

A Report:

**A RETAIL REVITALIZATION STRATEGY
and
ACTION PLAN**

**presented to:
The Morristown Partnership**

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EXECUTIVE SUMMARY

The National Economic Context

- The national economy is emerging from the most severe recession since the Great Depression. Incomes are stagnant, job security is still a major concern, and experts predict job recovery will take at least five years. The housing market remains a huge drag on recovery
- Consumer behavior has changed in ways that experts expect will be long lasting. The consumers' free-spending behaviors of the 1990s and 2000s are gone; consumers now are far more deliberate and cautious about purchases. Their needs now have a more powerful position in their decision-making than their wants. The new "deliberate consumers" are predominantly in quintiles two, three, and four of household incomes. They basically support middle-market retailing, and they are shopping proportionately more than ever in "value retailers" such as Wal-Mart, Target, Best Buy, etc. Their aspirational, "trading up" purchases have, in turn, declined substantially
- The top quintile, which has the core shoppers of the luxury retail market, has also shown signs of caution. Nevertheless, it is expected to have the strongest spending rebound from our Great Recession
- Most national chains have substantially reduced their numbers of new stores, and they are placing them in strong, proven locations. Retail chains are waiting to get into the very strongest malls. In their assessments of market area potential, many well-known retail chains now only will count real residents --units planned, under construction, or vacant are disregarded. Many chains also reduced their numbers of stores during the recession, and some continue to do so. Many national chains are also looking for smaller stores, even moving into smaller spaces as their leases come up for renewal. They are also more concerned than ever about sales cannibalization resulting from having stores located too close to each other
- The absorption of retail space is down by about 80%. The CoStar Group reported in its Mid-Year 2010 Retail Review and Outlook, nationally, in Q2 of 2007 about 64 million SF of retail space was absorbed; there was only about 12.8 million SF of absorption in Q2 of 2010
- The retailers now most interested in new locations are big-box value chains, drugstore chains, and personal-care-products stores. Many industry observers expect upscale retailers will again start looking for new store spaces as the spending of their affluent customers increases
- A home and hearth niche has a natural proclivity for downtown locations. Demand for this niche's products and services soon will begin to grow as consumers start to put more money and attention into maintaining and improving their current homes instead of buying new ones.

Downtown Morristown As A Retail Location

Captive Markets

- The downtown is a true multi-functional commercial center that provides abundant salient reasons for people to visit and the available data suggest that they do so in significant numbers. The consequent close-in consumer markets available to Downtown Morristown's retailers are impressive, having a variety and power normally found in municipalities many times larger than Morristown. The downtown workforce totals 22,063, including at least 13,800 office workers. The hotels draw about 196,000 guest days per year. The influx of 1,500+ market rate residential units will enhance this downtown customer traffic. DANTH's estimates of the downtown spending potential of nearby office workers, new residents and high school students totals over \$132.9 million/yr and the hotel guests probably add about \$9 million just for their restaurant expenditures

- The already completed residential units, when occupied, will bring households with over \$28 million in retail spending power right into the downtown. As the other projects are constructed and occupied, all the new households will bring about \$82 million in retail spending power into the heart of the downtown. Given their spending power and lifestyles, these new residents are likely to have a more varied and up-market type of demand for goods and services than Morristown's average office worker shopper
- Most importantly, this substantial customer traffic does not have to be wooed downtown; it's already there or traveling through. While these visitors are downtown, the magnetism of rival shopping centers is a diminished factor in their shopping decisions
- District merchants could capture a lot more sales from office workers, hotel guests, students, pamper niche patrons, restaurant patrons, downtown residents and other downtown users and visitors. Geographic dispersion and merchant unawareness or disinterest appear to be the strongest factors now inhibiting greater penetration of these captive markets.

Downtown Morristown's Entertainment Niche

- Entertainment niches are another proven key to having a vibrant and economically successful downtown and Downtown Morristown has one that is strong, if somewhat imbalanced:
 - A 10-screen cinema that attracts about 360,000 patrons annually
 - The Community Theater with an annual attendance of about 200,000
 - 77 restaurants and nine coffee shops with total annual sales of \$79.4 million. The strength of these eateries is a reflection of the downtown's strength as a commercial center.
- The one area where the entertainment niche appears weak regards public spaces for informal entertainments. While the recently renovated Green is a visually attractive public space, the vehicle traffic that surrounds it deters visitation. Moreover, its infrastructure is not conducive for visitors to engage in a wide range of activities as Manhattan's Bryant Park's does – or for observers to be amused by those engaging in the activities
- There are, however, 19 outdoor café settings in warm weather months, and more are planned. These outdoor diners are perfect fodder for people watchers
- The entertainment niche is bringing and keeping consumers downtown, thus generating potential customer traffic for nearby retailers. Savvy retailers should be cross marketing with the establishments in the entertainment niche.

Rail, Traffic and Parking

- Downtown Morristown's transportation assets are very substantial
- The average weekday passenger boardings at Morristown station were 2,057 during the NJ TRANSIT fiscal year 2009
- I-287 is located about .73 miles from The Green. It brings over 106,000 vehicles a day into the area. The downtown also has many other locations with traffic counts over 20,000 vehicles per weekday. Many of Morristown's counts are higher than those in Englewood and Westfield, two downtowns with numerous major retail chains
- The Morristown Parking Authority provides 2,900 spaces. This count does not include any private commercial parking spaces. The highest observed occupancy rate was 58.3% at 1:00 P.M. on a weekday. Obviously, there is a significant amount of under-utilized public parking capacity.

The Downtown's Current Retailers

- One strong reason that more major retail chains are not in Downtown Morristown is that they are already nearby and penetrating the market area. Talbot's and J. McLaughlin are just down the road from Downtown Morristown. The Shoppes at Union Hill in Denville, has lured a number of fashion retailers that otherwise might have opened in Downtown Morristown. Most importantly, an experienced commercial broker states, is that: "Major retail chains with shops in Short Hills – and there are lots of good ones—are not interested in another location that close"

- In 2010 there were 257 retail firms in Morristown and their total annual sales were estimated to be \$247.7 million. About 159 of these retail operations offer department store type merchandise, referred to in the industry now as GAFO. A majority of these GAFO shops, 108 or 68%, are in the downtown
- While the GAFO shops are numerous, they average few employees and have modest annual sales. For example, the average apparel shop in Morristown has about 2.5 employees and annual sales around \$320,000. This meshes with the Partnership's report that the average downtown street-level shop has about 2,000 SF of space
- There are a limited number of national chains, including a Century 21 Department Store, Jos. A. Bank, Kings, Walgreens, Rite Aid, and Staples
- One hotelier claims that the downtown lacks the big name retail chains that his guests are looking for, while another says it has many charming small shops his guests really enjoy. DANTH's shopping visits confirm that the downtown lacks trophy national retail chains, but does have a number of interesting independent retail shops. Most of the people DANTH interviewed mentioned the lack of big name retail chains, while just a few noted the quality small shops
- Visits to downtown shops also revealed most were offering merchandise and price points appropriate for middle market residential shoppers and average office workers. One knowledgeable commercial broker observed that though the downtown had a number of shops selling women's apparel, there was only one that was a true upscale fashion boutique, the kind that are so strong in downtown Englewood
- DANTH identified 42 retail operations in Downtown Morristown that could be organized and marketed together under a home and hearth banner. This niche has many shops, but lacks a really big retail name and the quality of the shops is uneven. Still, there are a Riccardi Bros, a well-known regional chain and a Sherwin Williams Paints. There are several other well-respected local firms in this niche. All together, this niche is now strong enough that it can be grown; it does not have to be established from scratch
- Many downtown retailers simply snarl when discussing hair and nail salons, gyms and spas, etc. But the fact is that they are strong in many of the most esteemed downtowns that target an upscale clientele. The wealthy like shopping, but might love having their bodies pampered even more. Downtown Morristown's 48 firm strong pamper niche is a potential boon for downtown retailers. These operations bring downtown people with discretionary dollars to spend and put them in the mood to do so. They are also attracting hotel guests. Savvy downtown retailers should be cultivating cross-marketing arrangements with the pamper niche establishments.

Retail Prone Commercial Spaces.

The Morristown Partnership reports that the SID's 480 properties have approximately 1,000,000 SF in first floor retail prone space. There are currently 20 vacancies with an estimated total of 40,000 SF. That computes to a current 4% vacant space rate. In the current economic doldrums, that is a very low rate.

Most national chains, especially the ones downtowns usually want the most, require spaces that have 3,000+ SF. This means that most of the downtown's commercial spaces, that average 2,000 SF, would not be suitable for them.

Average asking rents prior to the Great Recession were a problem at \$45/SF. Small firms with annual sales between \$300,000 and \$400,000 could not afford their usual 2,000 SF storefront spaces. Currently, rents for existing spaces are reportedly down to \$30 or even \$25. New spaces, however, are commanding as much as \$65/SF. It is doubtful that, aside from some special restaurants, any small independent retailers will be signed for the new retail spaces. For the small independent merchant, having exiting retail spaces in decent condition available at affordable rents will continue to be critical to their survival.

An Analysis of Downtown Morristown's Trade Areas.

Defining the Retail Trade Areas.

Because of the strong competitive retail centers located to the east and north, DANTH determined that a 20-minute drive shed could not be used to define Downtown Morristown's residential retail trade areas. Instead, DANTH used customer lists provided by local merchants to define the Downtown's Primary Trade Area, where we estimate 55% to 65% of its current residential shoppers live, and its Total Trade Area, which accounts for about 80% to 85% of its current residential shoppers.

Demographic Characteristics of the Trade Areas' Populations

- The estimated population in Downtown Morristown's Primary Trade Area (PTA) in 2010 is 98,708. It is expected to be 99,570 in 2015. Comparable statistics for the Total Trade Area (TTA) are 219,716 and 222,397. The population estimates for both the PTA and the TTA are well below those of the 20-Minute Drive Shed, 817,336 in 2010 and 817,596 in 2015
- No matter which measure one looks at, incomes in Downtown Morristown's PTA and TTA are comparatively high. For example: the median household income in 2010 in the PTA is estimated at \$121,674; the estimate for the TTA is \$124,096. Comparables for the 20-Minute Drive Shed and NJ are \$87,320 and \$72,519
- In 2010, 61% of the households in the PTA had incomes over \$100,000; in the TTA, 62% of the households had incomes in that range. By 2015, it is estimated that 72% of the households in the PTA and 73% of the households in the TTA will have incomes over \$100,000
- Morristown's shoppers are likely to be very educated. In the PTA 59.9% and in the TTA 61% of the residents over 25 years of age have a Bachelors or graduate degree. In the 20 Minute Drive Shed the figure is 47.4% and for NJ it is 34.7%.

Estimates of Retail Spending Levels

- It is estimated that in 2010 the households in the PTA spent about \$1.9 billion on retail goods; the figure for the TTA is about \$4.47 billion. This amounts to about \$54,707 per household in the PTA and \$55,848 in the TTA. Comparables for the drive shed and NJ are significantly lower, \$41,389 and \$31,444 respectively
- ESRI computes a Spending Potential Index (SPI) on which a score of 100 is what the average household in the nation has to spend annually on retail. On this index households in the PTA score a robust 220 while those in the TTA have an even higher 225. Comparable SPI scores for the drive shed and NJ are 166 and 126 respectively
- Even when trade area residents spend relatively less, their spending will be well above the national average. For example, their Spending Potential Index scores for apparel items certainly are all above the national average, with scores usually in the 150 to 170 range, but the vast majority of their other SPI scores are well above 200. This is especially true for expenditures related to entertainment and recreational activities and the home and hearth niche
- The SPIs for entertainment, leisure activities and household furnishings are almost all two to two and a half times higher than the national averages. These spending patterns strongly suggest where the growth opportunities for Downtown Morristown's retail may be strongest.

Lifestyle Market Segments

- The trade areas' lifestyle segments in the High Society LifeMode Group are among the wealthiest and have strong propensities to shop. They are also prime markets for home and hearth type retailers and service providers. Furthermore, they are major spenders on entertainment activities. About 64% of the households in the PTA and 63% in the TTA are in the High Society Group.

Strategic Challenges, Responses and Actions

Challenge: Given the Strong Retail Competition, Which Niches Can Drive a Meaningful Improvement of the Retail in Downtown Morristown?

Response 1. Increase Penetration of Downtown Captive Retail Markets

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers
- Information about these captive markets should be in the recruitment package the Partnership's staff gives to every new retail prospect it encounters. (Note: this is the proper and only effective way to distribute recruitment packages: to prospects *after* contact has been established)
- Create a webinar-like version of the briefings that can be either downloaded from the Partnership's website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics on the Partnership's website
- The Partnership should foster cross promotions between downtown retailers and local hotels. The hotel managements are very interested in developing more of these arrangements
- Place related success "stories" in local print and electronic media.
- For example, MMH is now exploring the establishment of a concierge service that would connect its employees with downtown businesses. This could be a model for many other major corporate office buildings located near Morristown. Replication can be encouraged by well-placed stories about the concierge service. Likewise, stories/reports about any successful downtown backdoor retail operations aimed at these markets would also be helpful. Publicizing the downtown retailers now cross marketing with the hotels can provide models for other retailers to follow
- Create a "Downtown Passport" that would offer special discounts to people employed in the downtown, hotel guests, high school students, and downtown residents
- Create a Downtown Young Professionals Committee that would provide social and networking opportunities for members of this key market segment who live and/or work in the downtown. This group can serve as the Partnership's marketing channel to this market segment.

Response 2. Know Your Potential Customers: Downtown Morristown's Primary and Total Trade Areas Are Characterized by Households Living Upscale Lifestyles With Well Above Average Spending Power.

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers
- Information about these trade area markets should be in the recruitment package the Partnership's staff gives to every new retail prospect it encounters
- Create a webinar-like version of the briefings that can be either downloaded from the Partnership's website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics on the Partnership's website
- Encourage downtown retailers to engage in cross promotions with establishments in the downtown's strong restaurant and pamper niches. These two niches are currently able to draw downtown a lot more trade area residents than the retailers
- Place related success "stories" in local print and electronic media.

Response 3. Grow the Home and Hearth Niche

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers
- Create a webinar-like version of the briefings that can be either downloaded from the Partnership's website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics about this niche on the Partnership's website
- Place related success "stories" in local print and electronic media
- Start a niche marketing effort for the home and hearth niche as has been done in West Hollywood, CA. Given that the Partnership's marketing efforts for the wedding and restaurant niches are both of recent origin and demanding on resources, a marketing

effort for the home and hearth operations may have to wait. Moreover, such as effort would probably have greater impact right after a few more quality firms are added to this niche

- The Partnership's recruitment out-reach effort should give firms in this niche a very high priority. See below for more details about this recommended program
- The Partnership's effort to help retail tenant prospects open a shop in Downtown Morristown should give priority to those in this niche. See below for a detailed description of this recommended program.

Response 4. Grow the Entertainment/Recreation Niche

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers
- Create a webinar-like version of the briefings that can be either downloaded from the Partnership's website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics about this niche on the Partnership's website
- Place related success "stories" in local print and electronic media
- The Partnership's recruitment out-reach effort should give firms in this niche a very high priority. See below for more details about this recommended program
- The Partnership's effort to help retail tenant prospects open a shop in Downtown Morristown should give priority to those in this niche. See below for a detailed description of this recommended program
- The Partnership should work with the Township and possibly local property owners to provide well-activated public spaces where people can watch others or themselves engage in a wide range of informal entertainment activities. Such public spaces would do much to flesh out and strengthen the downtown's entertainment niche. They also would make the downtown "stickier" in the sense they would give people additional reasons to stay downtown longer. A lot of the downtown's current visitors and users would also become more visible. Consequently, the downtown would appear to be busier and more exciting – and a lot more attractive location for retailers. Cautionary note: just having a public space is not enough. They have to be properly located, designed, programmed and managed. Otherwise they can turn into locations for many "quality of life" problems and a real liability for the downtown
- The Partnership should encourage even more outdoor dining, sipping and snacking. It will bring an increased sense of activity to the downtown. Such activities across from The Green also will take advantage of that strong visual asset
- The Partnership should try to build one weekday evening as the downtown's time when many shops will stay open until 8:00 or 8:30. It should have a special emphasis on hotel guests, and downtown hotel managers and retailers should jointly plan it, with a heavy use of cross promotions. If this succeeds, then a second late evening can be attempted.

Response 5. Expand the Partnership's Niche Marketing Efforts to More Niches.

- Create and Market a "Town and Country Niche." This effort would bring together all downtown establishments that are already drawing customers significantly from the trade areas' upscale households. Clustered together would be some restaurants, the Community Theater, some pamper niche operations and some retailers. The objective of this marketing effort is to establish Downtown Morristown as a lifestyle location, a place where upscale trade area residents go to engage in a lot of the leisure time activities they enjoy. The retail will initially feed off of the traffic drawn in by other niche operations, but with time it should strengthen considerably
- The Partnership has already done a promotional campaign related to this niche. Unfortunately, that effort did not seem to gain immediate traction. However, the market potentials for this niche are so substantial that a persistent effort to establish Downtown Morristown as the region's town and country downtown is warranted. Furthermore, achieving this will be neither simple nor quick, but will require amply resourced and well – targeted programs.

Challenge: How Can The Morristown Partnership Recruit Quality Independent Retailers?

Response. The Morristown Partnership Should Implement a Business Recruitment Public Relations Campaign Aimed at Stimulating Retail Tenant Prospect Walk-Ins

- Place stories in major newspaper real estate sections and regional real estate publications
- Hold special briefings for developers, savvy commercial brokers and landlords
- Investment Conferences are usually designed to showcase particular redevelopment opportunities, but also are great opportunities to impress a very positive image of the downtown on major developers, brokers, bankers, retail site locators and newspaper real estate columnists.

Response. The Morristown Partnership Should Have a Targeted Effort to Identify and Cultivate Retail Tenant Prospects. For the Morristown Partnership, establishing this type of recruitment operation will entail having personnel on staff or under contract to carry out the following tasks:

- The identification of quality prospects. The Partnership reportedly already has a list of such prospects. The retailers on this list need to be reviewed and prioritized. Field visits and phantom shopping will probably be involved
- The networking that needs to be done to establish contact with the quality prospects. Establishing personal contact is essential. Sending materials, like recruitment packages, by regular mail or email will have very negligible results; most end in the "circular file." Getting personally connected can be time consuming
- Cultivating relationships and stimulating the prospects' interests in Downtown Morristown
- Learning about their interests and needs
- Facilitating their signing leases for retail spaces.

Response 4: The Morristown Partnership and the Township Should Achieve a High Conversion Rate on Tenant Prospects. The Morristown Partnership should provide the following information and/or services to retail tenant prospects it has contact with:

- Help finding spaces. Many tenant prospects need help finding a range of spaces to look at, especially locations that are likely to have the combination of price, size and condition they can afford
- Help understanding Downtown Morristown's markets. Providing many independent tenant prospects access to data about the markets they can access by having a location in Downtown Morristown will enable them to have better business plans. That will give them a better chance of success and of obtaining external financing
- Help getting financing. In a sluggish economy where bank lending to small businesses has all but completely disappeared, independent retailers are having a tough time finding funds to move to a new location or open another store. Across the nation, a number of downtown organizations and municipalities are concluding that they must in some way help quality independent retailers get the financing they need. Because financial assistance is becoming an increasingly important factor in the competition for quality retailers, it is recommended that the Partnership carefully consider this issue. Introductions to banks that really are not lending or an SBA that is notoriously difficult to deal with are not what are needed
- Help getting municipal approvals and permissions. Most small retailers do not have a clue about the permits they need or how to get them. They also do not have a lot of money to hire lawyers, architects, planners, engineers, etc. On a recent assignment, DANTH interviewed city officials who unanimously extolled the speed of their permitting and permissions process. Interviews with six major developers, however, revealed that they thought this city's process was too slow and too demanding, especially for their small independent retail tenants. DANTH recommends that:

- The Township and the Partnership should create a task force composed of local business people to review the existing permits and approvals process to confirm that it is quick and efficient or to recommend necessary changes. Favorable findings by the task force should be well publicized by its members as well as the Township and the Partnership
- The Partnership and the Township should create an easy to read and easy to understand chart that tells new retailers the permits they need, where they go to get them and the information they need to provide. This can be posted to their websites and also printed on paper for take aways from their offices.

Challenge: The Image of Downtown Morristown May Need a Reset. DANTH's concern was generated by the following:

- When talking about the downtown's retail, almost everyone raises either the Golden Age that was or all that now is missing. Few get around to saying that there are now some really good stores downtown
- While the new downtown residential units are frequently mentioned, few talk about how strong a commercial center the downtown really is, especially given the town's population size
- Large restaurant and pamper niches are usually looked upon as weaknesses rather than strong assets drawing in trade area residents
- A number of acquaintances living in Chatham, Madison or working in offices located near Morristown say finding parking in the downtown is difficult. Yet, the data shows Downtown Morristown's parking capacity is now under utilized.
- There is a putative crime problem on Speedwell north of Headquarters Plaza. Hotel guests are reportedly afraid to go in that area. Rival out of town hotels are using this supposed crime problem to win customers from hotels in Downtown Morristown. Whether this is a problem about actual criminal events, the fear of crime or the fear of strangers is unclear. But, raising the crime issue is like opening Pandora's Box – all hell is let loose based solely on rumor and competitive spite. The rival hotels have made this a genuine issue.

Response 1. Carry Out a Thorough Assessment of How the Downtown is Being Perceived by Trade Area Residents, Commercial Brokers and Tenant Prospects

Response 2. The Partnership Should Undertake a Campaign to Brand Downtown Morristown as the Place Where People With Upscale Lifestyles Come to Live, Dine, Be Entertained and Pamper Themselves

- In this branding campaign, the partnership should use social networks, both personal and electronic, as the key communications channels
- A Corp of Partnership Ambassadors should be formed who would be tasked with initiating and inserting positive messages about the downtown into these networks. The ambassadors should be recruited from residents, office workers, hotel staffs, high school students -- and especially young professionals and young mothers with whom the Partnership already has working relationships. They should have strong social skills and be very good networkers
- The Partnership should erect signs on downtown projects that provide passersby with a "caption" that explains what they are seeing and its import. If your downtown captive markets do not understand the positive changes they are seeing, they cannot tell others about them.

Challenge: With Four Commercial Cores, Downtown Morristown is Dispersed and Fragmented.

Response 1. Take Measures to Increase the Magnetism of Each of the Four Commercial Cores.

Response 2. Make the Walk Between Cores Easier for Downtown Users.

- The downtown's need for greatly improved way-finding is quite widespread. The Township should create a system that more effectively shows:
 - Visitors how to get from major township gateways, e.g., I-287, to each of the commercial cores
 - How to walk from core to core
 - Where the closest available municipal parking is located
- The Partnership should disseminate information about backdoor retailing to downtown retailers and encourage them to engage in such activities. The geographic dispersion of the downtown's captive markets can partially be overcome through appropriate marketing techniques. Downtown retailers need to learn about them and then use them. While marketing programs can help entice shoppers to traverse greater distances, DANTH's research on "backdoor retailing" suggests that a marketing strategy based on the retailer personally or electronically going to the relatively distant customer is likely to be more effective. Backdoor retailers do not just rely on the customer traffic that passes their storefronts. Concierge services, for example, are one way of doing this. Trunk shows and web storefronts are others.

INTRODUCTION

Objectives

DANTH's primary objective on this assignment was to formulate a retail revitalization strategy and action plan for the Morristown Partnership (MP).

The research presented in this report also is intended to assist existing businesses, prospective entrepreneurs, governmental officials, realtors, property owners, developers, educators, business counselors, and others in the community as they engage in activities related to the economic well being and growth of Downtown Morristown.

Work Elements

On this project the DANTH Project Team:

- Reviewed prior studies and plans supplied by the Partnership
- Conducted seven field trips to Morristown and its retail trade area
 - Shopped downtown stores
 - Visited rival retail centers in the trade area
 - Measured walking distances between the downtown's commercial nodes and key commercial locations
 - Interviewed retailers, hotel operators, hospital administrators, and commercial brokers
- Analyzed existing businesses to identify existing niches and clusters
- Assessed existing information about commercial spaces
- Analyzed relevant trends that will shape retail growth over the coming five years
- Used a Geographic Information System (GIS) and shopper lists provided by local retailers to analyze the size and shape of the residential trade areas.
- Analyzed the demographic, lifestyle and expenditure characteristics of trade area residents
- Based on the trends and trade area analysis, identified those existing niches that can be grown and new niches that have development potential.
- Recommend specific action steps for marketing each of the targeted niches
- Designed a recruitment action program to attract quality firms for each of the targeted niches
- Recommended public improvements that would strengthen Downtown Morristown's retailing
- Communicated frequently with Partnership's staff and met with its Retail Committee
- Consulted our national network of professional contacts
- Applied our combined 55+ years of professional experience.

Niches

DANTH, Inc. has a national reputation for its expert use of a niche-based analytical framework to develop downtown revitalization strategies and this

approach was utilized on this assignment.¹ Retail niches are geographic clusters of retail businesses sharing some underlying commonality that can be used to market member businesses to consumers, property owners, developers and other businesses that might want to join the niche. Niches provide a large amount of choice within a limited range of goods and services. In a very real sense they function as specialized shopping centers that are usually neither enclosed nor under unitary ownership. As a result, niches can serve as customer destinations, drawing shoppers from long distances.

Some well-known examples of retail niches are the antiques niches in Waynesville, OH and Red Bank, NJ; the household lighting niche on the Lower East Side in Manhattan; the home and hearth niches in West Hollywood, CA and Englewood, NJ, and the wedding niche in Rutland, VT.

A niche's strength is based on the cross shopping that occurs among niche businesses. A strong niche will be very convenient. The amount of convenience a niche has is largely determined by:

- The size and diversity of the selection in the narrow range of goods and services that define the niche (e.g. antiques) – which usually correlates with the number and sizes of the businesses in the niche
- How quickly and easily customers can go from one niche business to the others.

A niche allow shoppers to easily compare a large amount of merchandise in a relatively short amount of time. This usually means that most niche businesses are geographically very close to each other so shoppers can walk easily and quickly from one to another.

Because niches need geographic proximity – preferably niche shops are situated close to each other in a pedestrian-friendly environment – niches are most apt to succeed if they are well-anchored in a downtown commercial district or, more rarely, in a strong retail development specifically devoted to that niche.²

The DANTH Project Team

The project team included N. David Milder, DANTH's president. Milder has over 30 years of experience in the field of downtown revitalization. He is a specialist in niche-based downtown retail revitalization strategies, business recruitment and redevelopment. His publications include numerous books, monographs and articles, such as:

- Downtown Business Recruitment

¹ DANTH's president, for example, has written a well-known book on the subject: N. David Milder, *Niche Strategies for Downtown Revitalization*, (New York, NY: Downtown Research & Development Center, 1997).

² For example, Natick, MA has two small shopping centers devoted exclusively to high-end national retail chain stores in the home and hearth niche.

- Niche Strategies for Downtown Revitalization
- Tools And Techniques For Financing Downtown Revitalization

William Ryan of Downtown Hospitality Associates (Madison, WI) assisted Mr. Milder. Mr. Ryan is a skilled user of the ArcView and ESRI Business Analyst Geographic Information Systems. DANTH has teamed with him on several projects in AZ, NH and NYC in recent years.

Some Caveats

Another DANTH objective was to base these recommendations on the best possible information we could obtain. However, the current project had definite, if certainly understandable, budget constraints. Consequently, some types of information – e.g., data from a rigorous trade area telephone survey --- were not available. Other data, such as hotel guest retail expenditures, were just not obtainable. Nevertheless, we believe that the available data more than adequately supports the findings and recommendations of this report.

Acknowledgements

On a project such as this, local assistance in gathering information, and providing knowledgeable insights and feedback is absolutely critical to its success. In this regard, DANTH would like to especially thank:

- Michael Fabrizio, Executive Director of the Morristown Partnership
- Jennifer C. Wehring, Director of Marketing, Morristown Partnership
- France Delle Donne - Director of Development, Morristown Partnership
- All of the other local businesspeople and town officials who met with us or otherwise helped our research effort.

RELEVANT TRENDS

Every five years – a period known as a lustrum – DANTH Inc. prepares a trends assessment. The results of our 2008-2013 assessment provide an essential frame of reference when we formulate revitalization strategies and action plans for our clients. One of the areas we analyze is downtown retail. Following is a condensed version of our retail related trends study. It focuses on the trends most relevant for Downtown Morristown and has been updated for this assignment. The full report is available from the trends page on www.danth.com. These trends will be referred to frequently later in this report.

The National Economic Context

The national economy is slowly emerging from the most severe recession since the Great Depression of the 1930's. Incomes are relatively stagnant, job security is still a major concern, and experts predict job recovery will take at least five years. The housing market remains a huge drag on recovery: the number of “underwater” mortgages, according to Mark Zandi, chief economist of Moody's Analytics and co-founder of Moody's Economy.com, is expected to increase from 25% in 2009 to 50% in 2011. Consumer behavior has changed in ways that experts such as McKinsey, the global management-consulting firm, expect will be long lasting. The consumers' free-spending behaviors of the 1990s and 2000s are gone; consumers now are far more deliberate and cautious about purchases. Their needs now have a more powerful position in their decision-making than their wants.

The new deliberate consumers are predominantly in quintiles two, three, and four of household incomes. They basically support middle-market retailing, and they are shopping more than ever in “value retailers” such as Wal-Mart, Target, Best Buy, etc. Their aspirational, “trading up” purchases have, in turn, declined substantially.

The top quintile, which has the core shoppers of the luxury retail market, has also shown signs of caution.³ Nevertheless, it is expected to have the strongest spending rebound from our Great Recession, though most experts do not anticipate a full return to prior high expenditure levels anytime soon. It should be noted, as will be detailed later in this report, that a strong majority of the households in Morristown's trade areas are in the top income quintile.

³ The U.S. Bureau of Labor Statistics defines 2008 household income quintiles as follows: the lowest quintile ranges from no income to \$19,064 with a median household income of \$10,263; the second quintile ranges from \$19,065 - \$36,270 with a median of \$27,442; the third quintile ranges from \$36,271 - \$59,086 with a median of \$47,169; the fourth quintile ranges from \$59,087 - \$93,357 with a median of \$74,090; the highest quintile ranges from \$93,358 to the highest income with a median of \$158,652.

During the Great Recession some well-known chains closed (e.g., Circuit City), and many more have teetered on the edge (e.g., Talbot's, Chico's, Blockbusters). Though national retail sales have finally shown some increases, they are still nowhere near the glory days of the past two decades. Most national chains have substantially reduced their numbers of new stores, and they are placing them in strong, proven locations. Retail chains are waiting to get into the very strongest malls that offer them the highest sales per square foot. In their assessments of market area potential -- under instructions from their boards of directors -- many well-known retail chains now only will count real residents. Units planned, under construction, or vacant are disregarded. Many chains also reduced their numbers of stores during the recession, and some continue to do so (e.g., Williams-Sonoma). Many national chains are also looking for smaller stores, even moving into smaller spaces as their leases come up for renewal (e.g., Ann Taylor). They are also more concerned than ever about sales cannibalization resulting from having stores located too close to each other. As the CoStar Group reported in its State of the Commercial Real Estate Industry Mid-Year 2010 Retail Review and Outlook, nationally, in Q2 of 2007 about 64 million SF of retail space was absorbed; there was about 12.8 million SF of absorption in Q2 of 2010.

The retailers now most interested in new locations are big-box value chains, drugstore chains, and personal-care-products stores. Some fast-food chains are also expanding.

Many industry observers expect upscale retailers will again start looking for new store spaces as the spending of their affluent customers increases, but certainly not at the levels of the past decade.

The specialty retail chains offering comparison shoppers goods to consumers in the broad "middle market" have been the most stressed by the Great Recession and they are exhibiting the least demand for new locations or additional space.

As a consequence, many developers and landlords, in cities large and small, are looking increasingly at small independent operators to fill their vacant retail spaces. These are typically small existing merchants with few employees who either want to move to a better location or to open a branch store. Some are "newbies." Of course, these small operators carry along a whole different set of problems and challenges:

- High failure rates for new firms
- A tougher time than ever finding new capital
- Frequently weak name recognition.

When trying to understand the current pattern of retail tenanting and vacancies in Downtown Morristown, it is important to keep these trends in mind.

Downtown Residential Growth

The strongest force behind successful downtown revitalizations over the past two decades – and a very visible one – has been downtown residential growth. During the 1990s, in America's larger cities, downtown populations grew by 10 percent, a marked resurgence following 20 years of overall decline.⁴ And in these downtowns homeownership rates more than doubled during a thirty-year period, reaching 22% by 2000. Overall the number of homeowners grew steadily each decade. In general, these downtowns boasted a higher percentage of both young adults and college-educated residents than other communities in their regions.

The growth of downtown housing was not restricted to large cities. In New Jersey, significant downtown housing projects have been constructed in such communities as Cranford, Hoboken, Westfield, Englewood, Livingston, Morristown, Rahway, South Orange and recently, a significant number of new units, in Morristown.

The demand for downtown residential units was substantial prior to the Great Recession and it remains surprisingly present, especially in buildings close to commuter rail stations, as the economy struggles back. However, not everyone wants to live downtown. For example, a National Association of Home Builders' survey of renters found that only 19% of the respondents preferred a downtown residential location, while 54% preferred living elsewhere.⁵

Nevertheless, the demand for downtown housing is strong enough to be a very viable engine for future downtown economic growth. One reason: recent studies of household formation indicate that most households today – and increasingly in the future – will not include children.⁶ In 1985, 50% of America's households had children. In 2009 that figure had dropped to 35% and the forecast for 2025 is down to 25%. This means that the pool of those households most likely to live downtown is increasing substantially.

A partial explanation for the increased interest in downtown habitation is the desire for greater conveniences such as:

- Living close to one's place of employment
- Or to live within an easy walk of a commuter rail station
- Having restaurants, coffee houses, gourmet markets, movies, bars all within easy walking distance of one's residence.

The impacts of downtown residents on downtown retailing have often been dramatic. Cleveland, OH, Hoboken, NJ, and White Plains, NY, are but three

⁴ Eugenie L. Birch, Who Lives Downtown, November 2005, Washington, DC, The Brookings Institution, Living Cities Census Series. pp. 20. This was a study of 44 selected cities.

⁵ Sharon Dworkin Bell, "What Renters Want," Multifamily Trends, Summer 2002, pp. 32-38, p.33

⁶ See the presentation of Jeffrey Otteau of the Otteau Valuation Group, "Spring Forecast", to New Jersey Future's 2010 Redevelopment Forum

examples. These residents provide a close-in market for restaurants and retailers. They also often have considerable disposable income. Young professionals, in particular, seem to frequently have a big positive retail impact. The other important market segment drawn to downtown residency are the “empty nesters.” This group has proven to be especially significant in NJ’s suburban downtowns such as Cranford and Morristown.

The full impact of residential development on Downtown Morristown’s retail will become evident as more and more of the new units are completed and occupied.

Downtown Entertainments

DANTH’s visits to scores of downtowns across the nation over the past decade have strongly demonstrated the power of entertainment functions as a downtown revitalization engine. Entertainment functions, some of which are often overlooked, attract people who then also can be captured by nearby retailers. This ability is very important because, today, downtowns across the nation usually have much less destination retailing than in the Golden Ages of the past and so retailers must capture sales dollars from customer traffic that is attracted downtown by other downtown functions.

Downtown entertainments fall into four categories that are differentiated by their types of venues and, more importantly, by who performs and who is the audience:

- Restaurants -- diners and staff are both performers, diners are the audience
- Formal entertainments – designated or hired performers: cinemas, concert halls, theaters, arenas, stadiums, etc. Public is only the audience
- Informal entertainments – public provides both performers and audience. The entertainment functions on which many great public spaces are built, e.g., Bryant Park in NYC, Millennium Park in Chicago and Mitchell Park in Greenport (NY)
- People working – workers are performers, public is audience.

Restaurants. They have often provided the initial backbone on which many downtowns have been successfully revitalized because of their ability to generate customer traffic at lunchtime and in the evening. Manayunk (PA), Old Pasadena (CA), Port Chester (NY) are some examples. Research has shown that a “poor” location can be overcome by a great product and operation. Restaurants are “amenities” that help other niches grow; e.g., antiques, home and hearth, boutique apparel. Sometimes they even help attract them.

Outdoor dining is a craze across the nation, with people often even willing to sit in very tight quarters or very close to auto traffic. It often adds vitality to an area’s image. Much of the attraction is people watching.

Many aspects of a restaurant's normal activities have entertainment value – e.g., wine service, flambéed foods, cheese and dessert carts, open ovens, open kitchens. Many restaurant owners have intentionally structured their operations to have a strong entertainment component. For example, the renowned French chef Joel Robuchon has restaurants in Paris, Las Vegas, Tokyo and NYC that place diners close to chefs and servers so diners can have a better view of the show. Many other restaurants feature chef's tables, cooking tables, open kitchens and brick ovens.

The founder of the Benihana chain, with considerable thought and effort, made his chefs performers and his restaurants entertainment venues:

- The restaurants are styled after a Japanese farmhouse.
- The food is prepared before the customers at their tables in the teppanyaki style
- The founder believed showmanship and entertainment was of great importance. Chefs are taught not only to cook food, but to do so with flair
- Emphasis is placed on high customer contact
- Kids are a very important targeted market segment!

Popular restaurants are usually important generators of customer traffic for a downtown and enhance its ability to recruit solid retailers. Such restaurants need not be in the Michelin three star category, but those offering a very solid cuisine at a family friendly price in a congenial atmosphere usually succeed. Some examples are Baumgart's, Blue Moon and It's Greek To Me in Englewood and Noah's Ark and Taipei Noodle House on Cedar Lane in Teaneck, The Famished Frog in Morristown, etc.

Formal Entertainments. Most folks think of entertainment in terms of activities that take place at special venues where professionals perform either live or on some kind of media: e.g., concert halls, movie theaters, legitimate theaters, night clubs, etc. Undeniably, they can be important generators of customer traffic and they have helped infuse vibrancy into such downtowns as New Brunswick (NJ), Rutland (VT), Pasadena (CA) and Naples (FL).

The Community Theater is one of the Downtown Morristown's strongest traffic generators.

However, formal entertainment venues can have some important limitations:

- Many are dark almost everyday or most of the day
- Many are dark most evenings – they can't develop a full events schedule
- Many are costly to create, renovate, maintain
- Many require a strong fund raising operation
- The future of downtown cinemas is now in question. Most new movies may be streamed into homes electronically; IMAX and 3D screens are increasingly essential

- Between 1982 and 2008, attendance at performing arts such as classical music, jazz, opera, ballet, musical theater, and dramatic plays has seen double-digit rates of decline⁷
- Aging audiences are a long-term trend. Performing arts attendees are increasingly older than the average U.S. adult.⁸

Consequently, the downtowns with the entertainment niches that have the biggest positive impact on nearby retailers are those that also develop other types of entertainment.

Informal entertainments. In many downtowns there are public spaces that provide the infrastructure that allow the public to engage in various kinds of activities, while other people, who are nearby, can watch them. The ice skating rink in Rockefeller Center is one example. The visitors playing chess or boules in Bryant Park are another.

The experiences of Discovery Green in Houston, Millennium Park in Chicago and Mitchell Park in Greenport (NY) have clearly demonstrated that such venues can be extremely successful in boosting pedestrian traffic, increasing retail sales and increasing property values.⁹ Discovery Green in Houston has generated

Figure 1. Carrousel in Mitchell Park, Greenport, NY



new investment in surrounding properties equal to seven times its cost and attracted one million visitors in its first 18 months of operation. Discovery Green is a 12-acre park that includes a 1-acre lake, children's playground, interactive water features, an amphitheater stage and slope, public art works, dog runs, and other features.

⁷ National Endowment for the Arts, Arts Participation Survey 2008

⁸ Ibid.

⁹ Greenport has a population of 2,500.

Figure 2. The Bryant Park “Reading Room”



An Ernst & Young study showed that Bryant Park in Midtown Manhattan has resulted in office rents double or triple those of comparables outside the district. In Greenport, NY, Mitchell Park, with a carousel and waterfront amphitheater sparked the construction of an adjacent 34-room hotel and a strong upgrading of the quality and appearance of the retail operations along Front Street, which it abuts.

Work as entertainment. Often overlooked is the delight and amusement people often derive from simply watching other people do their work. In particular, people have shown a great interest in watching craftsman and artists at work. Historical villages such as Williamsburg (VA), Sturbridge (MA) and Old Town (San Diego, CA) have long had many “demonstrations” by blacksmiths, glass blowers, bakers, weavers, etc.

Two of the nation’s most successful and innovative downtown/Main Street retail projects -- Simon Pierce’s The Mill at Quechee, VT, and the Torpedo Factory in Alexandria (VA) – are based on “performing arts and crafts.” The latter is a renovated Civil War armaments manufacturing building that provides work spaces to artists and craftsman where they can both produce their prints, jewelry, bows for string instruments, leather goods, etc. and sell them to the public. Each studio has windows, and often open doors, so the public can watch the artists and craftsman as they create.

The Miami City Ballet practices in a “storefront,” allowing passerby to observe and be entertained (see Figure 3 below).

Figure 3. Passersby Watching The Miami City Ballet Practice



The Mill at Quechee is a brilliant retail project that combines retailing with performance crafts, good food and a wonderful scenic view. It features:

- An historic mill
- A three star restaurant, overlooking waterfall and river
- Glass- blowing
- Ceramics making
- Weaving
- A retail operation featuring Simon Pierce glassware, Charles Shakleton furniture, clothing from Ireland, etc.

Home & Hearth Niches.

For decades, revitalization advocates have searched for a type of retailing that can thrive in downtown locations despite the presence of nearby malls and big box discount retailers. DANTH has found that, in downtowns of all sizes and in all parts of the nation, home and hearth niches are very often the answer.

Home and hearth niches are groups of shops that feature goods and services that enable shoppers to make their homes more comfortable, more entertaining and more beautiful. They include retail establishments selling furniture, carpets, antiques, table top goods, window treatments, hardware, electronics, art works, picture frames, tiles, appliances, kitchen and bathroom equipment, plumbing supplies, telephones, and gardening equipment, etc. This niche can also include a lot of services and trades: architects, plumbers, carpenters, contractors and service firms that deal with lawns and septic tanks.

Usually, the firms in this niche are overwhelmingly independent operators or small regional chains. Most importantly, these independents often don't require the vanilla box spaces that usually necessitate redevelopment projects.

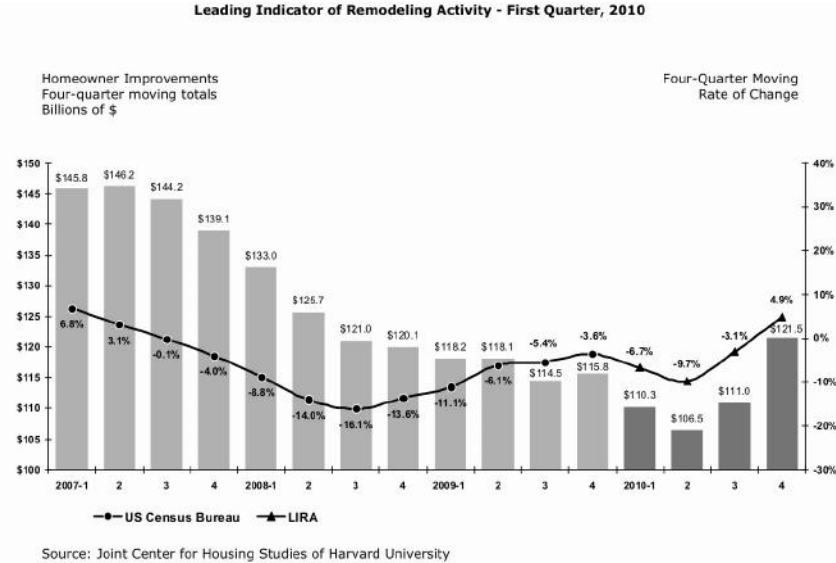
The home and hearth niche is very dependent on the housing market and the niche's current economic woes have traced the decline in home values. But DANTH believes that demand for this niche's products and services soon will begin to grow as consumers start to put more money and attention into maintaining and improving their current homes instead of buying new ones. Home Depot and Lowe's have already pivoted their marketing in this direction. They report, for example, that sales for paints remain strong and DANTH has received similar reports from some smaller paint stores in NJ downtowns. Costco recently reported that its hottest sellers are:

“Anything in juvenile and tween furniture. Some houses now have gotten smaller, actually, so the bedroom is a respite for the child to go and do homework and entertain friends. Other areas that are doing well are custom kitchen cabinets and vanities. People are saying, “Maybe I can't sell my house right now, but we can have custom cabinets.”¹⁰

Along this line, a recent report by the Joint Center for Housing Studies at Harvard University forecasts a big uptick in home remodeling projects in Q1 of 2010 (see Figure 4 below).

¹⁰ Lynn Petrak, “Why consumers are buying furniture at Costco,” <http://furniturestyle.com/Departments/FeatureArticles/tabid/55/Default.aspx?tid=1&ContentID=18384>.

Figure 4. Predicted Remodeling Activity Q1 2010



Tough economic conditions, as the noted trend-spotter Faith Popcorn has observed, have also sent Americans more than ever into “cocooning” in their homes.¹¹ This is leading to significant sales of flat screen TVs and of easy to use and reasonably priced electronic equipment such as Nintendo’s Wii and DS gaming consoles, Apple’s iPods and iPhones, the Flip Mino pocket camcorder and Amazon’s Kindle eBook reader. The electronic chains overall were down in 2009, but uneven in their performance – Circuit City and Sharper Image went out of business, Best Buy’s same store sales were down, but Apple had very strong store sales and opened 25 stores in 2009. Same store sales in the first five months of 2010 in the electronics and appliances retail sector appear to have stabilized with a reported growth of 0.6% over the same time period last year.¹²

The first five months 2010 appear to have been stronger for other parts of the home and hearth niche: sales at furniture and home furnishings stores (NAICS 442) grew 2.7% over last year; sales at building material & garden equipment and supplies dealers (NAICS 444) were up 3.8%.¹³ Additionally, retail chains in this niche are still planning to open new stores this year: Ashley Furniture 300, Lowe’s 45, Bed Bath & Beyond, Jo-Ann and Sherwin-Williams 30 each, Best Buy 22, and Apple 20.¹⁴

¹¹ Joel Groover, “SCT - Shopping Centers Today Online | What will it take to get them spending again?,” http://www.icsc.org/sct/sct_article.php?i=sct1208&s=1&d=1.

¹² Source: Table 1. Estimated Monthly Sales for Retail and Food Services, by Kind of Business, U.S. Census Bureau, Service Sector Statistics Division, June 11, 2010

¹³ Ibid.

¹⁴ http://retailindustry.about.com/od/statisticsresearch/a/2010_us_retail_industry_store_openings.htm

The long-term trend for this niche is very good if for no other reason than our inevitable population growth will continue to create pent up demand for new housing.

Moreover, the “retrofitting” of existing homes and commercial buildings to reduce their carbon footprints will be of growing importance to the building industry.

Another positive for this sector is that downtown organizations will need to do less work to attract and build this niche than with many other niches, since less home and hearth business owners are “newbie’s” to their industry. The downtown organization can take on a more traditional business recruitment effort without having to provide the large amount of business development assistance that independent apparel operators will require.

DOWNTOWN MORRISTOWN AS A RETAIL LOCATION

A Downtown's Competitive Advantage: Multi-Purpose Trips

Multi –Functionality Is A Major Downtown Asset. In successful commercial areas, visitors tend to go to more than one "destination." A shopper visiting a department store in a shopping mall, for instance, will likely stop in several "departments" within the store, but also is likely to shop at other stores located in the mall. Successful downtowns, however, offer more than multiple shopping destinations. The downtown office employee not only can shop at various stores, but also can go to a restaurant, attend a concert, visit a museum or doctor's office, pay a parking ticket or even live nearby. Similarly, someone going downtown to file a legal document may also shop, dine, or visit the library. *The ability of downtowns to generate these multiple- purpose trips gives them their true competitive advantage over other types of commercial districts.* A downtown's ability to generate such trips correlates with the number of economic and social functions it provides and their strengths.

For retailers, downtowns capable of generating many multi-purpose trips are very desirable locations because, just as in a shopping mall, lots of other nearby businesses and institutions are bringing in strong customer traffic that they also can benefit from. They still have to get these customers into their shops, but they do not have to attract them to the downtown.

The Importance of Walking in Leveraging District Assets. One important thing shared by big-box retailers like Wal-Mart, traditional department stores, most shopping malls, and successful downtowns and neighborhood commercial centers is the concentration of offerings and functions in a relatively compact area that is easily covered on foot. This proximity and "walkability" stimulates multi-purpose trips and the purchasing of multiple items. Sometimes this compactness is in a district, sometimes it is within a single large store, but the basic principle is the same. It is not an "urban" principle; rather it's an important axiom that many savvy retailers readily follow: *the easier it is to walk from destination to destination, the more they will be visited.* The ability of a downtown's functional assets to interact profitably with each other is tied closely to how easy it is to walk from one to another. In downtowns, the pedestrian, not the car, is king.

Pedestrian activity in commercial centers is affected by a number of factors, including:

- The magnetism of the destination
- The distance to the destination
- How interesting, easy to walk, and safe the route is perceived to be by the pedestrian

Some often used pedestrian-related metrics that should be kept in mind:

- A residential-retail-trip pedestrian shed is best defined by a five- to 7-minute walk
- An office-worker pedestrian retail shed is defined by a 1,000 ft. to 1,320 ft walk
- A 10-minute walk defines hotel-guest pedestrian shed.
- Commuter-rail walk shed is a 10-minute walk from a station.

The Advantages of Compact Commercial Cores. A dense, compact, multi-functional commercial area concentrates people, gives them more activities in which to easily engage, shortens distances between pedestrian destinations, and consequently, heightens pedestrian flows. Most initial core redevelopment-area functions should be within a quarter-mile radius of the core's center. Large downtowns can have several core areas. Downtown retailers flourish when they are located in a core commercial area with strong pedestrian traffic.

Employment In Downtown Morristown

Table 1: Employment In Downtown Morristown By Core 2008

Service Employment		Walks Sheds	
<u>Business District</u>	<u>0-5 Minutes</u>	<u>5-10 Minutes</u>	<u>Total 0-10 Minutes</u>
Speedwell	1,446	5,895	7,341
The Green	5,675	3,063	8,738
Transportation	3,943	3,780	7,723
South Street	1,851	11,864	13,715
<i>Total in Four Dististricts*</i>	<i>8,135</i>	<i>10,037</i>	<i>18,172</i>
Goods Producing Employment			
<u>Business District</u>	<u>0-5 Minutes</u>	<u>5-10 Minutes</u>	<u>Total 0-10 Minutes</u>
Speedwell	78	139	217
The Green	123	57	180
Transportation	67	1,676	1,743
South Street	1,476	455	1,931
<i>Total in Four Dististricts*</i>	<i>1,653</i>	<i>548</i>	<i>2,201</i>
Trade, Transportation and Utilities Employment			
<u>Business District</u>	<u>0-5 Minutes</u>	<u>5-10 Minutes</u>	<u>Total 0-10 Minutes</u>
Speedwell	208	593	801
The Green	587	483	1,070
Transportation	311	780	1,091
South Street	384	434	818
<i>Total in Four Dististricts*</i>	<i>1,099</i>	<i>591</i>	<i>1,690</i>
All Primary Service Employment			
<u>Business District</u>	<u>0-5 Minutes</u>	<u>5-10 Minutes</u>	<u>Total 0-10 Minutes</u>
Speedwell	1,732	6,627	8,359
The Green	6,385	3,603	9,988
Transportation	4,321	6,236	10,557
South Street	3,711	12,753	16,464
<i>Total in Four Dististricts*</i>	<i>10,887</i>	<i>11,176</i>	<i>22,063</i>

*Total not the sum of individual districts; districts can overlap with each other.

Source: On-the_Map, U.S. Census Bureau, 2008 Data

People employed in Downtown Morristown constitute an important part of its “daytime population” and a potentially very important close-in customer base for its retailers.

According to the U.S. Census Bureau, Morristown had a population in 2009 of 19,126, while employment in its downtown district in 2008 was 22,063. A workforce of this size is usually found in communities with far larger populations and signals that Downtown Morristown is a very strong and significant economic entity. It is quite different from towns like Maplewood, Westfield and Englewood.

As can be seen in Table 1, the vast majority of the downtown’s workforce is in service industries (18,172 or 82%). Based on data for the Township, DANTH estimates that about 76% of the service workers, or 13,810, are in office-prone industries and consequently likely to be “office workers” (see Tables 2 and 3).

Table 2: Morristown Jobs by Industry Type (2-digit NAICS) 2008

Industry	Count	Share	Office Prone
Agriculture, Forestry, Fishing and Hunting	0	0.0%	
Mining, Quarrying, and Oil and Gas Extraction	2	0.0%	
Utilities	330	1.4%	
Construction	393	1.7%	
Manufacturing	1,883	8.1%	
Wholesale Trade	339	1.4%	
Retail Trade	1,213	5.2%	
Transportation and Warehousing	245	1.0%	
Information	230	1.0%	1%
Finance and Insurance	1,439	6.2%	6%
Real Estate and Rental and Leasing	552	2.4%	2%
Professional, Scientific, and Technical Services	2,382	10.2%	10%
Management of Companies and Enterprises	155	0.7%	1%
Administration & Support, Waste Management and Re	504	2.2%	2%
Educational Services	1,609	6.9%	7%
Health Care and Social Assistance	8,403	35.9%	36%
Arts, Entertainment, and Recreation	136	0.6%	1%
Accommodation and Food Services	756	3.2%	
Other Services (excluding Public Administration)	593	2.5%	
Public Administration	2,222	9.5%	10%
TOTALS	23,386	100%	76%

Source: US Census Bureau, LED OnTheMap Origin-Destination Database

Table 3: Estimated Office Worker Expenditures 2010

Expenditure	Per worker/yr*	All Office Workers
lunches	\$ 1,558	\$ 21,510,456
retail	\$ 1,408	\$ 19,440,889
dinner/drinks	\$ 237	\$ 3,275,456
<i>Total</i>	<i>\$ 3,203</i>	<i>\$ 44,226,801</i>

Source: ICSC, Office Worker Retail Spending Patterns 2003

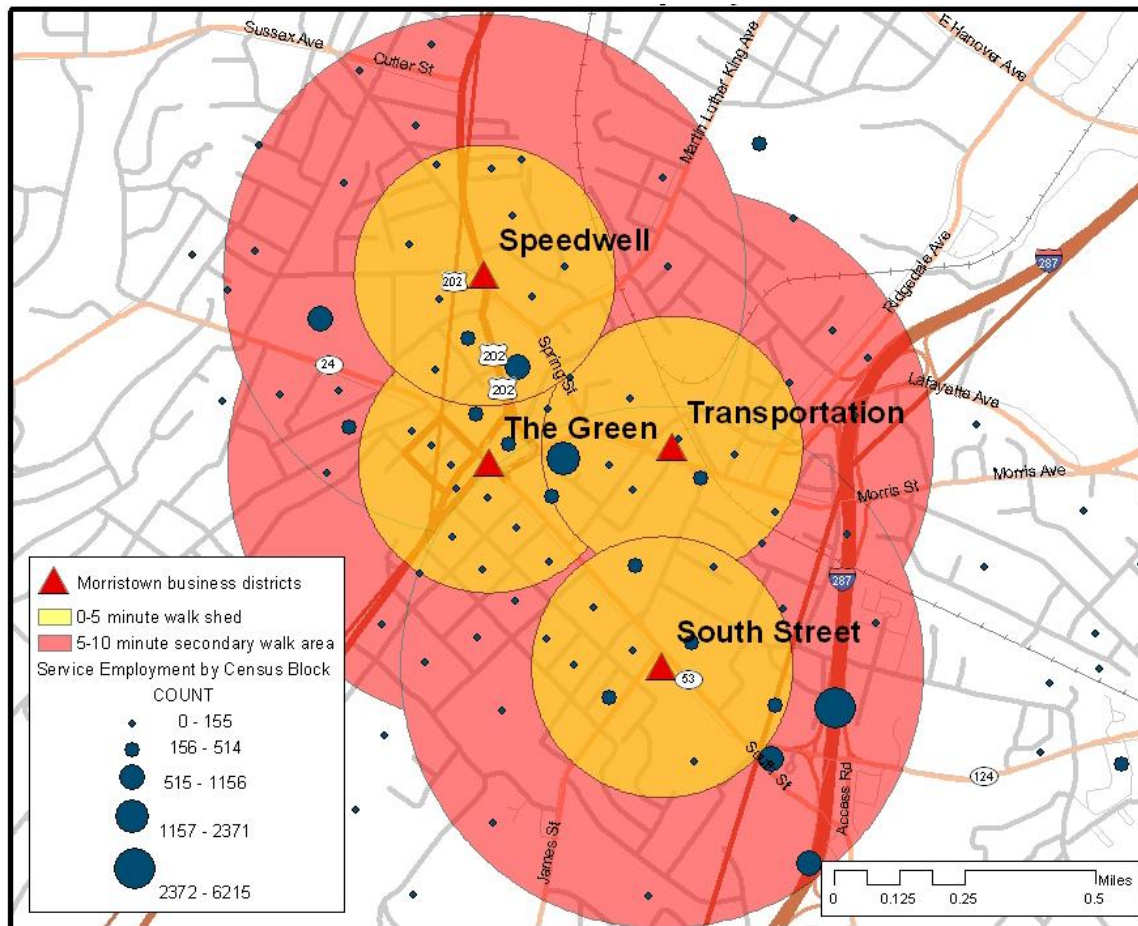
*Expenditures in 2010 \$s; N of office workers = 13,810

Table 3 provides a “ballpark estimate” of what the estimated number of office workers might potentially spend in Downtown Morristown. Reflecting our assessment of the downtown, the retail estimates are based on the ICSC office worker survey’s figures for downtowns with “limited retail.” However, the estimates for lunch, dinner and drinks are based on the ICSC’s estimates for downtowns with “ample retail.” The estimated office worker expenditure potentials are significant: about \$44.2 million per year, with about \$19 million spent on retail, roughly \$21.5 million on lunches and about \$3.2 million for dinner and after work drinks. To put some of these numbers in perspective, consider that the potential office worker retail expenditures could support about 88 shops with annual sales of \$500,000, a sales level most small retailers would be joyous to have. Downtown Morristown has 70+ restaurants and many coffee shops, which is rather extraordinary for a town with a population around 19,000. The actual downtown office workers’ expenditures for lunch and dinner probably account for a substantial portion of this large restaurant niche.

Challenges To Capturing Office Worker Expenditures. In 2008, a Sustainable Design Assessment Team (SDAT) from the American Institute of Architects (AIA) studied Downtown Morristown. Its report found that the downtown is composed of four separate business districts: the Green District, Morristown Transit District, South Street District and the Speedwell District.¹⁵ This finding meshed with DANTH’s field observations that Downtown Morristown was rather geographically dispersed and had commercial cores in the same general areas identified by the SDAT team as districts.

Table 4: Downtown Core Center Points And Walking Distances And Times Between Them			
Core	Street #	Street Name	Description
The Green	40	West Park Place	The Green
Trnsportation	122	Morris Street	NJT Station
Speedwell	117	Speedwell	Blockbuster
South St	191	South St	Kings
Walking Distances and Times Between Downtown Cores			
	191 South St	117 Speedwell	122 Morris Street
40 West Park Plac	0.5 mi	0.4 mi	0.4 mi
	10 min	7 min	6 min
	2,640 ft	1,848 ft	1,584 ft
122 Morris Street	0.5 mi	0.5 mi	
	10 min	10 min	
	2,640 ft	2,640 ft	
117 Speedwell	1 mile		
	20 min		
	5,280 ft		
Source: Google Maps for distances; walking times based on an average speed of 3 MPH			

¹⁵ See: AIA Communities by Design, Morristown SDAT, October 2008.

Map 1: Employment in Service Industries in Downtown Morristown Cores¹⁶


In consultation with the Morristown Partnership's staff, DANTH geographically defined these cores as 0.25-mile walk sheds (a five-minute walk for the average person) around the core center points identified in Table 4 (see Map 1). The map also shows secondary walk sheds for each core that are based on 5 to 10 minute walks. Downtown office worker retail trade areas are generally defined by a 1,000 ft to 1,320 ft walk shed.

Looking at Service Employment in Table 1, the following should be noted:

- Only 8,135 (about 45%) of the 18,172 jobs are within a five-minute walk of any of the downtown core centers. This is strong evidence that a very large proportion of Downtown Morristown's office workers cannot easily walk to a cluster of retail shops and restaurants. This also suggests that capturing their retail and eating out expenditures is not easy
- This is especially noticeable in the South Street Core, where 1,851 service jobs (13%) are within a five minute walk, but 11,864 are within the 5 to 10-

¹⁶ Includes FIRE, professionals etc. Data points are from Census Bureau Block Group centroids.

minute range. It is noticeable that many of the most important retail operations in this core – e.g., Kings, Walgreens, Rite Aid – have a format suitable for highway locations

- The Speedwell Core has the same geographic patterning of office work places, but on a smaller scale
- The Green Core area benefits from having the most service workers who are located within a five-minute walk of a core area center point, 5,675. That number constitutes 69% of all the downtown service workers who are within a five-minute walk of a core center point and 65% of the office workers who are within a 10-minute walk of the The Green's center point
- The Transportation Core has an estimated 3,943 service workers within a five minute walk of its center point, or about 49% of all the downtown office workers who are within a five-minute walk of a core center point and 51% of the office workers who are within a 10-minute walk of The Transportation Core's center point.

Establishments in the Health Care and Social Assistance sector accounted for the most jobs in Morristown, 8,403 in 2008, or about 35% of the total (see Table 2). Capturing the expenditures of these health care workers is challenging. To begin with, the vast majority of these jobs are located in or very close to Morristown Memorial Hospital. It is not a very close or easy walk to the nearest core area on South Street – I-287 functions as a large “pedestrian moat.” Then, generally, hospital workers are very time pressed and consequently drawn to hospital cafeterias. On another assignment, DANTH surveyed workers at White Plains Hospital in downtown White Plains, NY and found that only about 10% of their lunches involved an outside restaurant or take-out food from delis, etc. About 52% of their lunches were in the cafeteria and 17% were brown-bagged. The survey also found that hospital workers only shopped in downtown retail stores roughly half as frequently as government or private sector office workers. DANTH has studied hospital worker lunchtime behaviors at several other hospitals in the NY-NJ Metropolitan Region and found similar patterns.

DANTH's research in other downtown areas also suggests that workers in the offices of doctors, dentists, etc., are less likely than other downtown office workers to go shopping at lunchtime or to eat lunch out of the office.

If it is difficult for health care workers and many other office workers in Downtown Morristown to get to one of downtown's commercial cores because of either distance and/or the nature of their occupations, then local merchants will have a hard time winning sales if they rely solely on these workers traveling to their shops. Our interviews suggest that a number of downtown food operations have learned this and consequently developed significant delivery businesses. But, what can the other merchants do? Can they incorporate deliveries into their operations to increase their penetration of this important close-in market segment?

Many of these office workers are very short of time for shopping and might appreciate merchant efforts to make this task easier for them.

**Table 5 : Labor Shed Report 2008 --
Where Workers Employed in Morristown Live**

		Services	Goods Producing	Trade, Transp, Utilities	All Primary
Primary Jobs					
	Count	18,981	2,278	2,127	23,386
	Share	81.16%	9.74%	9.10%	100.0%
Jobs in Some Places Where Workers Live*					
		Share	Share	Share	Share
Morristown town, NJ		6.6%	2.9%	7.3%	6.3%
Newark city, NJ		2.2%	0.9%	1.7%	2.1%
New York city, NY		1.6%	1.7%	1.4%	1.6%
All Other Locations		89.5%	94.6%	89.6%	90.0%
Totals		100.0%	100.0%	100.0%	
Jobs in Counties Where Workers Live					
		Share	Share	Share	Share
Morris County, NJ		43.4%	34.9%	40.7%	42.3%
Essex County, NJ		13.2%	6.3%	8.9%	12.1%
Union County, NJ		8.8%	5.2%	7.2%	8.3%
Somerset County, NJ		6.1%	7.6%	4.6%	6.1%
Sussex County, NJ		4.8%	4.9%	4.1%	4.8%
Passaic County, NJ		3.8%	4.2%	4.2%	3.9%
Bergen County, NJ		3.1%	7.5%	4.7%	3.7%
Middlesex County, NJ		3.2%	5.8%	4.1%	3.5%
All Other Locations		13.4%	23.7%	21.5%	15.2%
Totals		100.0%	100.0%	100.0%	
Jobs in States Where Workers Live					
		Share	Share	Share	Share
New Jersey		95.6%	91.6%	93.5%	93.5%
New York		2.4%	3.6%	2.9%	2.9%
All Other Locations		2.0%	4.2%	3.5%	3.5%
Totals		100.0%	99.4%	99.9%	99.9%

*Places selected because they were important in all four employment categories.

Data Sources: US Census Bureau, LED OnTheMap Origin-Destination Database

Morristown's Labor Shed. Downtown workers are very important word-of-mouth transmitters of information and judgments about the downtown, significantly shaping its public image. Consequently, where they live can be of consequence for downtown marketing and promotional efforts. As can be seen in Table 5, while only 6.3% of all workers live in Morristown, 42.3% live in Morris County, with Essex County (12.1%), Union County (8.3%) and Somerset County (6.1%) following in ranking. The statistics for employees in the service industries are very similar because they account for 81% of all jobs in Morristown. Many Morris County workers are also in Downtown Morristown's Primary Retail Trade Area.

New Downtown Market Rate Housing

Based on information provided by the Township, DANTH has identified in the downtown area five recently completed projects with 544 new market rate housing units, 84 units approved for construction and three projects pending approval that total 950 units (see Table 6).

Table 6: Estimated Retail Expenditures of Households In New Market Rate Downtown Housing

	<u>Number of Units</u>	<u>95% Occupancy</u>	<u>Est HH Retail Spending 2010</u>	<u>Total Est HH Retail Spending 2008</u>
Completed	544	517	\$54,707	\$28,272,722
Approved	84	80	\$54,707	\$4,365,641
Pending	950	903	\$54,707	\$49,373,320
Totals	1,578	1,499	\$54,707	\$82,011,683
Sources: housing project information from the Township; household retail spending expenditure estimates are from ESRI				

Table 6 shows the increased retail spending power that the occupants of these new residential units can bring to Downtown Morristown. The estimated household retail spending in 2010 is based on ESRI Business Online Analyst's estimates of the average household expenditures in Downtown Morristown's Primary Retail Trade Area. The estimates of total expenditures assume an ultimate 95% unit occupancy rate.

The spending power depicted in Table 6 is impressive. The already completed units, when occupied, will bring households with over \$28 million in retail spending power right into the downtown. As the other projects are constructed and occupied, all the new households will bring about \$82 million in retail spending power into the heart of the downtown. Given their spending power and lifestyles, these new residents are likely to have a more varied and up-market type of demand for goods and services than Morristown's average office worker shopper. In part this is simply due to the fact that people shop for different things in their office worker roles than they do in their residential shopper roles. But, differences in disposable incomes very likely will also be in play.

The vast majority of the new residential units are within easy walking distance of a commercial core center point or even sited on top of one (e.g., 40 Park). Getting the new residents close to merchants will not pose the challenge encountered with many office workers.

DANTH has received anecdotal reports that sales/rentals of these new units are going surprisingly well given the current economic doldrums. As the units are completed and occupied their positive impacts on downtown retailing will be

increasingly felt. All things considered, on this critical dimension for downtown well-being, Downtown Morristown seems to be doing relatively well.

Downtown Morristown's Entertainment Niche

Entertainment niches are another proven key to having a vibrant and economically successful downtown. They can have a variety of components, but restaurants are usually an essential one. The eateries can be marketed by themselves as a niche, as the Morristown Partnership recently did with its Restaurant Week promotion, or they can be part of a larger entertainment niche effort – firms can be part of more than one niche.

Table 7: Components of Downtown Morristown's Current Entertainment Niche

Clearview Cinema Headquarters

10	Screens
36,041	National attendance per screen (NATO data)
360,411	Estimate Morristown Attendance
987	Est avg attendance/day

Community Theater

230	Performances
200,000	Attendance
870	Avg attendance /performance

Restaurants

77	Number of restaurants
21	Number listed in Zagat's
11	Number listed with ratings
23	Avg food rating
20	Avg décor rating
21	Avg service rating
9	Cafes/ coffee bars

Sources: Morristown Partnership's 2010 Master Business Directory,
Zagat Survey, National Association of Theatre Owners (NATO),
Community Theater

The sheer persistent presence of 77 restaurants and nine cafes/coffee bars indicates that this niche is strong with its members doing significant business. A ballpark idea of the scope of their annual sales is \$79.4 million+. This was computed by using ESRI sales estimates to calculate that the average food and drinking establishment in the town of Morristown has annual sales of \$1,032,356 and applying that to the downtown's 77 restaurants. The fact that 21 downtown eateries are listed in Zagat is very unusual for a downtown of this size. The 11 rated in Zagat average 20+ scores on food, service and décor, indicating that they are well regarded (see Table 7).

In several other districts, when restaurant niches reached about 35 eateries, their growth sputtered and caused concern among local leaders. For example, a few years back the leaders of downtown Ridgewood, NJ were concerned that their 35 restaurants were cannibalizing each other, while occupying prime spaces that retailers might want. Similarly, the “Little India” on East 6th Street in Manhattan went into a tailspin after the number of eateries topped 30, but that was because they all came from the same town in Bangladesh and all seemed to share the same underground kitchen. Both niches have since survived.

While Downtown Morristown’s 77 restaurants might understandably cause concern, DANTH believes that the large size of the niche is both a sign of long-term strength and an indication that it is thriving off of very strong underlying assets. These assets are the same as those that stimulate multi-purpose trips. Whether a person comes downtown to go to a play or a movie, attend a conference, consult with a lawyer, doctor or banker, get their bodies pampered in salons and gyms or just to shop or work, they are likely to want to eat something.

The Community Theater is also a significant traffic generator. It had 230 performances over the past year with a total attendance of about 200,000. That equates to an average of 870 per performance.

The Clearview Cinema Headquarters has 10 screens. Extrapolating from national averages, DANTH estimates that it draws an annual attendance of about 360,000 people, which translates to about 987 per day.

The one area where the entertainment niche appears weak regards informal entertainments. While the recently renovated Green is a visually attractive public space, the vehicle traffic that surrounds it deters visitation. Moreover, its infrastructure is not conducive for visitors to engage in a wide range of activities as Bryant Park’s does – or for observers to be amused by those engaging in them. On numerous visits over several months, at various times of the day -- and sometimes several times on the same day -- usage never reached beyond modest levels. Normally, very few people were there.

There are, however, 19 shops that provide outdoor café settings in warm weather months, and more are planned. These outdoor diners are perfect fodder for people watchers.

Tourism: Historic, Local and Corporate

As the Morris County Tourism Bureau states on its website:

“Morris County and Morristown NJ offers much in the way of historic getaways, cultural heritage, parks and recreation, wedding and banquet facilities, corporate meeting spaces, cultural venues and things to do. The Morris Museum, Revolutionary War sites and Morristown National Historic

Park are just a few of the world class attractions that Morris County has to offer travelers to New Jersey.”¹⁸

What is more, aside from the parks and historic sites, there is a profusion of large corporations located in and near Morris County, especially in the health care sector, and they spawn a lot of “corporate tourism.” According to local hotel managers, these firms generate a strong demand for meeting spaces and guest rooms during the week. This puts a lot of tourist “office workers” on downtown streets, especially after 5:00 p.m., who are eager to unwind, looking for things to do, and searching for restaurants and bars to assuage their appetites.

A 2008 study by Global Insight shows that tourists and day visitors spend a lot of money in Morris County, (see Table 8).¹⁹

Table 8: Travel & Tourism Spending Morris County 2007	
<u>Expenditure Category</u>	<u>2007 (million \$s)</u>
Lodging	241.5
Food & Beverage	109.4
Shopping	102.9
Entertainment	215.2
Total	669.0
Source: Global Insight	

Unfortunately we are unable to break out just the tourist spending in Morristown or its downtown or how much a typical hotel guest might spend on the items listed in Table 8. But, \$669 million is what former Sen. Everett Dirksen would call “real money.” Just on the basis of population share Morristown could be expected to capture about \$24 million. However, because of its strength as a commercial center and its restaurants, hotels and historic sites, a greater amount might be expected. For example, a number of out-of-town hotels around Rte 10 reportedly use their vans to transport guests to downtown Morristown.

Hotel Guests. There are three major hotels in and very near Downtown Morristown: The Morristown Hyatt, the Best Western and the Westin Morristown. Interviews with managers indicate that Monday -Thursday they are booked solid, mostly from guests attending meetings at the hotel. These meetings are largely aimed at employees of the large drug and health care corporations located near Morristown. Friday - Sunday the clientele is mainly tied to weddings, bar

¹⁸ <http://www.morristourism.org/>

¹⁹ Global Insight, “TOURISM ECONOMIC IMPACT: The 2007 Economic Impact of Travel & Tourism in Morris County,” October 2008, pp. 21. We thank the Morris County Tourism Bureau for providing access to this document.

mitzvahs, etc. held at their hotels. Occupancy falls substantially on the 3-day weekend. Many of the hotel guests are from all over the world.

Hotel guests reportedly are eagerly looking for places to spend their money while in Morristown. For foreigners, retail merchandise in the USA these days is often very inexpensive and desirable.

Monday -Thursday hotel guests are captive inside the hotels while at the meetings. But, according to one hotel manager, they like “to roar out and escape” in the evenings. The weekend guests are also looking for things to do during the day. The most important question hotel staffs have to answer is: “What is there to do in Morristown?” Hotel managements see the downtown’s restaurants and retailers as potential assets that make group guests enjoy their stays and encourage group leaders to want to hold more meetings there. Hotels highly value the group business and want more of it.

While guests are seen s looking for more retail and, in particular major, well-known chain stores, they are also said to be very interested in pamper niche services (spas, gyms, hair salons, etc.), gourmet food and fine wine shops, and “charming independent retailers.”

The hotels see building ties to attractive downtown merchants as critical to the success. They are very interested in cross marketing programs, though their success lately has been sometimes uneven.

Van services are offered because getting their guests to attractive eateries, shops and spas is so important to their success.

The current operating hours of downtown shops is an important barrier to capturing the group hotel guests who only become “free” in the late afternoon and early evening. Retail chains, as standard operating procedure, stay open later into the evenings. But, there are relatively few of them. As one hotel manager lamented: “If your little guys could just stay open to 7:00 or 7:30....”

Table 9: A Dimensioning Exercise - Downtown Hotel Guests

3	Number of hotels
540	Rooms
70%	Occupancy rate*
1.42	Est persons/ room*
537	Estimated daily guests
196,005	Estimated yearly guest days
\$ 9,800,250	Est yr guest food expenditures at \$50/day**
*DANTH composite estimate based on interviews with hotel managers	
**Frequent government allowed employee travel expenditure. Presented solely for heuristic purposes.	

Based on interviews with local hotel managers, DANTH has estimated the average number of guests staying daily at the three hotels in or near the downtown at about 537, and the total number of hotel guest days for the year at 196,005.²⁰ To provide some indication of the possible economic impact of these hotel guests, Table 9 provides an estimate of how much they might spend in local eateries, about \$9.8 million.

The above analysis not only shows that tourism provides a large, multi-faceted market for downtown retailers, but also that it represents important retail growth opportunities. Additionally, local hotels are strongly motivated to work with downtown retailers in joint marketing and promotional programs.

High School Students

High school and residential college students are important market segments for many large retail chains such as Hot Topic, Abercrombie & Fitch, GameStop, Buckle, Aeropostale, Old Navy, Zumiez, American Eagle Outfitters, Forever 21, American Apparel, etc.²¹ They are also import market segments in a number of downtowns, even when the national chains are not strongly present. Downtowns such as South Orange (NJ), Madison (WI), Ann Arbor (MI), State College (PA) and Boulder (CO) are places where college students are strong. Maplewood Village (NJ) and the Bayonne Town Center (NJ) are downtowns with a lot of high school student foot traffic.

Table 10 : Dimensioning Teen Spending Power-- Teens 12 to 17 Yrs Old Nationally And At Morristown High School

<u>NATIONAL</u>		
A.Teen population - 12 to 17 yrs old		26,000,000
B.Aggregate Teen income	\$	80,000,000,000
C. Est Total Teen Retail and Dining Out Expenditures (=B * C)	\$	48,000,000,000
D.Estimated Avg Teen Retail and Dining Expenditures (=C/A)	\$	1,846
E.Total Teen Influenced Parental Spending On Teens	\$	110,000,000,000
F.Teen Influenced Parental Spending On Retail & Dining(=.6 * E)	\$	66,000,000,000
G.Avg. Teen Influenced Parental Spending On Teen Retail/Dining (=F/A)	\$	2,538
<u>MORRISTOWN HIGH SCHOOL</u>		
H. Number of Students		1,500
I. Est Total MHS Student Retail and Dining Out Expenditures (=H * D)	\$	2,769,231
J.Est Total student Influenced Parental Spending On Retail & Dining(=.H * \$	\$	3,807,692
Total Direct and Indirect MHS Student Retail and Dining Expenditures	\$	6,576,923

This table was computed by DANTH based on information provided in: The Teen market in the U.S.

Dr. Robert Brown & Ms. Ruth Washton, <http://www.mindbranch.com/Teens-R567-647/> .

²⁰ A hotel guest day is one person staying one day at a hotel.

²¹ For some unknown reason students at commuter colleges usually do not have similar impacts. One hypothesis is that they are simply too busy with jobs and children to "hang out" and shop.

Morristown has a rabbinical college and a community college, but not a large residential college. There are some nearby and they will be discussed below when the analysis turns to Downtown Morristown's trade areas' daytime populations.

But, Morristown High School is only 0.2 miles, about a four-minute walk, from the center point of the Speedwell Core. It has an enrollment of approximately 1,500 students. As can be seen in Table 10, the total amount of spending that they control directly or indirectly influence is somewhere in the range of \$6.5 million/yr. While a significant part (about \$2.7 million) of these expenditures is covered by the teens' "incomes," a larger portion (about \$3.8 million) is provided by teen-influenced parental spending. Though the teen market is often fickle, many national retail chains see the teen-influenced parental expenditures as an entry point for inducing non-teen-related parental purchases.

Rail, Traffic and Parking

Transportation assets are vital for enabling people to get to and from a downtown. They are often key factors that retail site locators consider when they decide where to put their new stores. Parking, or the lack there of, is a very popular reason given by retailers, downtown leaders and/or residents for their struggling downtowns – often, quite erroneously.

Downtown Morristown's transportation assets are quite substantial.

Commuter Rail. One of the forces behind the growing interest in downtown housing has been the resurgent interest in commuter rail ridership both nationally and in NJ. This is especially true in NJ communities that have direct service to Manhattan.

A Columbia University study showed that, between 1993 and 2003, property values within a half-mile of a station having Midtown Direct service rose by 113%, those a half-mile to two miles away grew by 82%, while homes more than two miles away only rose by 65%, which was about the average appreciation for those years in NJ.²²

Downtown Morristown's NJT station is one of those with direct service to Manhattan. According to a NJT official:

- "The average weekday passenger boardings at Morristown station were 2,057 during the NJ TRANSIT fiscal year 2009. This was a recession induced decline of -7.3% from the prior year
- Morristown had the 22nd largest boardings of NJT's 152 Rail stations, and is the 5th largest station on the Morris & Essex Lines (greater in order of size are Summit, South Orange, Maplewood and Newark Broad Street)

²² Philip Barbara, "Hudson Rail Tunnel Would Be A Boon," The Star Ledger, May 4, 2008

- The Rail stations closest in boardings size with Morristown are Linden on the Northeast Corridor Line (2,265 boardings) and Middletown on the Coast Line (1,886 boardings)."

The Highlands at Morristown Station, a major residential project, located at 50 Lafayette Avenue, has been constructed across the street from the station.

Boardings at the station are expected to increase as the economy improves and more nearby residential units are occupied. The station will be an increasingly important downtown asset.

Traffic. Downtown Morristown is served by a number of important roadways: I-287 and State Routes 24, 124 and 202.

Table 11: Downtown Morristown: Some Two-Way Average Daily Traffic Counts, And Some Comparisons With Other NJ Downtowns

Distance from 40 W Park	Street:	Closest Cross-street:	Year	Count:
0.73	I-287	Franklin St (0.11 miles S)	2008	106,621
0.22	Spring St	Center St (0.03 miles NW)	1998	28,000
0.54	South St	James St (0.07 miles NW)	2003	25,142
0.56	Morris St	Ridgedale Ave (0.05 miles W)	1998	25,000
0.4	Speedwell Ave	Flagler St (0.02 miles N)	2000	24,810
0.35	Speedwell Ave	Spring St (0.0 miles N)	2000	23,480
0.32	South St	Miller Rd (0.06 miles NW)	2000	22,710
0.37	Morris St	Blachley Pl (0.01 miles E)	2006	21,834
0.43	Speedwell Ave	Flagler St (0.01 miles S)	2001	21,000
0.24	Morris St	Spring St (0.02 miles W)	2006	19,215
0.43	Washington St	Cobb Pl (0.06 miles E)	2008	18,771
0.07	Washington St	Schuyler Pl (0.02 miles NW)	2000	18,000
0.52	Lafayette Ave	Ridgedale Ave (0.03 miles E)	1998	18,000
0.17	Western Ave	Washington St (0.02 miles NE)	1998	17,876

Source: © 2010 MPSI Systems Inc. d.b.a. DataMetrix®

Street:	Town	Count:
Deane St	Downtown Englewood	20,000
North Ave	Downtown Westfield	19,725
East Palisade	Downtown Englewood	16,000
East Broad	Downtown Westfield	15,545
South Ave	Downtown Cranford	9,507

Sources: NJDOT and downtown managers. Compiled by DANTH, inc

I-287 is located about .73 miles from The Green. As can be seen in Table 11, it brings over 106,000 vehicles a day into the area. The downtown also has many

other locations with traffic counts over 20,000 vehicles per weekday --from a retailer's perspective, those counts are quite substantial. Many of Morristown's counts are higher than those in Englewood and Westfield, two downtowns with numerous major retail chains (see Table 11).

Parking. According to a report on parking capacity by Level G Associates dated June 15, 2010 on research done in May 2010:

- The Morristown Parking Authority provides 2,900 spaces. This count does not include any private commercial parking spaces
- The highest observed occupancy rate was 58.3% at 1:00 P.M. on a weekday.

Obviously, there is a significant amount of under-utilized public parking capacity. Although that may be partially due to such factors as the location of the parking facilities or that visitors do not know about them or have a hard time finding them, it appears there is very probably sufficient parking capacity to support a substantial increase in shopper traffic.

At the ratio preferred for shopping centers of four cars per 1,000 SF of gross leasable area (GLA), the 2,900 spaces could support about 725,000 SF of retailing. Some downtowns -- because of their success in generating multi-purpose trips and/or their commuter rail stations -- use a ratio of about 2.5 spaces per 1,000 SF of GLA.²³ Under that ratio, Morristown's public parking could support about 1.16 million SF of retail space. Given all the people who work, live, visit, are entertained and dine there, something on the order of the 2.5 parking ratio seems most appropriate for Downtown Morristown. The Morristown Partnership estimates there is about 1 million SF of retail prone space in the downtown.

The Downtown's Current Retailers

As anyone who has done any retail business recruitment knows, two of the first questions a retail prospect is likely to ask are: "Who else is there? How are they doing?" The retailing a downtown has will influence which other retailers it can attract, though certainly not completely.

The Laments About The Golden Age And "Why Not Us?" At one time Downtown Morristown was home to a Bamberger's, which then became a Macy's and then, after a period of vacancy, it now is a Century 21. For many years the community boasted about Epstein's, its local department store on The Green. And at one time, some well-regarded national chains such as The Gap and Children's Gap were in the downtown. For many locals, there was a downtown Golden Age and the current retail array pales in comparison. Others, proud of their community, just do not understand why Downtown Morristown does not have some of the

²³ Also based on data from the Parking Generation Manual, produced by the Institute of Transportation Engineers (ITE) (2003)

Table 12: Some Nearby Retail Chains

<u>Retailer</u>	<u>Town</u>	<u>Miles</u>	<u>Minutes</u>
<i>J. McLaughlin</i>	<i>Morristown</i>	<i>1107 Mt. Kemble</i>	
<i>Talbot's</i>	<i>Morristown</i>	<i>1001 Mt Kemble</i>	
Starbucks	Morris Plains	3.7	7
Walmart	Morris Plains	4.4	8
Sleepy's	Morris Plains	4.4	8
Panera Bread	Florham Park	4.7	14
Trader Joe's	Florham Park	5.0	14
Whole Foods	Madison	5.4	12
Five Guys	Madison	5.5	12
TJ Maxx	Cedar Knolls	5.6	11
The Children's Place	Denville	6.2	12
Jos. A. Banks	Denville	6.2	12
Gap	Denville	6.2	12
Ann taylor Loft	Denville	6.2	12
Chico's	Denville	6.2	12
Banana Republic	Denville	6.2	12
Aerosoles	Denville	6.2	12
bluemercury	Denville	6.2	12
Qdoba	Denville	6.2	12
Jennifer	Denville	7.4	15
GameStop	Parsippany	7.6	13
Payless	Randlph	8.0	15
Avenue	East Hanover	8.1	13
Gymboree	Short Hills	8.4	18
Ann Taylor	Short Hills	8.4	18
Coach	Short Hills	8.4	18
Victoria's Secret	Short Hills	8.4	18
Lucky Brand jeans	Short Hills	8.4	18
White House Black Market	Short Hills	8.4	18
Anthropologe	Short Hills	8.4	18
Restoration Hardware	Short Hills	8.4	18
Williams Sonoma	Short Hills	8.4	18
Pottery barn	Short Hills	8.4	18
Crate & Barrel	Short Hills	8.4	18
The Body Shop	Short Hills	8.4	18
Sephora	Short Hills	8.4	18
Papyrus	Short Hills	8.4	18
L'Occitane	Short Hills	8.4	18
Source: DANTH, Inc Downtown Stores Database; travel times Google Maps.			

trophy retail chains that have gone into downtowns in Westfield, Red Bank, Englewood and Ridgewood.

They Are Already Nearby. One strong reason that more major retail chains are not in Downtown Morristown is that they are already nearby and penetrating the market area (see Table 12). Talbot's and J. McLaughlin are just down the road from Downtown Morristown on Mt Kemble. The Shoppes at Union Hill in Denville, according to one savvy commercial broker, has lured a number of fashion retailers that otherwise might have opened in Downtown Morristown. Most importantly, another experienced commercial broker states, is that: "Major retail chains with shops in Short Hills – and there are lots of good ones—are not interested in another location that close."

However, there are still a number of interesting chains with stores that are not really nearby. For example, according the their website store finder functions and Google Maps, the closest stores in the following chains are between 28 and 64 minutes away by car: Coldwater Creek, Esprit, Eileen Fisher, Urban Outfitters and Sur la Table. One savvy broker claims that there is a kind of log jam and if just one really highly regarded retailer locates in the downtown, a number of others would quickly follow.

The Retail Mix. For this part of the analysis DANTH relied on two data sources, which were assembled with different goals in mind and consequently use different sets of categories to classify businesses. One is from ESRI and basically uses the Census Bureau NAICS categories. These data use the township as the geographic unit of analysis. The other is the Master Business Directory put together by the Morristown Partnership. Geographically, it focuses on the downtown area. It also should be noted that assembling inventories of local businesses and data about their employment and sales is far more

Table 13: Estimated Retail Mix In Morristown (Town) 2010

RETAIL TRADE	BUSINESSES			EMPLOYEES		
	Number	Percent	Sales/store	Number	Percent	Emp/Firm
TOTALS	257	10.9%		970	4.1%	3.8
Motor Vehicle and Parts Dealers	14	0.6%	\$4,946,354	122	0.5%	8.7
Furniture and Home Furnishings Stores	18	0.8%	\$718,314	45	0.2%	2.5
Electronics and Appliance Stores	40	1.7%	\$363,472	53	0.2%	1.3
Building Material & Garden Equipment etc.	24	1.0%	\$222,797	45	0.2%	1.9
Food and Beverage Stores	24	1.0%	\$2,900,118	314	1.3%	13.1
Health and Personal Care Stores	26	1.1%	\$626,649	74	0.3%	2.8
Gasoline Stations	9	0.4%	\$2,518,904	30	0.1%	3.3
Clothing and Clothing Accessories Stores	35	1.5%	\$323,141	86	0.4%	2.5
Sporting Goods, Hobby, Book, and Music Stc	8	0.3%	\$353,454	38	0.2%	4.8
General Merchandise Stores*	8	0.3%	\$1,913,271	0	0.0%	0.0
Miscellaneous Store Retailers	50	2.1%	\$131,680	163	0.7%	3.3
Nonstore Retailers	1	0.0%	\$1,087,096	0	0.0%	0.0

Source: ESRI and Infogroup. * Data appears to not include or partially include info from Century 21

challenging task than is commonly thought. The ESRI and Infogroup data, for example, are sometimes prone to errors because of business churn and who in each firm answers the survey questions.

ESRI estimates that in 2010 there were 257 retail firms in Morristown (see Table 13) and that their total annual sales are about \$247.7 million. About 159 of these retail operations offer department store type merchandise, referred to in the industry now as GAFO.²⁴ DANTH's analysis of the Partnership's Master Business Directory showed that a majority of these GAFO shops, 108 or 68%, are in the downtown (See Table 14).

While the GAFO shops are numerous, the data in Table 13 suggest that they average few employees and modest annual sales. For example, the average apparel shop in Morristown has about 2.5 employees and annual sales around \$320,000. This meshes with the Partnership's report that the average downtown street-level shop has about 2,000 SF of space.

The Partnership's directory shows that the downtown does have a number of

Table 14: Characteristics of Downtown Morristown's Retail Mix 2010	
Type of Store	# of Shops
GAFO RETAIL	108
Sporting gds, hobbies , music	11
Apparel	21
Home and Hearth Niche	42
Misc retail	31
General merchandise	3
RELEVANT NON-RETAIL	
Pamper Niche*	48
Restaurants and coffee houses	85
Source: DANTH's analysis of Morristown Partnership Master Business Directory. * barbershop, cosmetics, hair &, nail salon, spas	

well-known retail and food-related chains: Kings, Walgreens, Hertz, Rite Aid, Staples, Century 21 Department Store, Jos. A. Bank, A & P, Subway, Cosi, Blockbuster, Omaha Steaks. Four relate to food and two are drugstores. Century 21 and Jos. A. Bank are different in concept than Walmart or Target, yet, they too can be called value retailers. Though their price points are higher, they both employ high quality to price ratios on the

merchandise they sell.

DANTH's visits to downtown shops revealed most were offering merchandise and price points appropriate for middle market residential shoppers and average office workers. One knowledgeable commercial broker observed that though the downtown had a number of shops selling women's apparel, there was only one that was a true upscale fashion boutique, the kind that are so strong in downtown Englewood.

²⁴ GAFO represents firms which specialize in department store types of merchandise and is comprised of furniture & home furnishings (442), electronics & appliances (443), clothing & accessories (448), sporting goods, hobby, book, and music (451), general merchandise (452), office supply, stationery, and gift stores (4532).

But, the downtown's apparel niche does have two shops selling gowns for brides and their bride's maids and they are part of a large downtown wedding niche that the Partnership recently started to successfully promote and market. Wedding

Table 15: Downtown Morristown's Current Home and Hearth Niche

Arts & Crafts: 5 firms	ACCENTS ON KNITS BOIN ARTS & CRAFTS INTERNATIONAL POTTERY GLASSWORKS STUDIO INC. TEACHING ROOM, THE
Electronics/Phones: 7 firms	ELITE WIRELESS, T-MOBILE FINISHING TOUCH, THE ITC WIRELESS PHONE CENTER LATIN SERVICES 2 PHONES ARE US SPEEDWELL ELECTRIC MOTORS VIVEO CELLULAR BEEPER
Fine Arts/framing: 7 firms	ART SPACE STUDIO & GALLERY EXPRESS FRAMES GALLERY MACEGAN ITALIAN ART STORE, THE SIMON GALLERY SWAIN'S OF MORRISTOWN CORBETT CUSTOM FRAMING
Floral: 3 firms	ELLIOTT'S FLOWER SHOPPE JUST FOR YOU FLOWERS ROMANTIC GARDEN, THE
Furniture/Antiques: 5 firms	LIBERTY FURNITURE & ELECTRONICS OFFICE FURNITURE PARTNERSHIP PEREAUX INTERIOR DESIGN RICHARD BEVAN FURNITURE & ANTIQUES WORKSPACE, INC.
Home Improvement: fabric, flooring, interior design, lighting, paint, hardware, .etc. 15 firms	D'AMATA, SANDRA FALCON FLOORS GENSLER J & S DESIGNER FLOORING NK ARCHITECTS OAKLEIGH INTERIORS, LTD ORIENTAL RUG MASTERPIECES RICCIARDI BROTHERS INC MOORE HARDWARE BUNTING MAGNETICS CO. HOUSE OF GLASS & MIRRORS SHERWIN WILLIAMS PAINTS SHOPS AT 14 PINE STREET, THE WELLS RUG SERVICE WILSON'S INTERIORS

Source: Morristown Partnership's 2010 Master Business Directory. Niche total is 42 firms

niches have injected energy and attracted new customer traffic in several downtown's across the nation, including Rutland, VT and Geneva, IL.

The Dain Shoppe, which specializes in women's undergarments and lingerie is the sort of retail operation that has drawn large and loyal customer followings in other communities: e.g., the Town Shop in Manhattan and the Intimacy stores in New York City, Chicago, Boston and Atlanta.

Home and hearth niches are "synthetic," much like entertainment niches, and they can be aggregates of many different types of shops – and NAICS codes. They also can contain service firms. DANTH identified 42 retail operations in Downtown Morristown that could be organized and marketed together under a home and hearth banner. This niche certainly has a lot of shops, but it lacks a really big retail name such as Williams Sonoma or Duxiana, and the quality of the shops is uneven. Still, there is a Riccardi Bros, a well-known regional chain and Sherwin Williams Paints. There are hardware stores that many other NJ downtowns would love to have. There are several other well –respected local firms in this niche. All together, this niche is now strong enough that it can be grown; it does not have to be established from scratch.

Pamper Niches. Many downtown retailers simply snarl when discussing hair and nail salons, gyms and spas. But the fact is that they are strong in many of the most esteemed downtowns. For example, in Beverly Hills, CA, DANTH on two separate occasions counted 35 of them. Local businesspeople reported that these establishments were key elements in the way that Beverly Hills operates. The wealthy like shopping, but might love having their bodies pampered even more. And shopping and pampering often go together.

Downtown Morristown's 48 firm strong pamper niche is a potential boon for downtown retailers. These operations bring downtown people with discretionary dollars to spend and put them in the mood to do so. They are also attracting hotel guests. Savvy downtown retailers should be cultivating cross- marketing arrangements with the pamper niche establishments.

Retail Prone Commercial Spaces. The Morristown Partnership reports that the SID's 480 properties have approximately 1,000,000 SF in first floor retail prone space. There are currently 20 vacancies with an estimated total of 40,000 SF. That computes to a current 4% vacant space rate. In the current economic doldrums, that is a very low rate.

Most national chains, especially the ones downtowns usually want the most, require spaces that have 3,000+ SF. This means that most of the downtown's commercial spaces, that average 2,000 SF, would no be suitable for them.

Average asking rents prior to the Great Recession were a problem at \$45/SF. As can be seen in Table 16, small firms with annual sales between \$300,000 and \$400,000 could not afford their usual 2,000 SF storefront spaces. Currently, rents for existing spaces are reportedly down to \$30 or even \$25. New spaces,

however, are commanding as much as \$65/SF. It is doubtful that, aside from some special restaurants, any small independent retailers will be signed for the new retail spaces. For the small independent retail, having exiting retail spaces in decent condition available at affordable rents will be critical to their survival.

Table 16: Affordable Retail Rents

Annual retail sales	\$250,000	\$300,000	\$350,000	\$400,000	\$450,000
Affordable Rent Percentage	High of 15%	High of 15%	High of 15%	High of 15%	High of 15%
Max Affordable Rent \$s triple net	\$37,500	\$45,000	\$52,500	\$60,000	\$67,500
Affordable SF at:					
\$10/SF	3,750	4,500	5,250	6,000	6,750
\$20/SF	1,875	2,250	2,625	3,000	3,375
\$30/SF	1,250	1,500	1,750	2,000	2,250
\$40/SF	938	1,125	1,313	1,500	1,688
\$50/SF	750	900	1,050	1,200	1,350
\$60/SF	625	750	875	1,000	1,125

Two Ways of Looking at Downtown Morristown's Retail Mix -- and Future. One hotelier claims that the downtown lacks the big name retail chains that his guests are looking for, while another says it has many charming small shops his guest really like. Two interesting and divergent perspectives -- is the glass half full or is it half empty? Both views may be true. But, there are powerfully divergent impacts for the downtown's image and potential growth depending on which perspective becomes dominant.

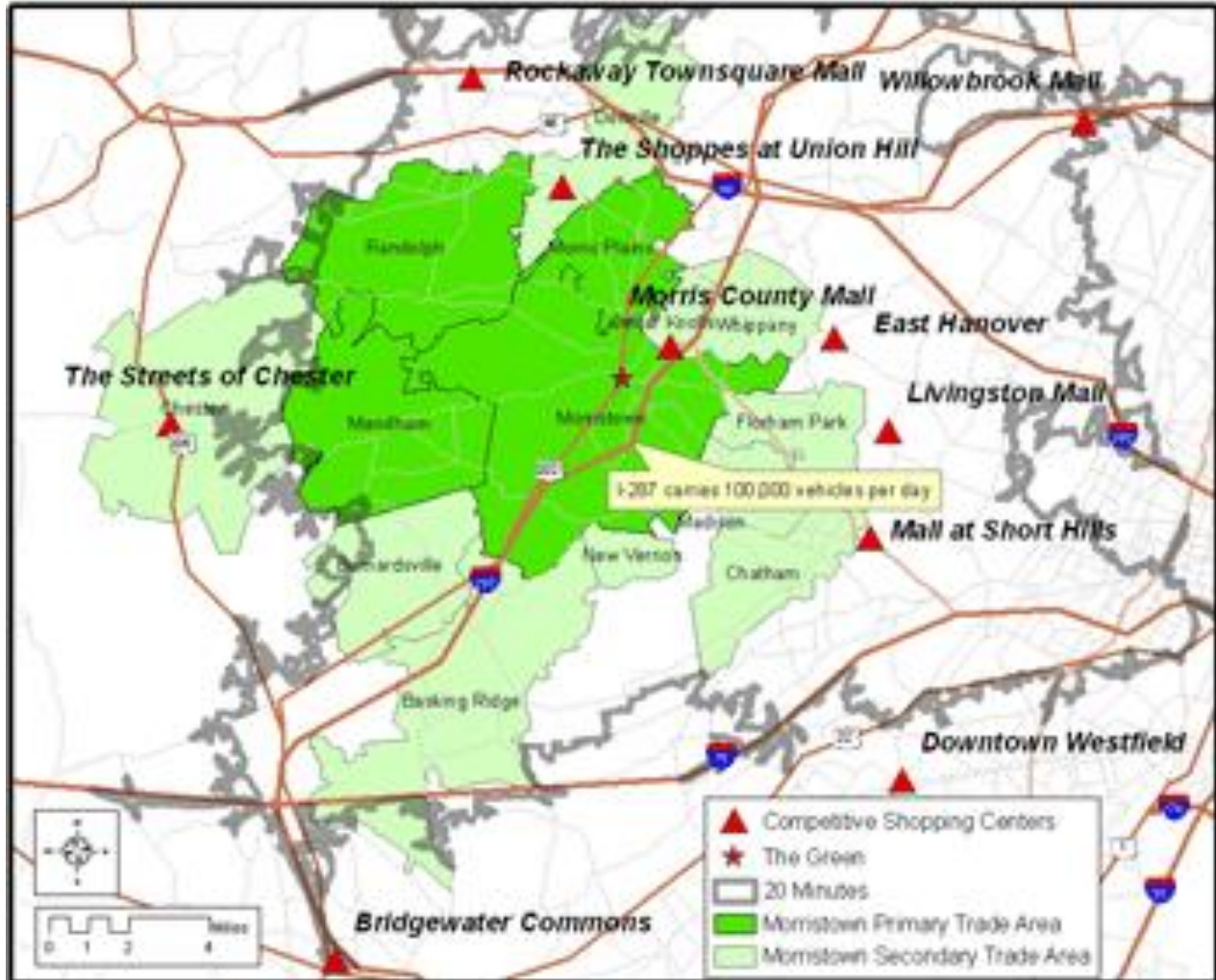
DANTH's overall assessment suggests the more optimistic viewpoint is more appropriate. Unquestionably, the retail in Downtown Morristown cannot now compete with all the trophy retailers in Red Bank, Englewood, Ridgewood, or Westfield. But, especially along South Street and many of the side streets running off of it, the downtown has a fair number of small, high quality and relatively unique retail operations and a pedestrian friendly environment. In Englewood, NJ, Manayunk, PA, and Pasadena, CA, and many other downtowns, such attractive independents helped lure major retail chains and, after they encamped, the independents continued to maintain their downtowns' uniqueness and much of their charm.

Perhaps also implicit in these divergent views are different sets of expectations about what Downtown Morristown's retail can and should look like. One wonders if there is an unstated expectation afoot in the community that the downtown should become a *de facto* lifestyle mall that just lacks central ownership as has happened in Westfield, NJ, and Wellesley, MA. Because there are just so many desirable retail chains already so close by, DANTH strongly believes that is a highly unlikely outcome for Downtown Morristown. But, the downtown already has a solid core group of quality small merchants and the developers of several

new projects are avidly trying to attract some quality retail chains. Putting both together would provide a very interesting and very attractive retail base. Integrating that retail with the entertainment and pamper niches, new residents, hotel guests, office workers and many other assets would confer on Downtown Morristown true distinction and considerable strength.

AN ANALYSIS OF DOWNTOWN MORRISTOWN'S TRADE AREAS

Map 2: Downtown Morristown's Trade Areas



Defining the Retail Trade Areas.

Trade areas are geographic territories from which retail shops and retail centers draw most of their residential shoppers. There are various ways to define them. The AIA's SDAT study defined Downtown Morristown's retail trade area as a 20-minute drive shed centered on The Green. (Map 2 displays this 20-minute drive shed.) This is a frequently used approach to trade area definition and one DANTh has used on many other assignments.

However, DANTh's review of the retail competition both in the drive shed and outside -- but near enough to draw shoppers from part of it -- suggested that this approach does not adequately define Downtown Morristown's current trade areas.

Table 17: Key Demographics for Downtown Morristown's Trade Areas and Comparison Data for NJ

<u>Key Demographic Variables</u>	<u>Primary T.A.</u>	<u>Total T.A.*</u>	<u>20-Min Drive Shed**</u>	<u>New Jersey</u>
2010 Total Population	98,708	219,716	817,336	8,822,373
2015 Total Population	99,570	222,397	817,596	8,926,303
2010-2015 Pop: Annual Grwth Rt	0.17%	0.24%	0.01%	0.23%
2010 Total Households	36,035	80,057	295,500	3,214,726
2015 Total Households	36,305	81,000	295,516	3,253,696
2010 Median Age	41.0	41.5	40.1	38.9
2010 Pop 25+ by Educ: Bach or Grad Deg	59.9%	61.0%	47.4%	34.7%
2010 Per Capita Income	\$60,787	\$62,057	\$45,698	\$34,739
2015 Per Capita Income	\$69,916	\$71,894	\$53,554	\$39,759
2010-2015 PCI: Annual Grwth Rt	2.84%	2.99%	3.22%	2.74%
2010 Median HH Income	\$121,674	\$124,096	\$87,320	\$72,519
2010 Average HH Income	\$165,042	\$168,543	\$125,329	\$94,220
2010 Aggregate HH Income	\$5,947,288,470	\$13,493,046,951	\$37,034,719,500	\$302,891,483,720
2015 Aggregate HH Income	\$6,901,435,280	\$15,827,805,000	\$43,426,667,232	\$350,826,517,504
2010 HHs w/Inc over \$100,000	21,951	49,228	129,302	997,280
2010 Percent HHs w/Inc over \$100,000	61%	62%	44%	31%
2015 HHs w/Inc over \$100,000	26,280	59,286	164,222	1,312,130
2015 Percent HHs w/Inc over \$100,000	72%	73%	56%	40%
2010 Owner Occupied HU	25,847	61,982	200,131	2,100,989
2010 Retail Goods: Total Spending	\$1,971,376,684	\$4,471,058,059	\$12,230,508,507	\$101,086,293,597
2010 Retail Goods: Average Spent/HH	\$54,707.28	\$55,848.43	\$41,389.20	\$31,444.76
2010 Retail Goods: Spending Potential Index	220	225	166	126
<u>Top Tapestry Segments by LifeMode Groups</u>		<u>Percent of Households</u>		
<u>High Society</u>	<u>64%</u>	<u>63%</u>	<u>42%</u>	<u>18%</u>
Connoisseurs	23%	16%	11%	4%
Suburban Splendor	19%	10%	5%	4%
Top Rung	12%	20%	10%	3%
Wealthy Seaboard Suburbs	10%	16%	17%	8%
<u>Upscale Avenues</u>	<u>15%</u>	<u>21%</u>	<u>19%</u>	<u>14%</u>
Enterprising Professionals	9%	6%	5%	3%
Pleasant-Ville	1%	2%	8%	9%
Urban Chic	5%	13%	7%	2%
<u>Metropolis</u>	<u>12%</u>	<u>7%</u>	<u>10%</u>	<u>9%</u>
City Lights	8%	5%	9%	8%
Metro Renters	3%	1%	1%	1%
Metropolitans	1%	1%	0%	0%
<u>Solo Acts</u>	<u>7%</u>	<u>5%</u>	<u>3%</u>	<u>2%</u>
Laptops and Lattes	1%	1%	0%	1%
Trendsetters	6%	4%	3%	2%
<u>Global Roots</u>	<u>2%</u>	<u>1%</u>	<u>4%</u>	<u>7%</u>
International Marketplace	2%	1%	4%	7%
Totals	100%	97%	78%	50%

Source: ESRI Business Analyst Online.

* Total TA includes Primary and Secondary TAs. ** The 20-Minute Drive Shed is a Potential TA.

If the downtown were a genuine retail powerhouse, then the 20-minute drive shed approach would be viable. Unfortunately, though Morristown with estimated annual sales of \$247 million + is certainly no retail weakling, it is no powerhouse.

Previously, trade area competition was discussed with reference to what downtown landlords and developers have to face when trying to win new, high quality retail tenants. Here, competition is being discussed with regard to the competitors retailers in Downtown Morristown have to face when they try to win sales from trade area residents. Big nearby shopping centers, malls and downtowns each have a gravitational-like pull, commensurate with their size and quality, that draws shoppers to them. Map 2 shows that there is a strong array of them to the east and north. They reduce the ability of Morristown's merchants to attract shoppers from those market areas. Most powerful is the Short Hills Mall, especially because of its array of trophy retailers and proximity to the residents of Chatham and Madison. But, the malls in Denville, Rockaway and Livingston also eat into Downtown Morristown's potential trade areas.

Furthermore, DANTH's field trips indicated that the retailers in both Chatham and Madison are probably keeping a lot of local retail dollars from leaking out to Morristown. Other downtowns (e.g., Westfield) and malls (e.g., Bridgewater Commons) capture shoppers at the fringes of the 20-minute drive shed.

With the assistance of the Morristown Partnership, DANTH obtained computerized lists of shoppers from some major downtown retailers. From these lists it was possible to identify the zip code areas where the shoppers reside. DANTH used these data to identify Downtown Morristown's Primary Trade Area, where we estimate 55% to 65% of its current residential shoppers live and its geographically larger Total Trade Area, which accounts for about 80% to 85% of its current residential shoppers.

Some validation of this approach to defining the trade areas is provided in Table 17. The Tapestry Lifestyle data presented in the table show that 64% of the households in the Primary Trade Area and 63% of those in the Total Trade Area are in the High Society life-mode group. The comparable statistic for the 20-Minute Drive Shed is 42%. Similarly, the data on household incomes and education for the Primary and Total Trade Areas are also much closer to each other than they are to those for the 20-Minute Drive Shed.

Zip code areas are often quite large. Consequently, using them can bring an error factor into the geographic definition of Downtown Morristown's trade areas.²⁴ Parts of the Basking Ridge and Chester zip code areas are probably not really in the trade area. However, the reported numbers of shoppers coming

²⁴ Using actual residential street addresses would have been more accurate, but also more complicated and expensive.

these zip codes were often larger than those for closer zip code areas, a fact that argued for their inclusion.

Demographic Characteristics of the Trade Areas' Populations

Population Size. The estimated population in Downtown Morristown's Primary Trade Area (PTA) in 2010 is 98,708. It is expected to be 99,570 in 2015 (see Table 17). Comparable statistics for the Total Trade Area (TTA) are 219,716 and 222,397. The anticipated annual growth for the PTA, 0.17%, is below that for NJ, 0.23%, while that for the TTA, 0.24%, is slightly above. The population estimates for both the PTA and the TTA are well below those of the 20-Minute Drive Shed, 817,336 in 2010 and 817,596 in 2015.

Population density is an important criterion for most national chains when evaluating potential new store sites. For many of those in the GAFO category, that will mean that they will have to be able to capture many shoppers from the TTA if they open a location in Downtown Morristown. Stein Mart and Chico's, for example, look for populations of 150,000 within 5 miles of their stores.

Household and Per Capita Incomes. No matter which measure one looks at, incomes on Downtown Morristown's PTA and TTA are comparatively high:

- The median household income in 2010 in the PTA is estimated at \$121,674; the estimate for the TTA is \$124,096. Comparables for the 20-Minute Drive Shed and NJ are \$87,320 and \$72,519
- The average household income in 2010 in the PTA is estimated at \$165,042; the estimate for the TTA is \$168,543. Comparables for the 20-Minute Drive Shed and NJ are \$125,329 and \$94,220
- The per capita income in 2010 in the PTA is estimated at \$60,787; the estimate for the TTA is \$62,057. Comparables for the 20-Minute Drive Shed and NJ are \$45,698 and \$34,739
- Per capita incomes in the PTA and the TTA are expected to increase by 2015 to \$69,916 and \$71,894
- In 2010, 61% of the households in the PTA had incomes over \$100,00; in the TTA, 62% of the households had incomes in that range. By 2015, it is estimated that 72% of the households in the PTA and 73% of the households in the TTA will have incomes over \$100,000.

As was explained in this report's trends analysis, higher income households are the most likely to exhibit a retail spending rebound as the economy recovers from the Great Recession. Because of that, they are likely to be even more prized than before by retailers.

Education. Morristown's shoppers are likely to be very educated. In the PTA 59.9% and in the TTA 61% of the residents over 25 years of age have a Bachelors or graduate degree. In the 20 Minute Drive Shed the figure is 47.4% and for NJ it is 34.7% (see Table 17).

Age. As can be seen in Table 17, the residents in Downtown Morristown's trade areas have slightly higher median ages, 41.0 and 41.5, than residents in either the 20-min drive shed, 40.1, or the state, 38.9.

Table 18 : Some Key Age Groups in the Primary and Total Trade Areas, 20-Minute Drive Shed and NJ

Age Groupings	Geographic Areas			
	Primary T.A.	Total T.A.	20-Min Shed	NJ
2010 Ages 20-29	10.0%	9.3%	10.7%	12.4%
2015 Ages 20-29	10.7%	10.3%	11.6%	12.9%
2010 - 2015 Growth	7.4%	10.1%	8.3%	3.5%
2010 Ages 55-64	12.7%	12.5%	12.0%	11.8%
2015 Ages 55-64	13.4%	13.6%	13.1%	12.7%
2010 - 2015 Growth	5.9%	8.9%	8.8%	8.0%
2010 Ages 65-85+	13.5%	14.1%	13.6%	13.9%
2015 Ages 65-85+	15.3%	15.9%	15.1%	15.4%
2010 - 2015 Growth	13.1%	12.8%	11.0%	10.6%
All Above Groupings				
Total 2010	36.2%	35.9%	36.4%	38.1%
All Above Groupings				
Total 2015	39.5%	39.7%	39.8%	41.0%
2010 - 2015 Growth	9.0%	10.7%	9.5%	7.5%
Source: ESRI estimates				

It was pointed out in the trends analysis that young professionals and empty nesters are prone to be interested in living in downtowns. With that in mind, Table 18 presents data on three age groupings: the 20-29 year olds; the pre-retirement "boomers" in the 55 to 64 year old bracket, and all those over 65. Some observations:

- The 2010 to 2015 growth rates in the 65+ age groups in both the PTA and the TTA are about 23% and 20% respectively above that for NJ. This age group will grow by 13% in the PTA. While many seniors will have substantial wealth and/or incomes, rising health costs and increased inactivity can constrain their retail spending
- Both of Downtown Morristown's trade areas have lower percentages of 20 to 29 year olds in their populations than either the drive shed or the state. But, between 2010 and 2015, growth in this age group in the TTA, 10.1%, will be the highest among the four geographic areas analyzed in Table 18. The incomes in this age group tend to increase with age. Those who have not "nested" often have a relatively significant amount of discretionary dollars to spend. Those that do form "nests" usually focus their retail expenditures on household and family related items

- The pre-retirement boomers now comprised 12.7% of the PTA's population, higher than the TTA, 12.5%, the drive shed, 12.0% or NJ, 11.8%. Their growth by 2015 in the PTA is estimated at 5.9%, while in the TTA they will increase by 8.9%. People approaching retirement tend to save more as they prepare for their futures, which can also divert dollars from retail
- By 2015 close to 40% of the populations in the PTA and the TTA will be in these three age groupings, which is about par for NJ.

Estimates of Retail Spending Levels. It is estimated that in 2010 the households in the PTA spent about \$1.9 billion on retail goods; the figure for the TTA is about \$4.47 billion (see Table 17). This amounts to about \$54,707 per household in the PTA and \$55,848 in the TTA. Comparables for the drive shed and NJ are significantly lower, \$41,389 and \$31,444 respectively.

ESRI computes a Spending Potential Index (SPI) on which a score of 100 is what the average household in the nation has to spend annually on retail. On this index households in the PTA score a robust 220 while those in the TTA have an even higher 225. Comparable SPI scores for the drive shed and NJ are 166 and 126 respectively.

The residents in Downtown Morristown's trade areas have a lot of retail spending power.

Lifestyle Market Segments

The types of retail Downtown Morristown can attract will be determined not only by its trade areas' residential densities, population ages and household incomes, but also by the residents' lifestyles.

The bottom portion of Table 17 shows the lifestyle segments of the residents in the PTA and then how these lifestyle segments are present in the TTA, the 20-Minute Drive Shed and NJ. It is based on Community Tapestry™ data obtained from ESRI. Tapestry uses 65 demographic and behaviorally distinct lifestyle segments. The segments are based on types of neighborhoods (urban, suburban, rural); the residents' socio-economic status (age, income, occupation, type and value of residence); and their buying behaviors and preferences. Tapestry's buying behaviors and preferences are based on extremely large national surveys. Sophisticated statistical techniques are used to combine all of the different kinds of data and produce the distinct market segments.

Tapestry also puts similar lifestyle segments into LifeMode Groups. Seven of the lifestyle segments in the High Society and Upscale Avenues account for 79% of the households in the PTA and 84% of the households in the TTA. Here are brief descriptions of these important lifestyle segments:

LifeMode Group: High Society. PTA 64%, TTA 63%.

- *Lifestyle Segment 03: Connoisseurs.* PTA 23%, TTA 16 %.

*Second in wealth to Top Rung but first for conspicuous consumption. Their homes contain the latest gadgets and upgrades. They shop at Nordstrom, Lord & Taylor and Macy's.*²⁵ Connoisseurs residents are well educated and somewhat older, with a median age of 45.4 years. Although residents appear closer to retirement than child rearing age, many of these married couples have children who still live at home. Their neighborhoods tend to be older bastions of affluence. Growth in these neighborhoods is slow. *Residents spend money for nice homes, cars, clothes, and vacations.* Exercise is a priority; they work out weekly at a club or other facility, ski, play golf, snorkel, play tennis, practice yoga, and jog. Active in the community, they work for political candidates, write or visit elected officials, and participate in local civic issues

- *Lifestyle Segment 02: Suburban Splendor. PTA 19%, TTA 10 %*
These successful suburbanites are the epitome of upward mobility, just a couple of rungs below the top, situated in growing neighborhoods of affluent homes. Most households are composed of two-income, married-couple families with or without children. The population is well educated and well employed, with a median age of 40.5 years. *Home improvement and remodeling are a main focus of Suburban Splendor residents. Their homes feature the latest amenities and reflect the latest in home design. Home improvement expenditures also focus on upgrades and all the newest gadgets. They are shoppers, favoring upscale retailers such as Nordstrom, Lord & Taylor and Ann Taylor.* Residents travel extensively in the United States and overseas for business and pleasure. Leisure activities include physical fitness, reading, visiting museums, or attending the theater
- *Lifestyle Segment 01: Top Rung. PTA 12%, TTA 20%*
Top Rung is the wealthiest consumer market, representing less than one percent of all U.S. households. Their median household income is three and one-half times that of the national median, and the median net worth of is more than five times that of the national level. These educated residents are in their peak earning years, 45–64, in married-couple households, with or without children. The median age is 42.3 years. With the purchasing power to indulge any choice, *Top Rung residents are shoppers. Among their favorites are Nordstrom, Bloomingdale's, Ann Taylor, Macy's, Banana Republic, Lord & Taylor, and warehouse stores.* They travel in style, both domestically and overseas. This is the top market for owning or leasing a luxury car; residents favor new imported vehicles, especially convertibles. Avid readers, these residents find time to read two or more daily newspapers and countless books
- *Lifestyle Segment 05: The Wealthy Seaboard Suburbs. PTA 10%, TTA 16%*

²⁵ Italics in this section are added for emphasis by DANTH, Inc.

This segment remains established quarters of affluence characteristic of coastal metropolitan areas. Neighborhoods are older and slow to change. The typical resident is married with no children, “forty some-thing,” homeowner, and white. Their income is derived from a variety of sources. They are well educated and well employed in professional occupations. Approximately 60 percent of these households receive supplemental income from interest, dividends, or rentals. More than 20 percent now receive retirement income. *They maintain their homes and tend to their gardens*, more often with lawn maintenance services and contractors than DIY projects.. Favorite pastimes reflect their locale—going to the beach, sailing, and skiing. *Shopping includes upscale retailers such as Bloomingdale’s, Lord & Taylor, Macy’s, and Nordstrom and cost-effective warehouse stores such as Price Costco and the Internet*

LifeMode Group: Upscale Avenues. PTA 15%, TTA 21%

- *Lifestyle Segment 16: Enterprising Professionals. PTA 9%, TTA 6%*
Young, highly educated working professionals. Either single or recently married: 45% are single, living alone or with roommates. Enterprising professionals change jobs and cities frequently and prefer renting to owning and newer neighborhoods with townhomes or apartments. *But, they are not yet “nesting” and their purchases of household goods and furnishings are nominal. They do collect electronic equipment and like to go to the movies and to stay physically fit*
- *Lifestyle. Segment 09: Urban Chic. PTA 5%, TTA 13 %*
Urban Chic residents are well-educated professionals living an urban, exclusive lifestyle. More than half of the households are married couples; less than half have children. Most own expensive single-family homes. *They have a preference for “uptown living.”* The median age is 41.4 years. *Urban Chic residents attend to lifestyle more than ambience. They are more inclined to buy dress clothes than casual wear, but purchase apparel for every pursuit – running, hiking, golf, yoga, etc.* They travel extensively, visit museums, attend dance performances, play golf, and go hiking
- *Lifestyle Segment 10: Pleasant-Ville. PTA1%, TTA 2%*
Prosperous domesticity distinguishes the settled homes of Pleasant-Ville neighborhoods. Most residents live in single-family homes with a median value of \$326,500; approximately half were built in the 1950s and 1960s. Located primarily in the Northeast and California, these households are headed by middle-aged residents, some nearing early retirement. The median age is 39.4 years. Approximately 40 percent of households include children. Home remodeling is a priority for residents who live in older homes. Shopping choices are eclectic, ranging from upscale department stores to warehouse or club stores. Sports fanatics, they attend ball games, listen to sports programs and games on the radio, and watch a variety of sports on TV.

The trade areas' lifestyle segments in the High Society LifeMode Group are among the wealthiest and have strong propensities to shop. They are also prime markets for home and hearth type retailers and service providers. Furthermore, they are major spenders on entertainment activities.

Two other lifestyle segments that can be important for downtowns are Enterprising Professionals and Urban Chic in the Upscale Avenues LifeMode Group, particularly the former. In many parts of the nation (e.g., NYC, Boston, Washington, DC) developers and brokers refer to these mostly young professionals as "Walking Wallets," because they have a lot of discretionary money to spend and they eagerly spend it. They have well paying, if not the highest paying jobs. But they have not yet "nested," so they rent and do not have high mortgage payments or the high medical, education tuition and fees, or childcare bills to pay. In many cities these young professionals have energized and popularized their downtowns and pioneered neighborhood revitalization.

The Enterprising Professionals can have a particularly strong impact on a downtown's night life, eateries, electronics and apparel shops. They also buy, comparatively, a lot of engagement rings.

Households in the Urban Chic lifestyle segment like to live in downtowns and broadly enjoy the kinds of leisure time and shopping opportunities they provide.

Based on research DANTH recently did on five shopping areas in the Phoenix, AZ metro area, it is doubtful that the numbers of Enterprising Professional and Urban Chic households in Downtown Morristown's trade areas, especially the PTA, can drive the district's retail growth. But their presence is large enough to contribute significantly to it.

A More Detailed Look at Retail Related Household Spending.

The information provided above has shown that the residents in Downtown Morristown's Primary and Total Trade Areas have high incomes and a considerable amount of retail spending power. The objective of the analysis in this section is to try to uncover which types of retail they spend more on and those they spend comparatively less on. However, it is important to keep things in perspective: even where they spend relatively less, their spending will be well above the national average.

Over the years, most of the trophy retailers DANTH has been asked to help recruit sell apparel: e.g., The Gap, Talbot's, Ann Taylor, Chico's etc. Looking at Table 19 below, the SPIs for apparel items certainly are all above the national average, with scores usually in the 150 to 170 range. But, the vast majority of the other SPI scores are well above 200, especially for those related to entertainment and recreational activities and the home and hearth niche.

Table 19: Household Retail-Related Expenditures In The Primary And Total Trade Areas

Expenditure Items	Primary Trade Area		Total Trade Area	
	SPI*	Total HH Expenditures	SPI	Total HH Expenditures
Apparel	168	\$144,532,258	170	\$325,773,891
Men's	159	\$26,316,686	162	\$59,435,605
Women's	151	\$45,046,314	153	\$101,966,926
Children's	165	\$23,833,859	166	\$53,161,089
Footwear	112	\$16,825,232	113	\$37,735,434
Watches & Jewelry	263	\$18,388,338	270	\$42,015,313
Computer				
Computers and Hardware for Home Use	236	\$16,312,632	240	\$36,752,270
Software and Accessories for Home Use	240	\$2,459,671	243	\$5,549,279
Entertainment & Recreation	243	\$282,762,447	249	\$643,645,190
<i>Fees and Admissions</i>	275	\$61,336,253	284	\$140,883,114
Membership Fees for Clubs	283	\$16,737,174	295	\$38,702,224
Fees for Participant Sports, excl. Trips	260	\$9,986,831	269	\$22,956,059
Admission to Movie/Theatre/Opera/Ballet	257	\$14,062,282	263	\$31,929,962
Admission to Sporting Events, excl. Trips	259	\$5,543,924	264	\$12,599,252
Fees for Recreational Lessons	304	\$14,936,568	316	\$34,542,808
<i>TV/Video/Audio</i>	221	\$99,055,666	224	\$222,671,986
Televisions	243	\$16,964,208	248	\$38,395,720
VCRs, Video Cameras, and DVD Players	228	\$1,670,263	229	\$3,733,136
Video Cassettes and DVDs	215	\$4,086,231	215	\$9,072,505
Video and Computer Game Hardware and Software	224	\$4,506,591	223	\$9,971,618
Audio	222	\$11,771,476	225	\$26,425,102
Pets	281	\$43,646,864	289	\$99,400,393
Toys and Games	223	\$11,708,191	226	\$26,287,069
Recreational Vehicles and Fees	256	\$29,836,194	270	\$69,804,499
Sports/Recreation/Exercise Equipment	191	\$12,476,253	196	\$28,414,070
Photo Equipment and Supplies	242	\$9,011,213	246	\$20,412,888
Reading	246	\$13,702,644	253	\$31,374,648
Food at Home	221	\$356,122,585	224	\$800,625,338
Food Away from Home	229	\$265,571,527	232	\$596,563,724
Alcoholic Beverages	238	\$49,016,135	241	\$110,109,461
Nonalcoholic Beverages at Home	217	\$34,215,308	219	\$76,662,881
Health				
Nonprescription Drugs	204	\$7,578,978	207	\$17,101,831
Prescription Drugs	196	\$35,126,076	200	\$79,868,977
Eyeglasses and Contact Lenses	231	\$6,398,744	236	\$14,545,198
Home				
Maintenance and Remodeling Services	284	\$203,243,065	299	\$474,649,579
Maintenance and Remodeling Materials	244	\$32,666,670	255	\$75,849,308

Table 19 continued

Expenditure Items	Primary Trade Area SPI	Total HH Expenditures	Total Trade Area SPI	Total HH Expenditures
Household Furnishings and Equipment				
Household Textiles	244	\$11,686,863	250	\$26,669,491
Bathroom Linens	229	\$1,463,890	231	\$3,284,416
Bedroom Linens	237	\$5,294,673	241	\$11,983,312
Kitchen and Dining Room Linens	241	\$268,510	246	\$609,256
Curtains and Draperies	278	\$2,884,554	292	\$6,732,235
Slipcovers, Decorative Pillows	228	\$351,597	230	\$789,487
Materials for Slipcovers/Curtains	230	\$1,265,768	238	\$2,912,071
Other Linens	250	\$157,871	256	\$358,714
Furniture	254	\$54,982,965	261	\$125,549,456
Mattresses and Box Springs	245	\$7,046,949	251	\$16,022,113
Other Bedroom Furniture	238	\$9,218,978	242	\$20,794,353
Sofas	263	\$14,359,665	271	\$32,847,671
Living Room Tables and Chairs	256	\$7,638,736	265	\$17,576,922
Kitchen, Dining Room Furniture	257	\$5,733,472	265	\$13,131,388
Infant Furniture	224	\$901,652	225	\$2,008,155
Outdoor Furniture	284	\$2,728,070	297	\$6,348,123
Wall Units, Cabinets and Other Furniture	256	\$7,355,443	264	\$16,820,731
Floor Coverings	270	\$7,289,888	281	\$16,899,528
Major Appliances	232	\$25,339,732	239	\$58,088,449
Housewares	212	\$6,571,835	216	\$14,884,923
Small Appliances	226	\$2,663,337	230	\$6,029,812
Luggage	258	\$859,735	263	\$1,947,715
Telephones and Accessories	150	\$2,303,815	150	\$5,132,383
Household Operations				
Child Care	244	\$40,654,757	246	\$91,087,017
Lawn and Garden	255	\$38,500,037	267	\$89,352,283
Housekeeping Supplies (17)	219	\$55,232,986	222	\$124,537,488
Other				
Personal Care Products (18)	223	\$32,057,753	226	\$72,161,288
School Books and Supplies (19)	211	\$8,109,974	209	\$17,858,781
Smoking Products	184	\$28,403,157	183	\$62,450,594

Source: ESRI forecasts for 2010 and 2015; Consumer Spending data are derived from the 2006 and 2007 Consumer Expenditure Surveys, Bureau of Labor Statistics.

*Data Note: The Spending Potential Index (SPI) is household-based, and represents the amount spent for a product or service relative to a national average of 100.

The SPIs for entertainment, leisure activities and household furnishings are almost all two to two and a half times higher than the national averages. These spending patterns strongly suggest where growth opportunities for Downtown Morristown's retail may be strongest: the malls are weaker competitors in entertainment and leisure activities and even modest capture rates (15% to 25%)

in the home and hearth niche sectors presented in Table 19 could yield very meaningful sales.

A Gap Analysis: Retail Sales Leakages and Surpluses.

A gap analysis within a trade area subtracts estimated store sales (supply) from estimated consumer expenditures (demand). When a gap exists, i.e., when

Industry Group	Retail Leakage/Surplus		
	Primary T.A.	Total T.A.	20-Min Shed
Motor Vehicle & Parts Dealers (NAICS 441)	-\$71,010,720	\$107,736,895	-\$288,833,072
Automobile Dealers (NAICS 4411)	-\$116,529,612	\$20,237,645	-\$496,326,788
Other Motor Vehicle Dealers (NAICS 4412)	\$26,319,246	\$46,308,707	\$116,230,399
Auto Parts, Accessories, and Tire Stores (NAICS 4413)	\$19,199,646	\$41,190,543	\$91,263,317
Furniture & Home Furnishings Stores (NAICS 442)	\$47,304,422	\$105,301,375	\$89,298,741
Furniture Stores (NAICS 4421)	\$28,070,357	\$65,126,608	\$34,939,918
Home Furnishings Stores (NAICS 4422)	\$19,234,065	\$40,174,767	\$54,358,823
Electronics & Appliance Stores (NAICS 443/NAICS 4431)	\$8,695,889	#####	-\$113,407,927
Bldg Materials, Garden Equip. & Supply Stores (NAICS 444)	\$68,221,031	\$153,704,420	\$146,638,517
Building Material and Supplies Dealers (NAICS 4441)	\$65,947,243	\$149,408,581	\$137,519,007
Lawn and Garden Equipment Supplies Stores (NAICS 4442)	\$2,273,788	\$4,295,839	\$9,119,510
Food & Beverage Stores (NAICS 445)	\$259,102,949	\$310,203,157	\$111,535,823
Grocery Stores (NAICS 4451)	\$248,020,357	\$314,305,703	\$202,557,470
Specialty Food Stores (NAICS 4452)	-\$443,321	\$1,237,978	-\$19,630,401
Beer, Wine, and Liquor Stores (NAICS 4453)	\$11,525,913	-\$5,340,524	-\$71,391,246
Health & Personal Care Stores (NAICS 446/NAICS 4461)	\$14,330,205	\$26,782,864	-\$17,002,662
Clothing and Clothing Accessories Stores (NAICS 448)	\$75,510,053	\$132,653,469	-\$31,089,216
Clothing Stores (NAICS 4481)	\$65,647,510	\$113,363,692	\$1,483,705
Shoe Stores (NAICS 4482)	\$5,568,736	\$9,911,021	\$5,290,116
Jewelry, Luggage, and Leather Goods Stores (NAICS 4483)	\$4,293,807	\$9,378,756	-\$37,863,037
Sporting Goods, Hobby, Book, and Music Stores (NAICS 451)	\$21,302,738	\$44,917,123	-\$26,206,376
Sporting Goods/Hobby/Musical Instrument Stores (NAICS 4511)	\$17,699,263	\$39,892,203	\$22,290,960
Book, Periodical, and Music Stores (NAICS 4512)	\$3,603,475	\$5,024,920	-\$48,497,336
General Merchandise Stores (NAICS 452)	\$29,648,946	\$165,496,885	-\$71,814,337
Department Stores Excluding Leased Depts. (NAICS 4521)	-\$26,428,244	\$22,230,281	-\$209,808,254
Other General Merchandise Stores (NAICS 4529)	\$56,077,190	\$143,266,604	\$137,993,917
Miscellaneous Store Retailers (NAICS 453)	\$34,143,661	\$51,485,656	\$76,912,643
Florists (NAICS 4531)	\$4,239,101	\$6,549,367	\$14,954,221
Office Supplies, Stationery, and Gift Stores (NAICS 4532)	\$25,716,329	\$41,454,407	\$75,239,688
Used Merchandise Stores (NAICS 4533)	-\$528,295	\$437,132	\$4,062,097
Other Miscellaneous Store Retailers (NAICS 4539)	\$4,716,526	\$3,044,750	-\$17,343,363
Food Services & Drinking Places (NAICS 722)	\$83,880,608	\$254,192,337	\$598,676,581
Full-Service Restaurants (NAICS 7221)	\$11,220,993	\$149,711,464	\$476,454,329
Limited-Service Eating Places (NAICS 7222)	\$59,476,227	\$98,849,394	\$78,770,372
Special Food Services (NAICS 7223)	-\$1,667,600	-\$29,622,811	-\$37,282,289
Drinking Places - Alcoholic Beverages (NAICS 7224)	\$14,850,988	\$35,254,290	\$80,734,169

Source: ESRI and Infogroup.

*The Retail Gap represents the difference between retail expenditure potentials and estimated retail sales. Counter intuitively, a minus sign (-) indicates a "surplus".

demand is greater than supply, it is interpreted as a leakage of sales to business operations beyond the trade area. That is typically interpreted by practitioners of this analytical approach as a growth opportunity that can be realized by new or existing local retailers recapturing the leaked sales. When drive-shed retail store

sales exceed consumer expenditures, a surplus exists. Practitioners usually see that as a growth impediment.

It is best to treat such gap analyses carefully. Data on retail stores and their sales are often out of date because of churn and the under-appreciated difficulty of collecting accurate data on these firms. Furthermore, gap analysis totally disregards the competitive abilities of the existing retailers in the market area and the impacts of firms coming in and taking away market share from these existing firms. The gap analysis' theoretical assumption is that they will only take away sales "recaptured" from beyond the boundaries of the market area, but not from operations within it. It also fails to take into consideration the competitive importance of a retail operation's location within a market area.

Niche retail theory views the surpluses somewhat differently: as possible strengths that can be used to expand the geographic boundaries of a commercial district's trade areas. A large surplus indicates that the growth prospects for a niche or market segment should be looked at carefully, but alone does not prove that such a potential exists.

With those cautions in mind, Table 20 still presents a number of interesting findings that appear credible because they are consistent with other known factors:

- There are substantial leakages of expenditures for clothing and clothing accessories from both the PTA and the TTA, but either surpluses or very small leakages for these items in the 20-minute drive shed. This is consistent with a lot of clothing related expenditures from Morristown's trade areas being captured by the malls, e.g., Short Hills, in the 20-minute drive shed. Across the nation, such malls are usually very strong on apparel and this strength often overwhelms nearby downtown apparel merchants. But, this is not always the case. Mary Jane Denzer in downtown White Plains, NY, has more than withstood the opening of The Westchester (a mall comparable to Short Hills), just a few minutes away. In downtown Englewood, NJ, a women's fashion boutique niche has flourished despite the nearby competition of several million square feet of malls on Rtes 4 and 17. These shops are unique, strong and willing and able to fight for market share. They also tend to target upscale customers, have unique offerings and provide pampering customer service
- Except for electronics and electronic appliance shops (NAICS 443, 4431), the expenditure leakages from home and hearth niche stores in Morristown's trade areas are not being absorbed as strongly by merchants in the 20-minute shed. This suggests that merchants in this niche who are located in Downtown Morristown will not have to face as much competition as their brethren selling apparel. DANTH's field observation in many downtowns across the nation indicate that downtown home and hearth niches are usually able to cope with the competition of nearby malls
- There are significant sales leakages from sporting goods, hobby and musical instrument stores of about \$17.6 million in the PTA and \$39.8

million in the TTA that are being only partially captured in the 20-minute shed

- There are relatively small leakages of sales from book, periodicals and music stores in the PTA and TTA. The internet and shops in the 20-minute shed are probably absorbing them
- There are leakages of sales for both full service and limited service eateries in all three geographic areas, though the one in the PTA, about \$11 million, is relatively small.

The Trade Areas Daytime Populations

Within Downtown Morristown's trade areas there are daytime, non-residential populations, who may be attracted to its retail shops, eateries and watering holes, and entertainment venues. Principally they are college students and the people employed in firms located in the trade areas.

College Students.

Table 21. National Student Expenditures 1996-1998			
In 2009 dollars			
Spending Characteristic	Per student Quaterly Total*	School Yr 3 Quarters Total*	Est School Yr Expenditures Number of Students 7,100 Estimated Expenditures
<u>Retail Related</u>			<u>Estimated Expenditures</u>
Food at Home	\$555	\$1,666	\$11,829,807.00
Food away from home	\$139	\$417	\$2,963,895.00
House furnishings/ops	\$117	\$352	\$2,499,981.00
Apparel	\$211	\$632	\$4,484,502.00
Entertainment	\$203	\$610	\$4,329,864.00
<i>Totals</i>	<i>\$1,226</i>	<i>\$3,677</i>	<i>\$26,108,049.00</i>

*in 2009 dollars; updated by DANTH

Source:Geoffrey D. Paulin, "Expenditures of college-age students and nonstudents," Monthly Labor Review, July 2001, pp 46- 50. Used BLS survey data

There are about 7,100 students attending Farleigh Dickinson University, Drew University and the College of St. Elizabeth. These three institutions of high education are within five to seven minute drives of Downtown Morristown. Some idea of their spending power is provided in Table 21, which shows the findings of a national study of college student expenditures conducted by the Bureau of Labor Statistics. The expenditures are reported in 2009 dollars. In aggregate, the 7,100 nearby college students have about \$26 million worth of spending power that Downtown Morristown merchants might want to target. Besides food at home, entertainment and apparel are the largest expenditure categories.

Table 22, based on the Tapestry lifestyle data, provides more information about college students consumer behaviors.

Table 22. Behaviors of “Dorms to Diplomas” (College Students)			
ESRI Community Tapestry Market Segment			
Spending Category	MPI	Spending Category	MPI
<u>Sample Purchases</u>		<u>Media</u>	
Bought men's designer jeans	238	Watches comedy central	250
Bought men's sweater	215	Watches VH1	255
Bought women's designer jeans	176	Read women's fashion magazine	224
Bought engagement ring	193	Public radio listeners	236
Drank beer	140	Radio format - rock	229
Bought adventure book	267	<u>Restaurants</u>	
Owens a laptop	241	Dined at Bennigan's	369
Owens a PDA	242	Dined at Boston Market	226
Purchased Sony Playstation	239	Dined at Little Caesar's	289
Purchased sofa bed	419	Dined at Chili's	212
Purchased office furniture	171	<u>Stores</u>	
Purchased cooking products	131	Shop at Banana Republic	369
Purchased bed/bath goods	113	Shop at Express	620
Purchased cell phone	147	Shop at The Gap	233
Purchased frozen pizza	130	Shop at Lerner	314
<u>Personal Care</u>		Shop at The Limited	387
Exercise at club 2+/week	211	Shop at Old Navy	181
Diet Control to maintain weight	158	Shop at Target	138
Use nutrition/energy bar	168	Shop at Wal-Mart	97
Wear contacts	208	Shop at TJ Maxx	182
<u>Activities</u>		<u>Recreation</u>	
Went to bar/nightclub	204	Went backpacking on vacation	306
Went dancing	254	Foreign travel personal reasons	259
Dined out in past 12 months	78	Participated in aerobics	193
Went to movies in past 6 months	118	Participated in bowling	254
Attended musical performance	187	Participated in Frisbee	327
Played pool	235	Participated in jogging/running	282
Played chess	212	Participated in tennis	318
Did painting/drawing	186	Participated in downhill skiing	205
Source: ESRI Community Tapestry data set			

The MPI, Market Potential Index, shows how often college students engage in the listed activities compared to the national average MPI score of 100. College students prefer specialty retailers, e.g., Express, to value retailers such as Walmart and Target. They like to buy jeans and electronics. They engage frequently in entertainment and recreational activities. But, they do not formally “dine out” that much.

People Employed in the Trade Areas.

Those employed at firms located outside of Downtown Morristown, but still within its trade areas, are quite numerous. They may not come downtown all that frequently, because of limited time at lunch hour to travel back and forth.

Nevertheless, their numbers are such that even a modest capture rate can translate into very significant sales for local retailers and restaurant owners.

Table 23. Employment in Downtown Morristown's Primary, Secondary and Total Trade Areas

	<u>Primary T.A.</u>		<u>Secondary T.A. (w/out Primary)</u>		<u>Total Trade Area</u>	
	2008		2008		2008	
	Count	Share	Count	Share	Count	Share
Total Primary Jobs	53,971	100.0%	74,960	100.0%	128,931	100.0%
	2008		2008		2008	
	Count	Share	Count	Share	Count	Share
Age 29 or younger	10,191	18.9%	15,338	20.5%	25,529	19.8%
Age 30 to 54	32,468	60.2%	44,897	59.9%	77,365	60.0%
Age 55 or older	11,312	21.0%	14,725	19.6%	26,037	20.2%
	2008		2008		2008	
	Count	Share	Count	Share	Count	Share
\$1,250 per month or less	7,675	14.2%	10,985	14.7%	18,660	14.5%
\$1,251 to \$3,333 per month	13,423	24.9%	18,170	24.2%	31,593	24.5%
More than \$3,333 per month	32,873	60.9%	45,805	61.1%	78,678	61.0%
	2008		2008		2008	
	Count	Share	Count	Share	Count	Share
Agriculture, Forestry, Fishing and Hunting	21	0.0%	44	0.1%	65	0.1%
Mining, Quarrying, and Oil and Gas Extraction	2	0.0%	1	0.0%	3	0.0%
Utilities	410	0.8%	47	0.1%	457	0.4%
Construction	1,380	2.6%	3,073	4.1%	4,453	3.5%
Manufacturing	3,932	7.3%	3,775	5.0%	7,707	6.0%
Wholesale Trade	2,574	4.8%	4,871	6.5%	7,445	5.8%
Retail Trade	3,644	6.8%	5,841	7.8%	9,485	7.4%
Transportation and Warehousing	711	1.3%	1,711	2.3%	2,422	1.9%
Information	1,195	2.2%	3,211	4.3%	4,406	3.4%
Finance and Insurance	4,656	8.6%	8,491	11.3%	13,147	10.2%
Real Estate and Rental and Leasing	1,372	2.5%	901	1.2%	2,273	1.8%
Professional, Scientific, and Technical Services	6,207	11.5%	13,449	17.9%	19,656	15.2%
Management of Companies and Enterprises	2,343	4.3%	2,148	2.9%	4,491	3.5%
Administration & Support, Waste Management...	2,158	4.0%	4,559	6.1%	6,717	5.2%
Educational Services	4,713	8.7%	6,324	8.4%	11,037	8.6%
Health Care and Social Assistance	10,605	19.6%	7,329	9.8%	17,934	13.9%
Arts, Entertainment, and Recreation	878	1.6%	931	1.2%	1,809	1.4%
Accommodation and Food Services	2,247	4.2%	3,904	5.2%	6,151	4.8%
Other Services (excluding Public Administration)	1,962	3.6%	3,164	4.2%	5,126	4.0%
Public Administration	2,961	5.5%	1,186	1.6%	4,147	3.2%

Data Source: US Census Bureau, LED OnTheMap Origin-Destination Database

Table 23 shows that in 2008 about 53,971 people were employed in Downtown Morristown's Primary Trade Area and about 128,931 in the Total Trade Area.

The business that local hotels do with major corporations (discussed above) suggests that many of these workers have come to visit and know Downtown Morristown. The downtown's transportation assets also suggest that many are traveling near or through it.

Some Observations

While Downtown Morristown's Primary and Total Trade Areas are much smaller in geographic size and populations than the 20-Minute Drive Shed, they still offer an array of characteristics that many retailers should find very attractive:

- The trade areas' households have high incomes, with the vast majority in the top income quintile nationally.
- These households have exceptional retail spending power and they enjoy lifestyles that encourage shopping and living the good life. Even though recent research is showing that the wealthy, post Great Recession, are more concerned about value and engaging in "precision- shopping" focused on a few favorite retail categories, luxury shopping is making a rebound, if still occasionally sputtering in sync with the stock market.²⁶
- One may wonder whether most of the downtown's current retailers have recognized these facets of the trade areas they now are drawing their customers from? New merchants hopefully will also target these households.

That the downtown's trade areas and merchants are impacted by a strong array of competing retail centers is indisputable. Nevertheless, the analysis presented above indicates a strong opportunity to grow a much more robust home and hearth niche. In part, this is because the competition for this niche is not as fierce as it is for other retail sectors. Moreover, the emergence of home and hearth niches in numerous downtowns across the nation (e.g., Englewood, NJ, Santa Monica, CA, Forest Hills, NY)) show that many of these operations can go into existing, moderately sized retail spaces that typify Downtown Morristown.

The analysis also suggests that an entertainment/recreation niche can be grown. The competition for this niche will not really come from rival shopping centers and malls. The downtown's existing entertainment niche provides a fulcrum from which additional growth within this as well as in other retail sectors can be leveraged.

The downtown's trade areas have a significant number of people in the Enterprising Professionals and Urban Chic lifestyle segments who would be prone to supporting a growing downtown entertainment niche.

The trade areas' aging populations will shop less with time, but retailers able to identify, understand and respond to their needs could do very well.

The trade areas' daytime populations are assets that are being tapped now to a degree DANTH has not been able to precisely measure. The 77 strong restaurant niche, for example, seems to be impacted positively by them. More

²⁶ See the 2010 Survey of Affluence and Wealth in America, produced by American Express Publishing and Harrison Group; Motoko Rich, "The Rich Catch Everyone Else's Cutback Fever" New York Times, July 16, 2010

retail sales probably could be captured from them with improved offerings and appropriate marketing that is based on a “take it /bring it to them” approach. Such an approach will certainly be critical for downtown merchants to gain better penetration of the downtown office worker and hotel guest markets.

STRATEGY AND ACTION RECOMMENDATIONS

Strategic Goals

Our understanding is that, for the Morristown Partnership, this study is intended to help it achieve two major strategic goals:

1. To significantly improve the quality and variety of the retail available to shoppers in Downtown Morristown
2. These retail improvements should at the same time contribute to the overall growth and well being of the downtown.

The retail improvements can come about through two overlapping strategic pathways: the strengthening of existing retailers and the recruitment of new high quality merchants.

Strategic Challenges, Responses and Actions

To achieve these goals the Morristown Partnership will need to confront a number of major challenges by means of effective strategic policy responses and a set of appropriate, viable and effective implementation action steps.

Challenge: Given the Strong Retail Competition, Which Niches Can Drive a Meaningful Improvement of the Retail in Downtown Morristown?

Response 1. Increase Penetration of Downtown Captive Retail Markets. The close-in consumer markets available to Downtown Morristown's retailers are impressive, having a variety and power normally only found in municipalities many times larger than Morristown. The downtown is a true multi-functional commercial center that provides abundant salient reasons for people to visit and the available data suggest that they do so in significant numbers. The influx of 1,500+ market rate residential units will enhance this downtown customer traffic. DANTH's estimates of the downtown spending potential of nearby office workers, new residents and high school students totals over \$132.9 million/yr and the hotel guests probably add about \$9 million just for their restaurant expenditures.

Most importantly, this substantial customer traffic does not have to be wooed downtown; it's already there or traveling through. Retailers just need to attract these potential customers into their shops and make the sales. In the eyes of some experts, these shoppers are consequently prized "captive markets." While these visitors are downtown, the magnetism of rival shopping centers is a diminished factor in their shopping decisions.

Nevertheless, it appears that district merchants could capture a lot more sales from office workers, hotel guests, students, pamper niche patrons, restaurant patrons, downtown residents and other downtown users and visitors. Geographic dispersion and merchant unawareness or disinterest appear to be the strongest factors now inhibiting greater penetration of the captive markets. By their number

and estimated sales, it appears that the downtown's eateries are doing a much better job of penetrating these markets.

As the retail in Downtown Morristown improves not only will more people in these market segments be buying downtown, but the retail expenditures of individuals in them will also rise. The ICSC office workers survey, for example, found that office workers in downtown's with "ample retail" individually spent 18% more on comparison shoppers' and convenience goods than those in districts with "limited retail."

Downtown captive markets have greater strategic importance and potential economic impact when downtown retailers can leverage them to increase their penetration of the surrounding residential trade areas. The upscale lifestyles and consumer spending patterns of trade area residents are more likely to be matched by the downtown's new residents, hotel guests and better paid office workers than by the lower paid office workers and high school students.²⁷

Important point: The downtown's multi-functionality and the retail markets associated with it are now the district's strongest assets. It is imperative that they be leveraged as fully as possible to stimulate retail growth and improvement.

ACTION RECOMMENDATIONS. The actual implementation of this strategic element rests with the downtown's retailers, new and old. The best ways that the Morristown Partnership can stimulate retailers to target much more intensely the captive market shoppers are through educational forums, the distribution of appropriate statistical and analytical information and publicizing retailers who are successfully doing so. Some specific actions the Partnership can undertake are:

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers
- Information about these captive markets should be in the recruitment package the Partnership's staff gives to every new retail prospect it encounters. (Note: this is the proper and only effective way to distribute recruitment packages: to prospects *after* contact has been established)
- Create a webinar-like version of the briefings that can be either downloaded from the Partnership's website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics on the Partnership's website
- The Partnership should foster cross promotions between downtown retailers and local hotels. The hotel managements are very interested in developing more of these arrangements
- Place related success "stories" in local print and electronic media.

²⁷ But, on some merchandise lines, e.g., electronics, the spending patterns of students and office workers may overlap with those of upscale households.

- For example, MMH is now exploring the establishment of a concierge service that would connect its employees with downtown businesses. This could be a model for many other major corporate office buildings located near Morristown. Replication can be encouraged by well placed stories about the concierge service. Likewise, stories/reports about any successful downtown backdoor retail operations aimed at these markets would also be helpful. Publicizing the downtown retailers now cross marketing with the hotels can provide models for other retailers to follow
- Create a “Downtown Passport” that would offer special discounts to people employed in the downtown, hotel guests, high school students, and downtown residents
- Create a Downtown Young Professionals Committee that would provide social and networking opportunities for members of this key market segment who live and/or work in the downtown. This group can serve as the Partnership’s marketing channel to this market segment.

Response 2. Know Your Potential Customers: Downtown Morristown’s Primary and Total Trade Areas Are Characterized by Households Living Upscale Lifestyles With Well Above Average Spending Power. The statistics in Tables 17 and 19 amply demonstrate these trade area characteristics.

Important Point: Downtown retailers, new and old, need to target these households by offering retail merchandise, levels of customer service and a shopping ambience that are congruent with the behaviors and preferences of these residents.

ACTION RECOMMENDATIONS. Here, again, actual implementation rests with the retailers and the Partnership’s role is basically to make them aware of these markets, provide relevant information and analyses about them, and to encourage the retailers to act. Here are some specific steps the Partnership might take:

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers
- Information about these trade area markets should be in the recruitment package the Partnership’s staff gives to every new retail prospect it encounters
- Create a webinar-like version of the briefings that can be either downloaded from the Partnership’s website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics on the Partnership’s website
- Encourage downtown retailers to engage in cross promotions with establishments in the downtown’s strong restaurant and pamper niches. These two niches are currently able to draw downtown a lot more trade area residents than the retailers
- Place related success “stories” in local print and electronic media.

Response 3. Grow the Home and Hearth Niche. The downtown has many firms in the home and hearth niche. The upscale lifestyles and household expenditures of trade area residents for these goods and services strongly suggest that both new and existing home and hearth niche merchants can capture a lot more sales from them. For example:

- As shown in Table 19, households in the Primary Trade Area spend about \$203 million annually on home maintenance and remodeling services, which is about 2.84 times the national average
- DANTH estimates that a 15% capture rate of the furniture and home furnishings expenditures that ESRI reports now being “leaked” from Downtown Morristown’s Total Trade Area could support about 24,300 SF of new retail space leased at \$65/SF.

Also, this is a niche where service and product uniqueness are often very important in consumer decisions, and independent merchants who can provide them are frequently successful players. Consequently, trade area competition is not as daunting an impediment for this niche as it is for other downtown retail sectors. Moreover, large amounts of new Class A retail space are not required for this niche to grow.

The most prominent barrier now to the growth of this niche is the struggling housing market. But, growth opportunities still reside in the increasing demand for goods and services related to cocooning and especially home improvements and maintenance. Laura J. Alber, CEO of Williams-Sonoma, believes that though a decline in home buying works to lower demand for furniture and home furnishings, consumers will continue to renovate the homes they now live in and “When you start painting,” she says, “it becomes a huge project because everything else then looks bad.”²⁸ An analyst at the Telsey Advisory Group estimates that 80% of home furnishings sales stem from renovation projects. The expansion of the West Elm stores now figures significantly in Alber’s plans for Williams Sonoma. Two other home and hearth powerhouses, Home Depot and Lowes, had re-oriented their marketing efforts toward the home renovation market by early 2009.²⁹

ACTION RECOMMENDATIONS. Many of the specific Partnership action steps recommended for implementing Responses 1 and 2 are also applicable here, but some others associated with targeting this niche are added:

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers.

²⁸ Cotten Timberlake, “Williams-Sonoma’s New Recipe: In a home sales slump, the retailer looks to renovations and the Web,” August 12, 2010, 5:00PM EST, <http://www.businessweek.com/print/magazine/content/10>

²⁹ Ibid.

- Create a webinar-like version of the briefings that can either be downloaded from the Partnership's website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics about this niche on the Partnership's website
- Place related success "stories" in local print and electronic media
- Start a niche marketing effort for the home and hearth niche as has been done in West Hollywood, CA. Given that the Partnership's marketing efforts for the wedding and restaurant niches are both of recent origin and demanding on resources, a marketing effort for the home and hearth operations may have to wait. Moreover, such an effort would probably have greater impact right after a few more quality firms are added to this niche.
- The Partnership's recruitment out-reach effort should give firms in this niche a very high priority. See below for more details about this recommended program.
- The Partnership's effort to help retail tenant prospects open a shop in Downtown Morristown should give priority to those in this niche. See below for a detailed description of this recommended program.

Response 4. Grow the Entertainment/Recreation Niche. Large national surveys of household expenditure patterns by the Bureau of Labor Statistics have repeatedly shown that the households with the highest incomes account for a strongly disproportionate share of what is spent on entertainment and recreational activities and products. For example, in 2008, the top quintile in household incomes accounted for 54.6% of all expenditures on entertainment fees and admissions.

With 77 restaurants, a legitimate theater and a cinema, Downtown Morristown already has a fairly significant, if somewhat imbalanced entertainment/recreation niche. Of strategic importance is the fact that this niche now brings a lot of financially comfortable people downtown from whom savvy retailers can capture significant sales. The stronger Downtown Morristown's entertainment/recreation niche is, the more upscale trade area residents will be drawn to the district, and the greater the opportunities for them to become familiar with downtown merchants (sometimes even by just passing a closed store's window) and make purchases. Growing this niche will give these very desirable potential shoppers more reasons to come downtown and to stay longer.

Currently, however, it appears that retail store hours and the timing of many entertainment niche visits are out of sync. This has been a frequent issue in many of the downtowns where an entertainment niche has been a pivotal revitalization engine. It is a problem that will probably diminish, but not disappear as more national chains locate in Downtown Morristown.

The entertainment/recreation niche's growth opportunities appear to be significant. Two examples:

- ESRI estimates (see Table 19) the total annual household expenditures for admissions to movies houses, theatres, ballets, operas, etc., in the PTA at about \$14 million and close to \$32 million in the TTA. DANTH estimates the revenues for such venues in Downtown Morristown at about \$8 million
- Households in the PTA spend over \$43 million/yr on pets; in the TTA the expenditures exceed \$99 million. There are just three relatively small pet-related establishments in Downtown Morristown.

ACTION RECOMMENDATIONS. The specific Partnership action steps recommended for implementing Response 4 are:

- Conduct briefings for current downtown retailers, landlords, developers and commercial brokers
- Create a webinar-like version of the briefings can either be downloaded from the Partnership's website or cut directly on DVDs and distributed to local merchants who then can look at the information at their convenience
- Post appropriate statistics about this niche on the Partnership's website
- Place related success "stories" in local print and electronic media.
- The Partnership's recruitment out-reach effort should give firms in this niche a very high priority. See below for more details about this recommended program
- The Partnership's effort to help retail tenant prospects open a shop in Downtown Morristown should give priority to those in this niche. See below for a detailed description of this recommended program.
- The Partnership should work with the Township and possibly local property owners to provide well-activated public spaces where people can watch others or themselves engage in a wide range of informal entertainment activities. Such public spaces would do much to flesh out and strengthen the downtown's entertainment niche. They also would make the downtown "stickier" in the sense they would give people additional reasons to stay downtown longer. A lot of the downtown's current visitors and users would also become more visible. Consequently, the downtown would appear to be busier and more exciting – and a lot more attractive location for retailers. Cautionary note: just having a public space is not enough. They have to be properly located, designed, programmed and managed. Otherwise they can turn into locations for many "quality of life" problems and a real liability for the downtown
- The Partnership should encourage even more outdoor dining, sipping and snacking. It will bring an increased sense of activity to the downtown. Such activities across from The Green also will take advantage of that strong visual asset
- The Partnership should try to build one weekday evening as the downtown's time when many shops will stay open until 8:00 or 8:30. It

should have a special emphasis on hotel guests, and downtown hotel managers and retailers should jointly plan it, with a heavy use of cross promotions. If this succeeds, then a second late evening can be attempted.

Response 5. Expand the Partnership's Niche Marketing Efforts to More Niches. Many firms doing market research on downtown retail focus on gap/leakage analyses and the putative less competitive environment connected with unmet consumer demand. DANTH, on the other hand, believes that unless the expenditure dollars associated with the leakage are staying in the consumers' bank accounts, downtown merchants must still win those dollars and this involves fighting for market share. DANTH's well-known focus on niche-based strategies is based on the fact that they can help niche firms fight for and win market share. The Morristown Partnership has done an impressive job of organizing and marketing a 40+ firm strong downtown wedding niche. Wedding niches in Rutland, VT and Geneva, IL, have been able to get trade area residents to shop a broad range of downtown retailers and service providers that they previously ignored or had not known about, with actual sales following. DANTH expects a similar impact in Downtown Morristown.

ACTION RECOMMENDATIONS. The Morristown Partnership should, when conditions are right:

- *Create and Market a "Town and Country Niche."* This effort would bring together all downtown establishments that are already drawing customers significantly from the trade areas' upscale households. Clustered together would be some restaurants, the Community Theater, some pamper niche operations and some retailers. The objective of this marketing effort is to establish Downtown Morristown as a lifestyle location, a place where upscale trade area residents go to engage in a lot of the leisure time activities they enjoy. The retail will initially feed off of the traffic drawn in by other niche operations, but with time it should strengthen considerably
- The Partnership has already done a promotional campaign related to this niche. Unfortunately, that effort did not seem to gain immediate traction. However, the market potentials for this niche are so substantial that a persistent effort to establish Downtown Morristown as the region's town and country downtown is warranted. Furthermore, achieving this will be neither simple nor quick, but will require amply resourced and well – targeted programs.

Response 6. Growing Other Downtown Retail Niches. As the above niches increase in size, quality, magnetism and reputé, the traffic they generate and their increased validation of downtown Morristown as a retail location will stimulate growth in other niches such as apparel, personal care products and miscellaneous retail.

Challenge: In This Economy, Are Retailers Still Looking For New Locations?

In an August 3, 2010 posting to her Retail Industry Blog, Barbara Farfan claims that major retail chains now plan about 864 openings vs 264 closings, so a positive trend among them seems afoot.³⁰ However, the demand for retail space is far from vigorous: the recently published annual CoStar report indicated that, nationally, the absorption of retail space in 2010 is only about 20% of what it was at its pre-recession peak in 2007.³¹

Welcoming the presence of such well-known commercial real estate brokers as Cushman & Wakefield, Weichert Commercial Brokerage and the Greco Sackheim Realty Group and recognizing their abilities to contact and attract national chains, the Morristown Partnership has decided to focus its efforts on the attraction of independent retailers.

DANTH has not been able to find any systematic collection of data on the current demand of these small retailers for new storefront spaces. DANTH, however, does periodically canvass by phone a number of downtowns, mostly in NY and NJ, and conducts field visits in many others. Based on the resulting reports and field observations, DANTH has concluded that:

- The probability that new downtown retail tenants will be small independent operators, rather than national or regional chains, has increased to levels DANTH has not observed since the early 1990s.
- The small retail operators' demand for retail space hit a nadir in late 2008 and early 2009.
- While this demand continues to be well below former peak levels, over the past six months there has been some increase.
- In most downtowns DANTH has information on, new retail openings now appear to be at least off-setting closings.

Challenge: How Can The Morristown Partnership Recruit Quality Independent Retailers?

To be effective, the design of a business recruitment program should implement the principles described below.

Response 1. The Morristown Partnership Should Recognize the Difficulty of This Task and Be Prepared to Commit the Resources of Money, Staff and Time It Will Require to Succeed. Savvy commercial brokers and able developers have consistently reported over many years that recruiting a high quality independent retailer is much more costly – by a multiple of four to six – than signing a major national chain. And the small independents usually only sign up for relatively small spaces. Consequently, these brokers and developers prefer to do as little

³⁰ <http://retailindustry.about.com/b/2010/08/03/u-s-retail-industry-update-264-closings-864-openings-u-s-retail-chains-leave-w-recovery-behind-and-defect-to-14-countries-with-money-to-spend-liz-winn-dpz.htm>

³¹ See page 5.

of this type of recruitment as possible. Some, (e.g., Kravco) even have asked downtown BIDs for help in recruiting such independents.

ACTION RECOMMENDATION:

- DANTH strongly recommends that the Morristown Partnership be prepared to commit to operating an amply funded and staffed program for at least three years. Do not expect results to magically make an immediate appearance. Some major BIDs, such as the 34th Street Partnership in NYC, have had such a recruitment program for over a decade and now consider it a part of their organization's DNA.

Response 2. The Morristown Partnership Should Implement a Business Recruitment Public Relations Campaign Aimed at Stimulating Retail Tenant Prospect Walk-Ins. It takes a lot less time and many fewer financial and staff resources for a downtown organization to deal with a tenant prospect who shows up at its door than it does for a prospect that it also has to first identify and cultivate.³² Consequently, stimulating tenant prospect walk-in traffic should be an important concern of any downtown recruitment program. Downtown Morristown's revitalization has achieved the necessary level of progress for a public relations campaign to be a powerful tool for attracting more tenant prospect walk-ins. Done well, such a marketing effort can help draw national chains as well as small independents.

ACTION RECOMMENDATIONS. There are several key messages that the Partnership's campaign will need to consistently push:

- Downtown Morristown definitely has turned the revitalization corner and is on a crystal-clear growth path that promises increased sales and capital appreciation
- Good retailers are already succeeding in this downtown. (Remember: retailers are like sheep, they like to herd together)
- Downtown Morristown already has lots of customer traffic and shoppers consider it to be an exciting and safe place to visit
- Rents for retail space are in line with what competent merchants can expect in annual sales
- Passage through the permissions and approvals process for retailers, even small ones, is easy and timely.

Parts of the consumer-oriented niche marketing that the Partnership undertakes will also help achieve these PR objectives.

The Partnership should also send these messages through other targeted communications channels:

³² The tenant prospect, of course, can also make the contact by calling, emailing, texting, etc.

- Stories in major newspaper real estate sections and regional real estate publications. The leaders of downtown Englewood's revitalization effort stirred up a lot of merchant interest through a number of articles (not ads) in the real estate section of the New York Times. These articles both caused more merchants to consider Englewood as a potential retail location and became invaluable collateral materials that the Englewood EDC distributed to other prospects.
- Special briefings for developers, savvy commercial brokers and landlords
- Investment Conferences are usually designed to showcase particular redevelopment opportunities, but also are great opportunities to impress a very positive image of the downtown on major developers, brokers, bankers, retail site locators and newspaper real estate columnists. DANTH has been involved in such conferences in Charlotte, NC, Englewood, NJ and Bayonne, NJ – all were successful.

Response 3. The Morristown Partnership Should Have a Targeted Effort to Identify and Cultivate Retail Tenant Prospects. Walk-in tenant prospects are not always in the niches that downtown leaders want to grow or that their strategy targets. Moreover, the walk-ins may not always be of the desired quality. Consequently, a number of BIDs and SIDs have proactive business recruitment out reach efforts aimed at identifying quality retailers in a targeted niche or for a special property. Because of the complexity and costliness of such proactive efforts, they are usually done in a limited and very focused manner. For example, the 34th Street Partnership recently has been targeting much-needed restaurants for locations on the side streets near Madison Square Garden. In the 1990s, the Englewood EDC was focusing on retailers in the apparel and home and hearth niches.

The real objective of these efforts is not to just fill empty storefronts, but to bring in retail and entertainment operations that strengthen the downtown and make it an even more attractive location for consumers and business people. It is this rippling positive impact that warrants the effort and the allocation of scarce resources.

ACTION RECOMMENDATIONS. For the Morristown Partnership, establishing this type of recruitment operation will entail having personnel on staff or under contract that carry out the following tasks:

- The identification of quality prospects. The Partnership reportedly already has a list of such prospects. The retailers on this list need to be reviewed and prioritized. Field visits and phantom shopping will probably be involved. The Partnership's list probably has too many names for the organization to work on at any one time. Having lots of names is not necessarily an advantage. Quality counts more. Also, forget about dealing with big numbers – 20 prospects would be a lot to handle. Most important task: identify prospects really worth pursuing.
- The networking that needs to be done to establish contact with the quality prospects. Establishing personal contact is essential. Sending materials,

like recruitment packages, by regular mail or email will have very negligible results; most end in the "circular file." Getting personally connected can be time consuming.

- Cultivating relationships and stimulating the prospects' interests in Downtown Morristown.
- Learning about their interests and needs.
- Facilitating their signing leases for retail spaces. See Response 5 below.

Response 4: The Morristown Partnership and the Township Should Achieve a High Conversion Rate on Tenant Prospects. The bottom line in business recruitment is getting quality businesses to sign leases. In the post-Great Recession economy, it is more important than ever to convert tenant prospects into signed leases.

This is also an area where downtown organizations can have their strongest impact on which retailers do and do not locate in their districts. Their impact depends on the range and quality of the assistance they provide. In 1989, DANTH's research on firms leaving The Bronx showed that towns that made it easy and/or more affordable for a business to move or open a new location were more successful at business recruitment than those that did not. Towns in Arizona are now competing for business prospects by offering the quickest approvals for necessary permits and approvals. BIDs in Haddonfield and Washington, NJ are offering either direct grants or low cost loans to reduce the build out costs of quality new retailers.

ACTION RECOMMENDATIONS. The Morristown Partnership should provide the following information and/or services to retail tenant prospects it has contact with:

- Finding spaces. Many tenant prospects need help finding a range of spaces to look at, especially locations that are likely to have the combination of price, size and condition they can afford
- Understanding Downtown Morristown's markets. Providing many independent tenant prospects access to data about the markets they can access by having a location in Downtown Morristown will enable them to have better business plans. That will give them a better chance of success and of obtaining external financing
- Getting financing. In a sluggish economy where bank lending to small businesses has all but completely disappeared, independent retailers are having a tough time finding funds to move to a new location or open another store. Across the nation, a number of downtown organizations and municipalities are concluding that if they want to recruit the type of retailers they would like to have they must in some way help quality independent retailers get the financing they need. Many others feel that such financial involvement is inappropriate. Because financial assistance is becoming an increasingly important factor in the competition for quality retailers, it is recommended that the Partnership carefully consider this issue. Introductions to banks that really are not lending or an SBA that is notoriously difficult to deal with are not what is needed

- Getting municipal approvals and permissions. Most small retailers do not have a clue about the permits they need or how to get them. They also do not have a lot of money to hire lawyers, architects, planners, engineers, etc. On a recent assignment, DANTH interviewed city officials who unanimously extolled the speed of their permitting and permissions process. Interviews with six major developers, however, revealed that they thought this city's process was too slow and too demanding, especially for their small independent retail tenants. DANTH recommends that:
 - The Township and the Partnership should create a task force composed of local business people to review the existing permits and approvals process to confirm that it is quick and efficient or to recommend necessary changes. Favorable findings by the task force should be well publicized by its members as well as the Township and the Partnership
 - The Partnership and the Township should create an easy to read and easy to understand chart that tells new retailers the permits they need, where they go to get them and the information they need to provide. This can be posted to their websites and also printed on paper for take aways from their offices.

Challenge: The Image of Downtown Morristown May Need a Reset

Over the course of the nine months DANTH has been engaged on this project, our concern about the downtown's image, among both consumers and retailers, has increased dramatically. DANTH has not been able to do any systematic research on this subject, such as a telephone survey of trade area residents to discover how they perceive the downtown, how they use it, and what they like and dislike about it. But, we have been receiving a number of messages about the downtown that are probably functionally equivalent to the qualitative data obtained from two focus group meetings. It is reasonable to assume that lots of other people have been recipients of the same messages. DANTH's concern was generated by the following:

- When talking about the downtown's retail, almost everyone raises either the Golden Age that was or all that now is missing. Few get around to saying that there are now some really good stores downtown
- While the new downtown residential units are frequently mentioned, few talk about how strong a commercial center the downtown really is, especially given the town's population size
- Large restaurant and pamper niches are usually looked upon as weaknesses rather than strong assets drawing in trade area residents
- A number of acquaintances living in Chatham, Madison or working in offices located near Morristown say finding parking in the downtown is difficult. Yet, the data shows Downtown Morristown's parking capacity is now under utilized
- There is a putative crime problem on Speedwell north of Headquarters Plaza. Hotel guests are reportedly afraid to go in that area. Rival out of

town hotels are using this supposed crime problem to win customers from hotels in Downtown Morristown. Whether this is a problem about actual criminal events, the fear of crime or the fear of strangers is unclear. But, raising the crime issue is like opening Pandora's Box – all hell is let loose based solely on rumor and competitive spite. The rival hotels have made this a genuine issue.

The sum of the above is the image of a downtown mired down by a number of off-putting problems and certainly not a place worth visiting or where you would want to open a business. DANTH believes it is very important to determine if such views are widespread and, if they are, to quickly and effectively respond.

Response 1. Carry Out a Thorough Assessment of How the Downtown is Being Perceived by Trade Area Residents, Commercial Brokers and Tenant Prospects.

ACTION RECOMMENDATIONS:

- A methodologically rigorous telephone survey of trade area residents, which can be done for about \$12,000 to \$15,000
- Personal interviews with commercial brokers and tenant prospects
- Formulate an effective action response based on their findings.

Response 2. The Partnership Should Undertake a Campaign to Brand Downtown Morristown as the Place Where People With Upscale Lifestyles Come to Live, Dine, Be Entertained and Pamper Themselves. Such a campaign would build on the Partnership's previous marketing effort. The retail will most definitely follow if this campaign succeeds. This campaign would project a much more accurate and positive image of the downtown. It will take time to gain traction and require persistence and patience.

ACTION RECOMMENDATIONS:

- In this branding campaign, the Partnership should use social networks, both personal and electronic, as the key communications channels
- A Corp of Partnership Ambassadors should be formed who would be tasked with initiating and inserting positive messages about the downtown into these networks. The ambassadors should be recruited from residents, office workers, hotel staffs, high school students -- and especially young professionals and young mothers with whom the Partnership already has working relationships. They should have strong social skills and be very good networkers
- The Partnership should erect signs on downtown projects that provide passersby with a "caption" that explains what they are seeing and its import. If your downtown captive markets do not understand the positive changes they are seeing, they cannot tell others about them.

Research shows that the most important influences on how we buy clothes or a car, choose a bank, donate money and vote are our friends and family. There is

also evidence that we are increasing our reliance on social networks to make decisions.

Individually, those networks have a limited size. According to Paul Adams at Google: “Research shows that on average, people have ongoing communication with between seven and fifteen people, but most communication is concentrated around a person’s five strongest ties.”³³ However, if they can be aggregated, their potential reach is far, far larger. For example, about 9,354 people are both employed in Downtown Morristown and live in Morris County and therefore probably also in the downtown’s retail trade area. If they each communicated to five close people, the combined reach of their individual networks would be far larger, but difficult to precisely estimate because of possible overlaps. Messages also can travel on to the friends of friends.

Similarly, there are about 1,500 high school students and an uncounted number of occupants in the new residential units.

These people are downtown either every day or almost every day. And the traffic counts suggest that many others travel through the downtown with great frequency. New developments and revitalization progress may be happening before their eyes, but without the right captions for what they are seeing, these downtown users and visitors may not understand what is happening.

Challenge: With Four Commercial Cores, Downtown Morristown is Dispersed and Fragmented.

The downtown’s geographic dispersion fragments its many captive markets and hinders pedestrian traffic between many commercial destinations. It was created over decades and will take a lot of time to remedy. Hopefully, the implementation of a new planning approach, over time, will diminish the dispersion problem.

Response 1. Take Measures to Increase the Magnetism of Each of the Four Commercial Cores. Increased magnetism will motivate increased consumer traffic between cores. This will entail the strengthening of existing attractions, the addition of new attractions and the creation of a pedestrian-friendly environment within each core.

Response 2. Make the Walk Between Cores Easier for Downtown Users. Commercial center dispersion and fragmentation are not unique to Downtown Morristown or to downtowns in general. Cranford and Maplewood (NJ), for example, have their downtowns split in two by NJT tracks; the downtowns in White Plains and Garden City (both in NY) have two large core areas; very big downtowns, such as Manhattan, Chicago and Boston have numerous commercial cores clustered in more than one Central Business District.

³³ Paul Adams, “The Real Life Social Network” a PowerPoint presentation downloaded from: <http://www.thinkoutsidein.com/blog/>

Across the nation, about a dozen outlet centers, such as those in Rehoboth Beach, DE; Hilton Head, SC; Orlando, FL; Las Vegas, NV; Pigeon Gorge, TN, and Riverhead, NY are split into two or more locations, and their operators have taken a number of measures to help ensure that shoppers will go to all of each center's outlet locations. Among the most effective steps these centers have taken are way-finding and cross-marketing programs.

Strong visual elements can be used to show shoppers how to make the trip on foot safely and efficiently from one downtown core to another. The Freedom Trail in Boston—a combination of signs and a brick stripe running down the sidewalk—exemplifies how one downtown is using strong visual elements. See Figure 6.



ACTION RECOMMENDATIONS:

- The downtown's need for a greatly improved way-finding is quite widespread. The Township should create a system that more effectively shows:
 - Visitors how to get from major township gateways, e.g., I-287, to each of the commercial cores
 - How to walk from core to core
 - Where the closest available municipal parking is located
- The Partnership should disseminate information about backdoor retailing to downtown retailers and encourage them to engage in such activities. The geographic dispersion of the downtown's captive markets can partially be overcome through appropriate marketing techniques. Downtown retailers need to learn about them and then use them. While marketing programs can help entice shoppers to traverse greater distances, DANTH's research on "backdoor retailing" suggests that a marketing strategy based on the retailer personally or electronically going to the relatively distant customer is likely to be more effective. Backdoor retailers do not just rely on the customer traffic that passes their storefronts. Concierge services, for example, are one way of doing this. Trunk shows and web storefronts are others.

Figure 6. The Freedom Trail