Why Are Big Box Stores Moving Downtown?

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Motivation

• Most discussion of Big Box store entry into urban neighborhoods emphasizes potential negative impacts.
  – Competition with existing mom-and-pop stores
  – Wages, benefits and job quality
  – Store aesthetics & community character
  – Traffic congestion, parking, noise

• Less attention is given to potential benefits of Big Box stores, especially to low-income consumers.
  – Retail deserts are a widely recognized problem in low-income urban neighborhoods.
  – Big Box stores are one potential solution to retail deserts.
  – Their scale allows Big Box stores to provide a wide variety of basic goods at relatively low prices.
Research questions

• This study seeks to explain how Big Box firms choose locations for new stores.
  – How do economic and demographic characteristics influence Big Box locations?
  – Are existing stores seen as competitors or complements?
  – Do political or institutional factors constrain Big Box location choices?
  – Is Big Box location model different for urban and suburban stores?

• Boundaries of current research:
  – This study does not address impact of Big Box stores on labor markets or mom-and-pop stores.
Developing urban Big Box stores

• Urban locations offer different challenges – and payoffs – than traditional suburban sites.
• Development costs
  – Long, costly, uncertain entitlement process
  – Fragmented land ownership & high per-unit land costs
  – New physical model: multi-story, structured parking
• Operations costs
  – Labor costs: market & political pressures
  – Access for suppliers & consumers, business taxes, insurance
• Revenues
  – Can urban stores reach more consumers, different types of consumers, sell higher-margin items?
  – Do downtown “retail deserts” offer less competition?
Empirical strategy & data

• Empirical strategy
  – Study focuses on California metro areas, 1992-2009
  – Estimate tract-level regressions of new Big Box location choice as function of baseline neighborhood characteristics

• Data sources
  – Name, location and firm type of retail establishments from National Establishment Time Series database (NETS 1992-2009)

• Key definitions:
  – Big Box stores: all establishments belonging to designated Big Box parent companies
  – Chain: 2+ establishments belonging to same parent company
  – Mom-and-pop: Single-establishment firms
  – Downtown: Census tracts < 2 miles from Central Business District
Downtown Big Box growing over time

LA downtown retail shares, 1992-2009

San Fran MSA downtown retail shares, 1992-2009
Big Box concentration by sector

<table>
<thead>
<tr>
<th>Retail segment</th>
<th>Big Box employment share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General merchandise</td>
<td>22.61</td>
</tr>
<tr>
<td>Sporting goods, hobbies, books and music</td>
<td>3.72</td>
</tr>
<tr>
<td>Miscellaneous store retailers (office supplies)</td>
<td>2.26</td>
</tr>
<tr>
<td>Motor vehicles and parts</td>
<td>2.20</td>
</tr>
<tr>
<td>Furniture &amp; home furnishings</td>
<td>2.06</td>
</tr>
<tr>
<td>Building material &amp; garden equipment</td>
<td>1.21</td>
</tr>
<tr>
<td>Electronics &amp; appliances</td>
<td>1.00</td>
</tr>
<tr>
<td>Clothing, shoes and accessories</td>
<td>0.13</td>
</tr>
<tr>
<td>All retail segments</td>
<td>4.44</td>
</tr>
</tbody>
</table>

Averages across all downtown census tracts.
What downtown neighborhoods do new Big Box stores choose?

<table>
<thead>
<tr>
<th></th>
<th>New Big Box stores</th>
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<tbody>
<tr>
<td>Baseline retail employees/sq mi</td>
<td>0.159 ***</td>
</tr>
<tr>
<td>Population/sq mi</td>
<td>-0.026 ***</td>
</tr>
<tr>
<td>Non-retail employees/sq mi</td>
<td>0.028 ***</td>
</tr>
<tr>
<td>Distance (mi) to CBD</td>
<td>0.063 ***</td>
</tr>
<tr>
<td>Median household income</td>
<td>0.0002</td>
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</tbody>
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Numbers are correlation coefficients for downtown census tracts.

*** p<0.01, ** p<0.05, * p<0.1
Summary of statistical results

• Big Box stores form small but growing share of downtown retail market
  – Substantial variation across metropolitan areas

• Big Box employment shares vary by retail segment
  – Largest presence in general merchandise, books & hobbies, office supplies

• New Big Box stores locate near existing retail centers
  – Prior density of Big Box and chain retail employment are strongest predictors of new store locations
  – Higher non-retail employment increases probability of new Big Box location
Questions for future research

• Why do new Big Box stores cluster near old ones?
  – Are these the most productive sites for retail?
  – Agglomeration benefits to locating in existing retail centers?
  – Political or physical constraints on Big Box locations?
  – Is there a first-mover disadvantage?

• How do Big Box stores change downtown retail composition?
  – Do they increase total retail employment?
  – Are they complements or substitutes for mom-and-pop retailers?
Policy & practice implications

• What can policymakers do to address retail deserts?

• Some challenges affect all types of retailers, others particularly difficult for large developments.
  – Land assembly, zoning, building codes, development process, coordination across agencies

• Do regulations strike right balance between curbing negative spillovers and allowing desired growth?

• Should local economic development policy give preference to small, locally owned businesses?
  – Different implications for consumers, store owners and potential workers