CITY COUNCIL STUDY SESSION MINUTES

February 3, 2009

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a study session at 5:00 p.m. in the Municipal Building Conference Room on the 3rd day of February, 2009, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT:	Councilmembers Butler, Dillingham, Ezzell, Griffith, Kovach, Quinn, Thompson, Mayor Rosenthal
ABSENT:	Councilmember Cubberley

DISCUSSION REGARDING THE RETAIL SALES CANNIBALIZATION STUDY FOR THE UNIVERSITY NORTH PARK TAX INCREMENT FINANCING DISTRICT PREPARED BY CANYON RESEARCH SOUTHWEST.

Mr. Steve Lewis, City Manager, introduced Mr. Eric Lander, Principal, with Canyon Research Southwest, Inc., and said as a result of the University North Park Tax Increment Financing (UNPTIF) District, concerns have been expressed about cannibalization within Norman and he felt it would be helpful to the community, and the City, to review the results of the study during the budget process. He said Mr. Lander made this presentation to the Finance Committee on January 15, 2009, and the Finance Committee suggested the study be presented in a City Council Study Session.

Mr. Lander provided an overview of the Cannibalization Study findings for the UNPTIF District beginning and said the report is divided into three components; Retail Marketability Analysis (RMA), Retail Sales Cannibalization Analysis (RSCA), and UNPTIF Revenue. Mr. Lander said the RMA evaluates the retail market impacting the UNPTIF District by identifying local trends in retail sales and commercial construction; inventory of big-box retailers and lifestyle retailers; survey of anchor shopping centers in Norman; and identification of the closest competition retail destination. He looked at retail space both in Norman and Moore and said the big-box retailers largely have the potential to adversely impact existing businesses within Norman. Mr. Lander said the study evaluated the site as if it were raw land to determine if the area was a suitable retail location based on industry standards.

Mr. Lander first looked at yearly sales from 2000 – 2007 and said annual sales grew by a total of 44% averaging 5.5% every year, which by comparison is much higher than the CPI index. He said the reason Norman had strong retail sales, above what is considered inflationary, was due to continued population growth and 3.6 million square feet of retail space constructed during the eight year period. Retail sales reported by the City of Norman from January through September 2008 are up 6.84% compared to the same nine month period in 2007. Councilmember Butler asked if the metro area was looked at in comparison and Mr. Lander said the study looked at the pull factor compared to other cities, but not metro wide. Mayor Rosenthal said for budgetary purposes a twenty year regression model was used to do a trend line and this study had a much shorter period; therefore, it may be premature to say this study shows a statically significant trend. She asked at what point the City should reevaluate the budget model that assists staff in predicting revenues going forward. Mr. Lander said his company has completed studies for over 100 Tax Increment Finance (TIF) projects throughout the midwest and typically under the current economic conditions, the growth numbers are pulled back through 2009/2010 to be in the 1.5% to 2% range, then the growth numbers are raised in 2012 because he believed the market would be recovered by that time. He does not necessarily think Norman needs to go back to 1.5% because Norman has had steady growth, but as an example, with a 6% growth, Council may want to cut back to 4%, but only for a couple of years as it should stabilize by 2012.

Mr. Lander said the second factor studied was trends of retail construction and for the purposes of the study he only went back to the year 2000 because it was during that time period when Norman had a large growth spurt in terms of retail construction. He said Norman is a peripheral suburban location and was put on the radar screen in 2003 when its population hit 100,000 residents. Mr. Lander said from 2003 to 2007, Norman had 2.25 million square feet of retail construction; 400,000 of which was in the UNPTIF District. He said that was very common within a suburban location and obviously Norman's rate of retail construction will probably, if it hasn't already, start trending downward over the next couple of years given the current economical conditions. Most major big box retailers have put most of their expansion in 2009 on hold and are looking towards 2010 and 2011. The report looked at all the big box retailers and most are already present within Norman's marketplace, especially the 100,000 square feet or larger. He said junior businesses from 7,000 to 20,000 square feet are still in the market, but most of them are well represented.

The next issue looked at was the big box retailers and what has been developed within the UNPTIF District right now is considered a power center. A power center is anchored by one or two super anchors, which in this case would be Kohl's and Super Target, and a number of junior anchors; i.e., Petco and TJ Maxx. When looking at a cannibalization, it is the major anchors and the junior anchors that have the largest capacity to have an adverse impact on the existing businesses. He said the study looked at two things, the sister stores of the big boxes that are already in the UNPTIF District to see what kind of trade area they are drawing from within their own marketplace. The closest anchor and junior anchors is 6 ½ miles away and in most of the stores the majors and the juniors have a primary trade area within their own sister stores of five to seven miles. Mr. Lander said this means that the five stores that anchor UNPTIF now enjoy a much larger primary trade, within their own store inventory, than most other stores do. He said that is a good thing and UNPTIF is drawing from outside the community or outside the trade area, more than a typical store would. The next thing the study at is what the existing direct big box competitors do, for example, Target and Walmart. The study looked at where direct competitors are located compared to the UNPTIF District and most are within a couple of miles, but that is the way the big box retailers work. They sort of group together because they can get increased traffic volumes and synergy, which usually increases the sales when there is more of the same retail category within the same trade area.

Mr. Lander said the study looked at the health of the local retail market with information from a local brokerage firm, broken down into the Moore/Norman submarket. The study went back to 2000 and the equilibrium is generally equated to seven percent or less vacancy rate, which is below equilibrium despite all the retail construction within the marketplace and is still ranked very healthy in terms of occupancy level. Mr. Lander said he did his own analysis within the report and actually inventoried the 21 anchored shopping centers within Norman, which indicated 2.8 million square feet, or 4.4%, in vacancy rate. So again, despite the strong growth in terms of new space the market remains very healthy in terms of occupancy, which is a good sign. Mayor Rosenthal said she noticed when looking at the individual shopping centers in Norman, there is quite a bit of variation between the amount of space that is available. She said we have some that have 20% or more vacancy rate, so while that is a relatively low vacancy rate overall, there are some that are struggling. Mr. Lander said if there are some centers where junior anchors have vacated or have a high percentage of in line shop space, certainly there are some centers that are not performing as well as others. He said the last thing he did in terms of Retail Marketability Analysis was look at the site itself and say, if there was nothing on that site today, is the site a suitable retail location. His firm does work for a lot of major shopping center developers going through a site selection analysis, as well as major retailers like Walmart, Home Depot, Lowes, and Target all over the country. He said he looked at what they look at in terms of perspective sites, i.e. parcel size orientation, so it has 225 total acres, plenty of land to do a variety of retail format including what has been planned here, which is essentially a power center with major and junior anchors, in line space, and out parcels. Then the other component, which is on the east side of 24th Avenue N.W., is the lifestyle center. That has become a very popular retail development format over the last seven or eight years. Many of the retailers that are located within the lifestyle centers are historically mall occupants and a lot of the reason they locate in lifestyle centers is because of affordability. The rent in lifestyle centers is generally lower than the mall. The level of mall development in the last ten years has dropped dramatically nationwide. He said due to the housing market especially within the last ten years, there are many locations like Norman that the more upscale restaurants and retailers want to get into, but there is no mall development within that location. Lifestyle centers tend to put more emphasis on dining and entertainment. The entertainment may take the form of a movie theatre, comedy club, or even just the restaurants themselves will do a themed restaurant, for example, Nascar and Toby Keith, to draw a much larger trade area than a typical Applebees or Chilis. Power centers and lifestyle centers generally require freeway or freeway interchange and obviously this location has both of those. Councilmember Kovach said even before the economy went south last September, the City Manager circulated several articles to Council about lifestyle centers that were closing or having a difficult time. He said although Norman is trending toward lifestyle centers, how does it look now with the weak economy. Mr. Lander said some of the retailers within the lifestyle centers have been the hardest hit in the latest economic times, but stores located in power centers tend to be a little more isolated or insulated from it, for example, Walmart & Target, which can thrive more in this economy than other retailers because they are a value oriented type of retailer. The retailers that have been hit particularly hard in this market would be restaurants, which are generally a major tenant within lifestyle centers; clothing and accessory stores, which tend to be a huge component and take the place of anchors; and department stores, such as Macys and JC Penneys that would occupy the anchor tenant spaces within the lifestyle centers. There are two reasons why lifestyle centers have not been as successful in certain locations, one being excessive competition and second, the population growth did not continue in the suburban locations. Norman's location has a smaller mall and a lot of the lifestyle type tenants are not anywhere near the southern part of the metropolitan area. Norman is ideally situated to support a lifestyle center because of its demographics and the amount of people that come into the community. Lifestyle centers often cater to visitors and tourists because it is one of the most frequented activities of people that come in from out of town. The current economic conditions would suggest the lifestyle component of this project is two or three years away at best, because most of the retailers in this marketplace are not looking to expand this year and are very cautious to expand in the next couple of years. He said Norman has a very strong retail pull factor and a very sufficient trade area demographic. Then the next evolution would be the lifestyle center and he felt that will be delayed given the current economic conditions. But fundamentally this site is a very, very strong regional location, in fact given the current retail inventory and where Norman's housing and traffic patterns are, he felt the UNPTIF is an "A" location, the best retail location in terms of major retail in Norman right now.

Mr. Lander said the Retail Sales Cannibalization Analysis objective was to evaluate possible cannibalization based on historic retail sales occurring within the City prior to and following the implementation of the UNPTIF District. He looked at the City's sales tax comparisons before and after the UNPTIF; retail sales pull factors completed by a university in Oklahoma and retail sales opportunity gap analysis completed by Claritas, Inc., a demographic and economic research firm used extensively by retail developers and retailers in the country; and determined an estimate with support of retail sales within the community, and using that number the current retail pull factor was adjusted. Mr. Lander looked at the retail sales comparison going back to 2000 when Norman saw a spike in retail development. Next he looked from 2002 to 2005 and 2006 is when the TIF started generating retail sales tax revenues. From 2005 the annual increases in retail sales collected by the City increased at rates of 3.1 to 8.2% per year and averaged about 5.4% per year. He said by comparison, the CPI index during that same period was at a 2.7%, so the City essentially doubled the CPI over that period of time. He said that was mainly due to population growth, high income levels, and the accelerated rate of retail construction. Mr. Lander looked at what happened to the retail sales collection by the City since the opening of the UNPTIF District. He said they took monthly collections less the portion of the sales taxes that goes into the City's General Fund and based on sales since 2006, UNPTIF has run at 5.28 % and through August 2008 sales increased for the same period of the prior year almost 6%. On average the retail sales, since the opening the TIF, has actually bumped up a little bit over the historic numbers. That is not to say UNPTIF was the sole contributor since 1.1 million square feet of new construction was added in 2007, but what it does indicate is that given the 400,000 square feet of space in the UNPTIF District, it would have the opportunity to actually cannibalize retail sales and this analysis indicates it really has not happened. With the retail pull factor and the additional anchors within Norman's marketplace, it solidifies Norman as a retail destination for the residents and people outside the community, generally to the south.

Mr. Lander said in 2004, Southwestern Oklahoma State University estimated the retail sales pull factor at 1.38%. He said what that means is that one is equilibrium and once you hit one you have essentially captured every dollar within the trade area; therefore, Norman captures at a rate of 38% above the norm. Most outer suburbs are exporters of jobs, but Norman tends to be an importer of jobs and that helps a lot of the retail businesses like restaurants', dry cleaners', and drug stores' daytime sales. Also an Interstate 35 location gets a lot of retail along the I-35 corridor. Norman has above average income levels and continued population growth and in 2004, when the last retail pull factor was calculated, over 2.2 million square feet of retail space has been constructed generating more retail sales. He said based on the actual retail sales in 2007 and the aforementioned formula, Norman generated in excess of $118 million dollars more retail sales than would normally be supportable. So then the pull factor was recalculated based on the excessive sales and the retail pull factor actually appears to have improved to 1.5% since 2004. He said that has to do with developments like the UNPTIF District and Norman brought in retailers that were not currently in the marketplace and expanded the depth and breadth of the retail market. I assume, based on where Norman's competitive retail is now from five to ten years ago, many of the residents had to go outside the community to satisfy many of their retail needs, not the day to day such as grocery store needs, but needs such as bicycles or something of a larger purchase. Now in the last six or seven years, the level of retail development has really strengthened the community and brought a lot more retail sales within the community that normally was not here. He said, Claritas, Inc. looks at some of the same factors discussed earlier in forecast and retail sales, such as competition, historic retail sales, demographics, and income growth when looking to locate a client and they said overall, Norman gets in excess of $120 million in retail sales which is the same Mr. Lander saw in terms of the improvement in the community and bringing more retail sales that were normally leaking out of the community. The report was broken down by retail types and despite the fact that Norman captured retail sales above and beyond what would be considered normal, there are still some retail segments of the community leaking out leaving opportunities for growth.

Mr. Lander said the UNPTIF Revenue compares both actual Tax Increment Financing (TIF) revenue collections for the UNPTIF District as reported by the City of Norman with the revenue estimates prepared in February 2006, by Alexander Holmes, Ph.D, in a report entitled *Estimated Tax Revenues for University North Park* determining if they were under or over performing. He said he also researched the TIF operating procedures and practices implemented for UNPTIF and made comments on which practices were good and those that needed improvement.

Mayor Rosenthal suggested having the presentation on the City webpage for citizens to review and Mr. Lewis said Staff will do that.

Items submitted for the record

1. "Retail Sales Cannibalization Study University North Park TIF District, I-35 and Robinson Street, Norman, Oklahoma, December 2008, submitted by Canyon Research Southwest

The meeting adjourned at 6:00 p.m.

ATTEST:

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City Clerk

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Mayor