax increment financing to finance infrastructure and public works improvements.

**Developers**

• **Fully investigate available incentives**—Developers should fully explore tax and financial incentives available in underserved markets before deciding the project is too expensive.

• **Actively promote urban/underserved market expertise to retailers**—Developers should aggressively promote opportunities to retailers. Many retailers indicate that they are interested in relocating in underserved markets, but they have difficulty finding experienced local urban developers. Developers may find more tenants by filling this need.

• **Pass through incentives to retailers**—Retailers also experience increased costs locating in urban markets. Developers might find ways to pass through financial offsets to tenants through increased tenant allowances.

• **Lower rents initially**—To attract retailers and help offset their increased costs, offer lower rents during the initial development of the center and increase the rents as the retailers’ sales performance increases.

**Retailers**

• **Fully investigate available incentives**—Retailers acting as developers should fully explore tax and financial incentives available in underserved markets before deciding the project is too expensive.

• **Adapt store configurations and be a more flexible tenant**—Retailers should recognize that land is at a premium in urban markets, and consequently, there may be less square footage to meet standard store configurations. They should provide alternative urban configurations and inform developers and brokers of alternative requirements to aid in site selection and development. These smaller store prototypes or smaller footprints will also reduce cost of development and rent.
Example 1
Reducing Development Costs
The vision of the Genesis LA nonprofit is to enhance the quality of local communities and foster quality employment opportunities, by bringing vacant, blighted, and contaminated properties in Los Angeles’ inner-city areas back to productive use. At the heart of the Genesis LA initiative is the strategic focus on developing 22-targeted sites located in economically challenged areas throughout the City of Los Angeles. Because the cost of developing these sites is often prohibitive, given the added costs associated with contamination cleanup, demolition of antiquated buildings, relocation, and land assembly, the Genesis LA Economic Growth Corporation, a 501(c)(3) nonprofit organization, has been active in developing “tools” to facilitate the development of the Genesis LA sites. The initial mission of the nonprofit, during its first phase of operations, was to facilitate the development of the Genesis LA Real Estate Fund in cooperation with the Mayor’s Office of Economic Development. The nonprofit is now in the second phase of its mission, which focuses on developing and utilizing resources to provide the “last resort” gap financing for these costly projects.

Example 2
Underserved Market Expertise
Magic Johnson Theaters / Johnson Development Corp. (JDC) is opening first-run movie theaters in inner-city neighborhoods and establishing successful joint ventures to bring other retail services to these areas. JDC partnered with Sony Retail Entertainment to develop theaters in Los Angeles, Atlanta, and Houston and has plans to open additional theaters. The first theater was constructed in a South Central Los Angeles retail mall and is among the top-grossing theaters in the nation. Since the theater’s opening, occupancy rates in the mall increased from 60 percent to 98 percent, and other mall tenants report increases in sales. JDC has entered into other joint ventures with 24 Hour Fitness, Starbucks, and TGI Fridays to open multiple stores. The theaters alone have created more than 350 jobs, and JDC does much of its contracting with local minority-owned suppliers.

Example 3
Customize Market Analysis
Chesterfield Square is South Los Angeles’ largest commercial project in more than a decade. Developed by Katell Properties, the 285,00 square foot, $50 million shopping center’s official grand opening took place in April 2002, to coincide with the tenth anniversary of the Los Angeles-area riots. The Square features tenants such as Home Depot, Food 4 Less, McDonald’s, Radio Shack, IHOP, and Starbucks. Open since July 2001, Home Depot spokesman Chuck Sifuentes says the store is operating 10% ahead of the $50 million in sales projected for the first year. Food 4 Less says its Chesterfield Square opening was the best-ever for the chain. Prior to the development of Chesterfield Square, there were 1.1 million residents living within a 5-mile radius with almost no mainstream retailers present. A study by Pepperdine University found that while median household income was $12,000 less than the national median, local residents were spending $900 million a year outside of South Central.
D) RETAILER’S OPERATIONAL ISSUES

Operating costs tend to be higher in urban markets, but the forum group concluded that potential sales could far exceed higher operating cost because of higher concentrations of population, reduced competition, and a greater sales potential.

Retailers that responded to the survey indicated that recruitment and retention and shrinkage are significant challenges faced in underserved markets. There are several ways to address these operational issues. Establishing urban markets as a positive opportunity for employee growth and development can help recruit and retain the most qualified personnel. This in turn can help address the strong customer service element that must be present when meeting the needs of the inner-city underserved markets. Inner-city consumers expect friendly and knowledgeable salespeople, in stock merchandise and speedy checkout lanes found at many suburban locations. Positive employment experiences also help influence employee loyalty and turnover at inner-city locations. Improved loyalty and lower turnover help lower shrinkage and overall operating expenditures through savings in recruitment and training costs.

Community approval and support of new development plays a tremendous role in the success of development in underserved markets. It is critical to develop partnerships with local community organizations, employ local residents, and become an integral part of the local community culture as a normal course of operations.

Suggestions to Four Critical Interest Groups

Community

• Help address retailers’ hiring needs—Communities need to connect retailers to pools of qualified applicants through community organizations and neighborhood churches. Work with local government to promote the importance of hiring locally and the importance of training staff in the skill sets needed to operate effectively within underserved markets.

Government

• Streamline occupancy permitting and approval processes—Acquiring a letter of occupancy can be a time consuming process that adds to operating cost. Cities can assign an ombudsman or have someone responsible for shepherding this process for the retailers. Cities in general can help lower overall cost by reducing the time required for the permitting and approval processes.

• Develop tax credits and abatements—In addition to lowering development costs; local governments might consider putting together tax credit and abatement packages that can be utilized by retailers to offset their operating costs. This could include employee tax credits, energy credits, and reductions in recycling and trash removal fees.

• Apply local job training and recruiting resources to retail jobs—Currently, many cities do not apply their workforce development and recruiting resources to retail industry jobs. Access to these resources can add value for retailers and positively impact their operating costs. There are well-developed career ladders in the retail industry and applying job training resources to this industry would expand opportunities for potential employees in the community.
• **Help generate sales and improve commercial viability of community**—Co-locating government offices in targeted underserved markets can serve to increase foot traffic and help generate sales for local businesses, which help offset higher operations cost of these markets. Municipalities should consider creating business incubators for local businesses to help improve commercial viability of the area and create opportunities for local entrepreneurs. Actively support and assist in the improvement of retail that is already located in the community, which will support recruitment efforts of new retail.

• **Help develop local franchise operators**—Develop strategies to offset operation costs and provide financing packages for local entrepreneurs who may be successful franchisees but lack capital. These local franchisees can facilitate retail attraction and create a balance between national and local retail development.

• **Assist with marketing and advertising**—Local communities can offset advertising costs of retailers by marketing and promoting communities and developments, or supplement the existing advertising costs of the retailer.

**Developers**

• **Consider safety and security in design**—Promoting safety and a sense of security for customers and employees is important to the success of store operations and employee recruitment and retention.

• **Emphasize public transportation**—Incorporating access to public transportation into developments will help retailers attract customers as well as recruit and retain employees.

**Retailers**

• **Develop a comprehensive market entry strategy**—Retailers should bring neighborhood groups into the process and develop a plan for becoming a viable part of the community. This will have a positive impact on employees and customer loyalty, which will serve to reduce both internal and external shrinkage and create positive relationships between new businesses and the community.

• **Focus on customer service**—Excellent and attentive customer service is critical to the success of new and existing business in underserved markets.

• **Educate internal stakeholders about market potential**—The increased cost of operations in underserved markets can be offset by the potential sales results. Inner-city density is what ultimately drives its market potential, as the higher population of residents per square mile in the inner-city creates its greater spending power and balances out its lower per capita incomes.

• **Implement comprehensive security measures**—It is important to create a safety and security mind set from day one that emphasizes the importance of shrinkage reduction. Discussion participants felt shrinkage was best addressed by installation of tight financial and inventory controls and having local management that is attuned to their market area. Visible security that is non-threatening to customers, and still appropriate for protection of merchandise, is also important to success.

• **Emphasize training and development**—Retailers should maintain focus on the importance and need to have an effective and well-trained management staff. One that reflects a working knowledge of urban markets. It is also important to emphasize the importance of the unique
skill sets managers need to operate effectively within underserved markets (e.g. customer service, effective communication style, strong community involvement, commitment to hiring locally, and assessment and evaluation of shrinkage reduction programs). Many retailers find that hiring locally and promoting from within helps develop a management staff with an understanding of urban markets.

• **Consider non-traditional hiring sources**—Retailers should utilize local churches and local faith-based organizations to identify and recruit potential candidates. This can help offset recruitment costs, while developing stronger partnerships with the local community.

---

**Example 1**

**Recruitment Partnerships**

The Home Depot recently announced plans to partner with the U.S. Department of Labor and its National Business Partnership, a program providing services to unemployed or dislocated workers seeking jobs. The Department of Labor will recruit, screen and refer applicants preparing to join Home Depot. In addition, Home Depot will test a long-term strategy of working with state and local workforce boards in selected markets providing future opportunities to unemployed workers.

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**Example 2**

**Gaining Community Support**

Starbucks has several stores that are aligned with specific causes or charitable partners. Since 1995, the company’s Rainier Avenue store in Seattle has contributed $50,000 annually to the Zion Preparatory Academy; a private elementary and secondary school primarily serving the African-American community in Seattle. The contributions are primarily funded through the Rainier Avenue store’s profits.

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**Example 3**

**Hiring Locally**

Pathmark Stores, Inc. is committed to expanding its chain in America’s urban areas. While accounting for only 22 percent of all its stores, Pathmark’s city stores represent 25 percent of total profits. In recent years, Pathmark doubled its urban outlets to 50 percent of its total stores. The company’s commitment began with its initial investment in Newark in 1990. In a joint venture with the nonprofit developer, New Community Corporation, Pathmark built a 44,000-square-foot store as the anchor for a new shopping center in Newark’s Central Ward, an area that had been without a supermarket for more than 10 years. The store stocks African-American and Hispanic specialty items and is the focal point of a yearly community oriented cultural celebration. The Newark Pathmark ranks second in sales in the 144-store chain. Weekly sales volume has consistently exceeded original projections and sales per square foot are higher than the overall Pathmark and industry averages. More than 50,000 shoppers provide a high volume of traffic every week. This experience led Pathmark to develop a relationship with The Retail Initiative of Local Initiatives Support Corporation (LISC), a national economic development intermediary, resulting in the opening of another supermarket in Harlem in 1999. The Harlem stores exceeded Pathmark’s expectations in terms of volume; the store is one of the top producers in the chain. Pathmark partnered successfully with community-based organizations to identify employees for the store. By working closely with the community, the 24-hour supermarket operation surpassed a hiring target of 75% of store staff employed from the East Harlem area. The store created over 275 jobs.
Next Steps

Clearly, this is not a comprehensive document on the subject of why some urban markets remain underserved. It is our hope that this is the second step in a journey to bring much needed retail services to the citizens of America’s underserved urban markets. It will be incumbent upon all stakeholders from the local community, local governments, developers, retailers, to various interest groups to work together in developing strategies and partnerships to meet the needs of these markets.

ICSC and BSR are committed to exploring further vehicles through research, publications, compilation of case studies as well as educational sessions and meetings to facilitate this effort. It is our hope that other stakeholders will work with us to advance our efforts.

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A critical issue for many communities across the nation, particularly in inner cities, is the lack of retailers and other business in those areas. ICSC, in conjunction with Business for Social Responsibility (BSR), conducted a survey of retail executives during the fall of 2001 to determine the most important reasons that some major urban markets remain underserved by major retailers.

The ICSC/BSR survey was particularly timely because it followed shortly after the release of studies suggesting that retailers were not taking advantage of significant untapped potential in underserved markets. According to these studies, retailers were underestimating consumer spending power in those markets.

Criticism of retailers by academics, municipal officials and others has tended to focus on the idea that retailers are using inadequate market data and are, therefore, reaching the wrong conclusions about market potential. Simply put, the argument goes: If only the retailer knew the market properly, he would not be nearly so averse to enter it.

The ICSC/BSR survey tests this argument by asking retailers to rank a whole series of factors on the degree to which they constitute an obstacle to entering underserved markets. For the purposes of this survey, “underserved markets” are defined as “low-income urban communities that have inadequate access to products and services.”

STUDIES CLAIM MISSED OPPORTUNITIES

At least three studies in the last few years have concluded that retailers are missing significant opportunities by not entering underserved markets. The studies also seem to blame the retailers themselves for these missed opportunities.

“The Business Case for Pursuing Retail Opportunities in the Inner City” (The Boston Consulting Group in partnership with The Initiative for a Competitive Inner City, June 1998) is blunt: “Retailers, chains and independents alike, have overlooked the promise of the inner-city market. Some might consider it discrimination. We call it bad strategy.” The report continues: “The infrastructure required for doing business [in the inner city] is already in place, given the proximity to local suppliers and the city’s core. And, there is no need to struggle with a new language, culture and currency.” The report’s authors go on to say that $85 billion of retail spending power resides in U.S. inner cities.

Another study, “New Markets: The Untapped Retail Buying Power in America’s Inner Cities” (U.S. Department of Housing and Urban Development (HUD), July 1999) estimated far greater spending power in underserved markets than The Boston Consulting Group report—$331 billion. The HUD report attributes the failure of retailers to enter these markets mainly to inadequate market data causing retailers to underestimate revenue potential.

A third study, “Exposing Urban Legends: The Real Purchasing Power of Central City Neighborhoods” (John Pawasarat and Lois M. Quinn, a discussion paper prepared for The Brookings Institution Center on Urban and Metropolitan Policy, June 2001), is just as scathing as The Boston Consulting Group in its conclusions: “Currently, retailers ignore some of the strongest markets in metropolitan areas because of misconceptions about central city income status, persistent ‘urban legends’ about the absence of workers in inner-city neighborhoods, racial and class-based stereotypes, and the emphasis on average household income promoted by commercial marketing firms.”

1 See www.bsr.org
2 p. 1
3 pp. 1-2
4 p. 22
It was against this backdrop that ICSC/BSR conducted its survey to find out why retailers don't enter underserved markets and what changes or incentives would induce them to change their minds.

THE ICSC/BSR SURVEY INSTRUMENT

The survey instrument itself consisted of three sections. The first solicited basic information about the retailer. The second listed more than 3 factors that are thought to represent obstacles for retailers entering underserved markets. The respondent was asked to state whether each factor was “very significant,” “somewhat significant” or “not important” as an obstacle to establishing a store in an underserved market.) The third section asked the respondent to describe what measures would either positively influence the decision to open a store in an underserved market, or would help with current efforts to open a store.

The survey was mailed to 1,247 companies, and there were a total of 97 respondents. Respondents represented a wide range of retail categories, including apparel, home furnishings, food service, department stores and one major discount chain.

RESULTS

The summary results are shown in Table 1. Eleven factors are regarded by more than 80% of the respondents as significant obstacles to entry into underserved markets (i.e., factors rated “very significant” or “somewhat significant”). These are, in descending order of importance:

1. Crime/perceived crime
2. Insufficient concentration of the retailer’s target customer
3. Lack of consumer purchasing power for the retailer’s product
4. Potential shrinkage
5. Rent
6. Buildout/rehabilitation costs
7. Site identification
8. Inadequate parking
9. Higher operating costs
10. Construction and development costs
11. Lack of amenities to attract out-of-neighborhood employees.

With respect to the three studies cited earlier in this article, which point to retailers’ misconceptions about consumer spending power as the principal culprit behind retailers’ failure to enter underserved markets, two of the top 11 factors reported by respondents to the ICSC/BSR survey are of particular interest: insufficient concentration of retailer’s target customer (reported significant by 88% of respondents) and lack of consumer purchasing power for retailer’s product (86%). If, in fact, the tools available to retailers are insufficient to evaluate spending power in underserved markets properly, then retailers may not be correct in concluding that there are insufficient numbers of their target customers or that there is insufficient spending power in underserved neighborhoods.

However, the existence of many other factors deemed as significant obstacles by survey respondents indicates that the root causes of retailers’ reluctance to set up stores in underserved markets are far more complex than just inadequate market intelligence. Factors such as crime (mentioned by 93%), site identification and development costs have nothing to do with market data, yet still need to be part of the equation in retailers’ decision-making—even in a world with perfect market information.

WHAT MIGHT HELP

The third section of the survey, which invited open-ended answers, asked respondents to state measures that would positively influence their deliberations about opening stores in underserved markets. The most frequent responses were as follows:

- Sufficient parcel sizes to allow for retail concentration and synergistic co-tenancies
- Tax incentives
- Less bureaucratic interference
### Table 1

**IMPORTANCE OF FACTORS INFLUENCING RETAILERS’ DECISION TO ESTABLISH STORES IN UNDERSERVED MARKETS**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Significant</th>
<th>Somewhat Significant</th>
<th>Total Columns 2 and 3</th>
<th>Not Important</th>
<th>No. of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Insufficient concentration of your target customer</td>
<td>72%</td>
<td>16%</td>
<td>88%</td>
<td>13%</td>
<td>96</td>
</tr>
<tr>
<td>2. Length of time to complete a project</td>
<td>9%</td>
<td>40%</td>
<td>49%</td>
<td>51%</td>
<td>95</td>
</tr>
<tr>
<td>3. Lack of consumer purchasing power for your product(s)</td>
<td>60%</td>
<td>26%</td>
<td>86%</td>
<td>14%</td>
<td>97</td>
</tr>
<tr>
<td>4. Inadequate neighborhood infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e.g., transportation, utilities)</td>
<td>29%</td>
<td>46%</td>
<td>74%</td>
<td>26%</td>
<td>94</td>
</tr>
<tr>
<td>5. Burdensome taxes relative to other store locations</td>
<td>27%</td>
<td>38%</td>
<td>65%</td>
<td>35%</td>
<td>94</td>
</tr>
<tr>
<td>6. Real estate costs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Direct purchase price</td>
<td>43%</td>
<td>22%</td>
<td>64%</td>
<td>36%</td>
<td>87</td>
</tr>
<tr>
<td>b. Construction and development costs</td>
<td>50%</td>
<td>31%</td>
<td>81%</td>
<td>19%</td>
<td>88</td>
</tr>
<tr>
<td>c. Demolition costs</td>
<td>31%</td>
<td>40%</td>
<td>72%</td>
<td>28%</td>
<td>89</td>
</tr>
<tr>
<td>d. Environmental remediation</td>
<td>52%</td>
<td>22%</td>
<td>74%</td>
<td>26%</td>
<td>90</td>
</tr>
<tr>
<td>e. Buildout/Rehabilitation costs</td>
<td>53%</td>
<td>30%</td>
<td>84%</td>
<td>16%</td>
<td>92</td>
</tr>
<tr>
<td>f. Rent (if not owning property directly)</td>
<td>55%</td>
<td>29%</td>
<td>85%</td>
<td>15%</td>
<td>92</td>
</tr>
<tr>
<td>7. Site identification</td>
<td>62%</td>
<td>22%</td>
<td>84%</td>
<td>16%</td>
<td>94</td>
</tr>
<tr>
<td>8. Parcel sizes</td>
<td>41%</td>
<td>33%</td>
<td>74%</td>
<td>26%</td>
<td>93</td>
</tr>
<tr>
<td>9. Inadequate parking</td>
<td>57%</td>
<td>26%</td>
<td>83%</td>
<td>17%</td>
<td>95</td>
</tr>
<tr>
<td>10. Lack of amenities to attract out-of-neighborhood employees</td>
<td>46%</td>
<td>35%</td>
<td>81%</td>
<td>19%</td>
<td>95</td>
</tr>
<tr>
<td>11. Lack of experienced underserved-market developers</td>
<td>28%</td>
<td>34%</td>
<td>62%</td>
<td>38%</td>
<td>92</td>
</tr>
<tr>
<td>12. Inadequate local labor supply</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Quantity of labor</td>
<td>38%</td>
<td>32%</td>
<td>70%</td>
<td>30%</td>
<td>94</td>
</tr>
<tr>
<td>b. Skill level of labor</td>
<td>38%</td>
<td>37%</td>
<td>74%</td>
<td>26%</td>
<td>93</td>
</tr>
<tr>
<td>13. Crime/Perceived crime</td>
<td>69%</td>
<td>24%</td>
<td>93%</td>
<td>7%</td>
<td>96</td>
</tr>
<tr>
<td>14. Potential shrinkage</td>
<td>62%</td>
<td>24%</td>
<td>86%</td>
<td>14%</td>
<td>95</td>
</tr>
<tr>
<td>15. Identifying and forming relationships with key political/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>community players</td>
<td>13%</td>
<td>47%</td>
<td>60%</td>
<td>40%</td>
<td>94</td>
</tr>
<tr>
<td>16. Local government resistance to use of eminent domain</td>
<td>14%</td>
<td>26%</td>
<td>40%</td>
<td>60%</td>
<td>92</td>
</tr>
<tr>
<td>17. Zoning issues</td>
<td>30%</td>
<td>30%</td>
<td>59%</td>
<td>41%</td>
<td>91</td>
</tr>
<tr>
<td>18. Permitting process</td>
<td>34%</td>
<td>41%</td>
<td>75%</td>
<td>25%</td>
<td>93</td>
</tr>
<tr>
<td>19. Historic preservation issues</td>
<td>21%</td>
<td>38%</td>
<td>59%</td>
<td>41%</td>
<td>92</td>
</tr>
<tr>
<td>20. Serving unfamiliar customer base</td>
<td>33%</td>
<td>30%</td>
<td>63%</td>
<td>37%</td>
<td>93</td>
</tr>
<tr>
<td>21. Community resistance</td>
<td>33%</td>
<td>24%</td>
<td>58%</td>
<td>42%</td>
<td>90</td>
</tr>
<tr>
<td>22. Market data/Analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Inaccuracy of available market data</td>
<td>26%</td>
<td>36%</td>
<td>62%</td>
<td>38%</td>
<td>92</td>
</tr>
<tr>
<td>b. Lack of specialized metrics/models for these markets</td>
<td>20%</td>
<td>40%</td>
<td>60%</td>
<td>40%</td>
<td>92</td>
</tr>
<tr>
<td>23. Reluctant to be first entrant in the market</td>
<td>24%</td>
<td>29%</td>
<td>53%</td>
<td>47%</td>
<td>94</td>
</tr>
<tr>
<td>24. Internal company resistance</td>
<td>25%</td>
<td>38%</td>
<td>63%</td>
<td>37%</td>
<td>92</td>
</tr>
<tr>
<td>25. Higher operating costs</td>
<td>49%</td>
<td>32%</td>
<td>82%</td>
<td>18%</td>
<td>93</td>
</tr>
</tbody>
</table>
CONCLUSION

The ICSC/BSR study indicates that retailers are looking at a far broader suite of factors—and a more complex set of obstacles—than consumer spending power when deciding whether to open stores in underserved markets. Better market intelligence, though highly desirable, is still only one important factor among many. Other critical factors relate to available parcel sizes, the cost of doing business, municipal and community support for projects and the severity of crime.