Market Analysis for Simsbury Commons Shopping Center

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Step 4: Supply side analysis: competition for the SS

Overall objective: As a commercial real estate appraisal assignment, this study performs market analysis for a property: Simsbury Commons, an open air community shopping mall located at 498-540 Bushy Hill Road, Simsbury, CT 06070 (Subject Site, SS). This appraisal is undertaken for investment analysis (purchase of the SS) and for evaluation of collateral for a mortgage loan.
Functional Skills:

- **evaluate** competition from other properties (e.g., anchor stores for a strip shopping center)
  - structural characteristics such as size, age and condition
  - strengths and weaknesses of competitive locations
  - gap analysis: search for competition by store type
    - try to find a demand segment poorly served by the competition (a market gap)
    - focus this search on existing and proposed tenants at the SS
    - use CoStar and online sources such as Google and Bing maps

- **measure** under construction or proposed supply competitive with the SS

- **use** the internet as a source of information
  - advanced search for market data
  - limit searches to spreadsheet files or to education sites
  - download, combine and query supply side data

**Thesis: competition and its effects on Simsbury Commons**

- SC’s competition is primarily the large concentration of retail along Rte 44/202 from Rte 10 (just below Avon Mountain) to the Farmington River.
  - I.e., it is the “ribbon of retail” defined by this major commercial strip within the primary trade area.
  - Competition is intense within this ribbon.
    - According to CoStar, the total competitive rentable building area (neighborhood, community and strip centers) within SC’s trade area is 1,215,941 sf.
    - About 10% of this is available for lease (8% vacant), spring 2011.
    - The vacancy rate has doubled over the past 3 years.

- A major new competitor opened during the Christmas season, 2003, with a full opening in 2004: The Shoppes at Farmington Valley, a lifestyle shopping center\(^1\) with over 400,000 sf, over 1.5x the size of SC.
  - This added stores compete directly with SC’s anchors
  - It added a cluster of competitors for luxury goods and services. This reduced the value to SC of one of the most important aspects of the Farmington Valley submarket: the high income demand segment with a taste for luxury items.
  - The downturn in the economy starting in 2008 (see steps 1 and 3) further reduced luxury demand

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\(^1\) A lifestyle center is an open air center with upscale stores.
At the same time The Shoppes at Farmington Valley offers some discounted merchandise.

- This competition, together with economic recession likely resulted in SC’s loss of EMS and Borders books.
  - This has had a major negative impact on SC.
  - One way to reposition SC is to offer more discounted items.
    - CoStar data suggest little competition in this segment.
    - Keep the Hoyt’s theater, Bob’s clothing, Walgreens and Super S&S.
    - Discount women’s apparel (such as a Dress Barn) add to the tenant mix at SC which already includes Famous Footwear and Bob’s clothing.
    - Add to BB&B with a high end outlet store such as Nordstrom’s Rack or Saks Off 5th. This store would replace Borders.
  - An alternative would be to identify some other niche or service that is underrepresented in the trade area. Results from our market gap analysis:
    - Consumer electronics has potential because higher income households spend over 3.5% of their relevant purchases here: see step 2, sheet 3.2(3 and 4).
    - Best Buy might be convinced to move from across the street in return for lower rents at SC.
    - PC Richard’s might go head-to-head with Best Buy in return for low rent.
    - A major home improvement or home appliance store might complement BB&B.

**Detailed competitive analysis**

*SC’s Competition: the Ribbon of Retail*

- CoStar provides tools to identify shopping centers within the polygon TA (Step 2).
  - Click on the map and make sure shopping centers are identified
  - Mousing over the competitive centers produces more detail for each
  - In the case of the Shoppes at Farmington Valley, CoStar separates the property into several parcels. The one illustrated below contains Kohl’s.
A Google Maps search of “Shopping Centers near Simsbury, CT 06070” confirmed the two main centers discussed below.

**The Shoppes at Farmington Valley**

- At 425,000 sf, it is the largest mall in the trade area (TA).
  - It has a New England village look and feel, including storefronts with colonial-architectural elements, cupolas, traditional lamp posts and space for outdoor dining.
- Contains several direct competitors to the SC anchors:
  - Barnes and Noble competes directly with Borders
  - Shop Rite competes with Super S&S
  - Kohl’s competes with BB&B
- In addition, the Shoppes appeals to the luxury end of the TA
  - High income is one of the defining characteristics of the TA
  - Luxury stores at the Shoppes include J Jill, J Crew, Talbott’s and 2 jewelry stores
• A bag count on Sunday 11/21/10, 4-5pm (not a peak shopping time) was in the 6-8 range.
  o The number of shoppers was low, similar to SC
  o The Barnes and Noble was quite busy, though.
  o The center’s parking lot was about 50% to 60% full.

Avon Marketplace is another direct competitor in the Ribbon of Retail²

• It is immediately adjacent to SC
• It has much better visibility from the major road (44/202) than SC
• It is smaller with about 90k sf according to CoStar
• In 2010, EMS moved from SC to Avon Marketplace
• EMS joins a number of luxury retailers: Victoria’s Secrets, Orvis, Yankee Candle.
• A CVS competes directly with the drug store (Walgreens) at SC.

Conclusion #1: SC is hemmed in by competitors (The Shoppes and Avon Marketplace) that are better positioned to cater to the luxury market.

Conclusion #2: to reposition in response to the loss of Borders and EMS, SC has several options:

1. Improve the curb appeal of the property so as to attract a national retail chain
2. A high-end bargain store to complement BB&B.
3. Draw customers to the SS with a major electronics store, a home improvement or appliance store.
4. Find a new trend (i.e., an emerging retail concept) and attract a tenant based on the trend.

Using CoStar and other sources to find competitors with each anchor store, existing and proposed

• See Attachment #1 for detailed steps on how to use CoStar
• Use Google Maps and Bing Maps to check CoStar and add information
• Results for the grocery store, S&S:
  o The main competitors are Shop Rite in the Shoppes and Big Y in Wal-Mart Plaza.
  o Wal-Mart itself has discounted paper goods and related items
  o Both are within half a mile of S&S
  o Both are on the going to work side of the street, a disadvantage
  o Conclusion: S&S can probably hold its own, but will not have much pricing power
• Results for Walgreens Pharmacy
  o There are four nearby competitors, but this is not uncommon in the drug store business
  o Conclusion: Walgreen’s (like S&S) will need to keep good management: prices low, shelves well organized and fully stocked.

² Old Avon Village is judged to be too far away and the retail too limited to provide much competition. Likewise, a number of small strip centers on Rte 44/202 were not considered direct threats.
Similar searches for other existing anchors at SC show that only the Hoyt’s Theater has a protected market. I.e., it has little competition in the trade area.
  o A visit as part of a bag count confirms that the Hoyt’s Theater is doing well.
  o This is good for the restaurants at SC (Chili’s, Kumo Japanese Cuisine and Luna’s Pizza).
  o But movie theaters typically don’t generate a lot of shopping. I.e., people make special trips to the movies, perhaps with a meal, but without doing much shopping

Results for a proposed anchor in the consumer electronics category. This store would occupy the nearly 25,000 sf vacated by Borders.
  o Best Buy with 42.5 thousand sf is right across the street from SC.
  o Radio Shack is also across the street, with only 2,500 sf.
  o Conclusion: This is serious competition, but the addition of another electronics store could make the area a major draw for comparison shopping in the electronics category.
  o The nearest PC Richards and Sons is in Newington, CT, a completely separate submarket.
    ▪ They might consider a niche play, attracting customers not happy with the choices at Best Buy or Radio Shack.

Using CoStar to search for Under Construction and Planned Construction: the pipeline of new supply

  o See Attachment 2 for detailed steps on how to use CoStar
    ▪ Fanning’s Chapter 9 identifies this as a Level B analysis.
    ▪ Level B uses secondary data sources – in this case, CoStar’s database.
  o Note that it is often difficult to get accurate estimates of the pipeline
    ▪ A visit to town hall to search building permit records is recommended.
    ▪ One can search local newspapers for stories about planned construction.
    ▪ Fanning’s Chapter 9 identifies these activities as a Level C analysis, collecting data from primary sources.
  o Results for SC.3
    ▪ No shopping centers under construction
    ▪ Canton Valley Shops is the closest planned center
      ▪ Given the GFC, it is unlikely that this would go forward in the near future
  o Caveat: despite the lack of a supply pipeline, it is likely that other shopping centers may be repositioning to deal with loss of tenants and reduced rental income

Major Conclusion: need to find a tenant consistent with SC’s existing tenant mix

  • SC already has a discount clothing store (Bob’s) and BB&B, a big box store.
  • Consumers typically favor bargains during recessions.
    ▪ However, a market for luxury goods and services remains in this affluent trade area

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3 Compare these results to Ling Archer. Elysian Forest has a lot of competition from new construction – and EF failed to perform relative to the competition. Plane Vista had no new construction within “airport island,” and this is favorable to prospects for a good return from adding 400 apartment units.
Inflation may narrow the advantage of discounter because it raises their cost of materials, and materials are a relatively large part of the cost of the items they sell.

- The high traffic volume at Wal-Mart suggests that there is a good market for a discount store with attractive presentation.
  - On Sat 11/27/10 at 3:30pm Wal-Mart plaza was visited.
  - Very active flow of customers coming out.
  - Bag counts: 10/10, 6/10, 10/10.
  - Done in 30 minutes: about one customer a minute exiting.
  - Parking near store 75%; peripheral 50%. I did not go to the Big Y side.

Attachment 1

Using CoStar and Google Maps to Find Competition: Application to Simsbury Commons Anchor Stores

For this example, find all the grocery stores that might compete with the Super Stop & Shop at Simsbury Commons, 540 Bushy Hill Road, Simsbury, CT.

- Choose Property Analytic from CoStar’s home screen
- Location: 540 Bushy Hill Road, Simsbury, CT. Check the box for in a shopping center and enter 5,000 (and above) in the property size box.
- Click Radius search; type in your property address (540 Bushy Hill Road, Simsbury, CT in this example); in the Radius box choose 5 miles, click Go:
• Click Results List

The basic rule from here on is “Click and Learn.” CoStar offers a lot of relevant information about competition. This is one of its stronger features.

Some examples of what you can learn follow.
• Click on the Map tab, then click the [edit] button next to Map layers

• Layer Type should be “Store”

• Click the radial button for Store Type
  
  o Browse the list of store types to find those that might compete with S&S.

  o Click “add to list,” then OK.

• Here is a map with store types selling groceries or related items
  
  o In CoStar, these are identified as supermarket, gourmet food, specialty food, health food:
- I added Wal-Mart since that has grocery type items

- Use Google Maps to verify.
  - Search phrase: “Grocery Stores near Simsbury, CT 06070”

- A BigY next to Wal-Mart is missing from CoStar’s data.
  - Google maps gives the address:

  BigY
  255 West Main Street
  Avon, CT 06001-4352

- Looking it up in CoStar, Photos are found as part of Wal-Mart Plaza, about 154,000 sf.

**Wal-Mart Plaza**
**Avon, CT 06001 - Avon Submarket**
Fully Leased Building
154,118 SF Retail (Community Center) Building Built in 1970

- Wal-Mart is about 92,000 sf and Big Y around 62,000 sf.

- A similar search for pharmacies reveals the following

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>Location</th>
<th>Contact Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVS</td>
<td>Closer to Hartford</td>
<td>188 Main Street, Route 10, Post Office Square, CT (860) 677-5047</td>
</tr>
<tr>
<td>S&amp;S</td>
<td>Down Bushy Hill Rd from SS</td>
<td>498 Bushy Hill Road, Simsbury, CT (860) 651-9843</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>half mile towards Hartford</td>
<td>255 West Main Street, CT (860) 409-0404</td>
</tr>
<tr>
<td>Rite Aid</td>
<td>Across Street</td>
<td>385 W Main St # 1, CT (860) 674-0027</td>
</tr>
<tr>
<td>Walgreens</td>
<td>Subject site</td>
<td>540 Bushy Hill Road, Simsbury</td>
</tr>
</tbody>
</table>

- A search for Cinemas revealed virtually no competition for the Hoyt Cinemas

- Home furnishings (competition for BB&B) revealed: Pier 1 Imports at 355 W Main St, very close to SS. Otherwise, no major competitors.
Conclusion: a home appliance or home maintenance store that would complement BB&B is a possibility for SC.

A search for “home accessories,” “home appliances,” and “home improvement” did not reveal major competition. A market gap may exist.

Attachment 2

Using CoStar to search for Planned and Under Construction Property

- Planned for construction or currently under construction is commonly referred to as the supply pipeline.
- Supply data – especially for planned construction – can be inaccurate in regards to size and type of development and development timeline.
- CoStar allows users to search for new and planned supply based on CoStar’s data sources.
- The easiest way to do this is go back to CoStar’s home screen, click property analytics and enter your SS address. Check boxes for in a shopping center, proposed and under construction. Click the radius button and set a 5 mile radius to be sure you get relevant competition.
• Keep the search parameters broad so as to minimize the risk of *excluding* projects that are competitive but do not fall within a particular CoStar category
• If the search results are multitudinous, the user can tighten the parameters usually in regards to Rentable Building Area (RBA)
• Click Results List and then the properties tab.
• For Simsbury Commons, this produced a single property, with two parcels

![Image of CoStar search results]

• In this case, the proposed construction is just a single, relatively small, outparcel (i.e., building in a parking lot).

![Image of Outparcel results]
Evaluating these results for the pipeline

- Retail development tends to be cyclical
- Development activity fell in 2009 and 2010 following the global financial crisis GFC and remained very low through 2013.
- Even though GDP growth indicates a strengthening national economic recovery, availability of financing for new construction and redevelopment remains low.
  - This suggests that the next year at least will see very little supply growth in the overall stock of retail real estate.
- As the economy improves, however, some projects will move from planning to actually construction.
  - The site location analyst needs to do her best in determining which projects these may be and what competitive threat they pose to the subject site.
- Moreover, we need to consider a likely scenario: other shopping centers may be repositioning to deal with loss of tenants and reduced rental income.

- Conclusion: the pipeline of proposed and under construction does not pose a significant threat to Simsbury Commons, but repositioning of existing centers has to be evaluated with site visits.