Wooster Square Retail and Housing Assessment

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City of New Haven
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Contents

Wooster Square Retail and Housing Assessment
(Technical Memorandum)

Retail 04
Housing 08
Wooster Square Retail and Housing Assessment (Technical Memorandum)

Retail

Retail:
Retail is a desirable characteristic and an increasingly difficult development program to sustain. New Haven will need to carefully consider the role of retail as a first floor use and how extensive of a requirement it will be for new developments.

Market Context:
Retail assessments utilize a center point as the basis for determining the level of market demand for potential development. The center point for this high level assessment was within 0.25 miles of Frank Pepe’s Pizzeria. A 0.25 mile (5-minute) walk is typically considered an appropriate walking distance for neighborhood level retail.

Based on ESRI (Environmental System Research Institute) data this area has approximately 950 households with a median disposable income of $45,000. This leads to a total of $27m in retail spending capacity (excluding autos). $3.4m is outside the home food and drink based expenditures. Extending the area to a 0.5 mile provides another $37m in spending potential of which $7.9m is outside the home food and drink. However, the potential market disposable income per household falls by $5,700.

Based on the build-out contained in the proposed plan an additional 74k SF to 80k SF of new first floor retail space could be provided. Using estimates of retail sales per square foot it is possible to estimate in broad terms how much sales activity would be required to support this level of build-out. However, retail sales vary widely across types (see table 2) therefore a neighborhood midpoint of $225 per SF was used to approximate how much retail activity was needed to support this level of development.

Depending on the build-out $18m to $24m in consumer expenditures are required to support that amount of retail square footage. Without additional households this new retail would require all the existing disposable income to support it.

The recently approved 537 units of housing adds potentially 850 to 970 new people. Assuming similar levels of disposable income to the present residents, these additional households would have a retail sales potential of $38.5m. Again supporting the new retail from local residents would require nearly all their purchasing and dining activity.

<table>
<thead>
<tr>
<th>Distance</th>
<th>0.25 mile</th>
<th>0.5 mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>959</td>
<td>2,549</td>
</tr>
<tr>
<td>Median Disposable Income</td>
<td>$44,926</td>
<td>$39,172</td>
</tr>
<tr>
<td>Total Spending Power</td>
<td>$27,037,000</td>
<td>$63,297,000</td>
</tr>
<tr>
<td>Outside Home Food and Drink</td>
<td>$3,400,000</td>
<td>$7,900,000</td>
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</tbody>
</table>

Table 1: Environmental System Research Institute
<table>
<thead>
<tr>
<th>Sales per Square Foot</th>
<th>Super Regional</th>
<th>Regional</th>
<th>Community Centers</th>
<th>Neighborhood</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Merchandise</td>
<td>$155</td>
<td>$144</td>
<td>$133</td>
<td>$100</td>
</tr>
<tr>
<td>Food</td>
<td>$340</td>
<td>$303</td>
<td>$310</td>
<td>$183</td>
</tr>
<tr>
<td>Food Services</td>
<td>$406</td>
<td>$289</td>
<td>$229</td>
<td>$183</td>
</tr>
<tr>
<td>Clothing &amp; Accessories</td>
<td>$229</td>
<td>$209</td>
<td>$167</td>
<td>$201</td>
</tr>
<tr>
<td>Shoes</td>
<td>$291</td>
<td>$241</td>
<td>$168</td>
<td>$145</td>
</tr>
<tr>
<td>Home Furnishings</td>
<td>$257</td>
<td>$234</td>
<td>$158</td>
<td>$160</td>
</tr>
<tr>
<td>Home Appliances/Music</td>
<td>$312</td>
<td>$282</td>
<td>$189</td>
<td>$175</td>
</tr>
<tr>
<td>Building Materials/Hardware</td>
<td>n/a</td>
<td>$178</td>
<td>$131</td>
<td>$111</td>
</tr>
<tr>
<td>Automotive</td>
<td>$140</td>
<td>$184</td>
<td>$146</td>
<td>$136</td>
</tr>
<tr>
<td>Hobby/Special Interest</td>
<td>$267</td>
<td>$197</td>
<td>$146</td>
<td>$149</td>
</tr>
<tr>
<td>Gifts/Specialty</td>
<td>$267</td>
<td>$197</td>
<td>$146</td>
<td>149</td>
</tr>
<tr>
<td>Jewelry</td>
<td>$748</td>
<td>549</td>
<td>$264</td>
<td>$280</td>
</tr>
<tr>
<td>Liquor</td>
<td>n/a</td>
<td>n/a</td>
<td>$250</td>
<td>$217</td>
</tr>
<tr>
<td>Drugs</td>
<td>$229</td>
<td>$228</td>
<td>$247</td>
<td>$241</td>
</tr>
<tr>
<td>Other Retail</td>
<td>$371</td>
<td>$288</td>
<td>$172</td>
<td>$143</td>
</tr>
</tbody>
</table>

Table 2: Environmental System
Research Institute
Considerations:
Filling first floor “retail space” can be difficult given the retail dynamics. The retail environment is no longer “build it and they will come” from either retailers or retail customers. Moreover, from a development financing perspective on new construction, unless the retail is a credit rated tenant with a long term lease, rents tied to this retail are increasingly excluded from the revenue projections of the development, potentially expanding the development financing gap. This limitation explains the desire of developers to attract national or regional tenants versus locally owned, small retailers. However, recent experience suggests that obtaining long term financing can be difficult with an unleased first floor of the building. The dilemma for developers is balancing the need for neighborhood amenities to make the housing more attractive from a housing perspective in a way that is financially prudent.

As noted earlier, supporting this new retail capacity would require capturing nearly all the neighborhood spending from both existing households and potential new households. As an alternative, Wooster Square could build on its historic positioning and pursue a destination-type strategy to pull retail spending dollars from the region. The area as a “destination” would be necessary to support this level of additional retail capacity. “Destinations”, however, require accessibility and parking to support the non-resident customers.

Conversely another option would be to pursue a strategy of active first floor uses not limited to retail and focus on design guidelines and standards to create an engaging pedestrian experience.

An active retail market has four major components.

1. **The potential customer pool** is the number of people that can potentially be brought to a retail corridor.

2. **Shopping opportunities** are the amount and nature of the retail.

3. **Shoppers** are people who walk into stores.

4. **Buyers** purchased something.
From a planning perspective, a community can influence the customer pool and shopping opportunities through a number of actions:

• Accessibility (traffic flow and parking)
• Programming (events)
• Aesthetics (design look and feel)
• Safety (in fact & perceptual)
• Housing policy (density & housing price points)
• Zoning & regulatory approach
• Taxes
• Recruitment & curating
• Visibility

In the area of recruitment and curating retail, a number of communities either through the city or through a partnership are actively trying to create and grow a local retailer tenant base. New Haven has an approach through its Project Storefronts program. In addition to this program of pop up retail, additional activities include:

• **Active target recruitment**
• **Fit out subsidies**
• **Retail & Restaurant incubator models**

Retail incubators take two major forms: the physical or virtual approach. A physical incubator is a site specific identified storefront that has various start up retailers rotating through it and also offers training and other business support. A virtual approach requires participating landlords across a range of locations that are willing to enter into flexible lease arrangements that may or may not be subsidized by the incubator. The incubation part consists of training and support. In both cases there are usually limits to the type of retail concepts that can participate. Convenience stores, second hand stores and liquor or tobacco stores are typically not included.

Core considerations for tenant development include:

• **Tenant identification process**
• **On-boarding & participation requirements**
• **Tenant improvements**
• **Time frame**
• **Graduation packages**

**Summary:**

Wooster Square is a highly desirable location given its walkable pedestrian friendly nature. However, the area does not have a large enough population with sufficient incomes to support an extensive local retail base even with the proposed new housing. It is recommended that any retail development be concentrated along key corridors and not be a specific requirement for all new development.
Housing

Current Conditions of Rental Market

As of end of September 2016 approximately 592 rental units were available citywide. Forty seven are single family houses. Median rental price per bedroom is $1700. This represents a 6% increase over the prior year. In Wooster Square 12 units were available in the study area. Two of the units are in apartment buildings, the remainder represented multi-family homes.∗

Wooster Square rents are on par with neighborhoods near the downtown. Downtown rents in newer premium buildings with amenities and parking range between $2.50 to over $3.00 per foot. At the time of this writing, the highest rents in Wooster Square are approximately 60% of the highest rents in the downtown.

The approved developments in the study area will add 537 units of apartment housing. One of the concerns about the new housing is the impact on affordability of the neighborhood. One of the anecdotal observations about the impact of new rental construction on rental housing prices on New Haven is the switching that may take place.

The new rental housing has modern appliances and additional amenities such as pools, gyms and outdoor areas. New Haven’s traditional rental housing of two family units and smaller apartment complexes lack many of these amenities. While rental prices for new units in or near the downtown are over $2.50 per foot, classic apartments in neighborhoods such as East Rock and Wooster Square are between $1.20 to $1.50 per SF with the primary difference being appliances. Therefore, while average prices may increase, the differences in rental stock are reflected in rental prices.

One consideration moving forward when weighing the issue of “affordability” and “market rent” is the importance of income density. Income density is the combination of income levels and number of households in a specific trade area. Income density equals:

\[
\text{Income density} = \frac{\text{Median Household Income} \times \text{Households}}{\text{Geographic Area}}
\]

Income density incorporates both traditional population density and income levels. However, like most metrics income density needs to be understood in context. For example, imagine one acre of land. On that one acre lives one person with $1m of income. Take that same one-acre parcel of land. Imagine 1 million people each making $1.00 living on that land. Both have income densities of $1m per acre. However, the first person has a lot of income, but does not have enough “retail” or consumer services activity to necessarily support a full level of neighborhood amenities. In the second

∗Source: trulia.com and zillow.com
situation there is a lot of population density but there is effectively no disposable income which means there is not enough spending power to support neighborhood retail amenities. This metric plays an important role in determining the types and levels of retail, neighborhood services and related amenities an area can support. It can also help define the right mix of density and income levels to create a diverse, balanced neighborhood undergoing development pressure.

The Wooster Square Planning Study has, at a concept test-fit level, 330 additional housing units above those presently approved. Between the approved new housing (537 units) and the potential additional housing locations this represents an additional 867 households on an existing household base of roughly 950. Moving forward to maintain the diversity that is one of the strengths of Wooster Square, creating housing that is affordable to a broad set of the community will require some innovative approaches to the cost structure of housing.

Housing economics consist of approximately five major cost categories that impact its ultimate price. Ensuring “affordability” requires targeting as many of the five components of housing cost components as possible:

- **Land**: the cost of acquiring the site and holding the land. City-owned land provided at little, to no cost can have a positive impact on maintaining affordability.
- **Development costs**: design, regulatory approvals. Clear regulatory requirements and process can reduce the pre-construction “soft” costs and the associated pre-construction development risk.
- **Site & Construction costs**: labor and materials. These are the most difficult to reduce.
- **Financing costs**: the cost of arranging financing and the cost of the financing (interest rates and/or use of equity capital). Credits, incentives and low interest construction financing can reduce the cost of money.
- **Profit margin / return on investment**: return on investment required to take the development risk. Nonprofit developers have substantially lower margin/return requirements.

**Summary:**
At present, Wooster Square remains substantially less expensive than the downtown area. As new units come online in Wooster Square their rental prices will be substantially higher than the present available units. Because of the potential number of units being added, average rental prices for the neighborhood will rise, but the wide variety in rental stock with a significant difference in amenities means some housing will remain substantially below the costs of the new units. To address the affordability of new housing stock requires initiatives focused on the five different components of housing pricing: land, development costs, construction, financing and return on investment.