

Natelson Dale Group 101 E. Willow Memo

M E M O R A N D U M			
TO:	Diane Bathgate, AICP Manager of Planning RRM Design Group	DATE:	July 18, 2017
FROM:	Roger Dale Managing Principal The Natelson Dale Group, Inc. (TNDG)	FILE:	#4079
SUBJECT:	Update of Long Beach General Plan Land Use Element – Review of Potential Impacts to Albertsons Store at 101 E. Willow Street		

Background

Proposed changes to the Land Use Element of the Long Beach General Plan would allow for higher-density development in selected areas, including the vicinity of the Willow Blue Line Station. During the public review process for the draft update of the Land Use Element, local stakeholders expressed concern about the long-term viability of the Albertsons store located at 101 E. Willow Street. Specifically, there is a concern that the store – which is the only major supermarket in the immediate neighborhood – could potentially be displaced by more intense uses. This displacement would presumably be caused by an increase in overall development demand, which could eventually make it economically attractive for the property owner to redevelop the site with other (higher density) uses.

This memorandum provides a brief review of overall supermarket-industry trends and site-specific conditions related to the potential economic feasibility of retaining a supermarket use at the subject site.

Summary Conclusion

It is TNDG’s conclusion that the proposed changes to the City’s General Plan Land Use Element are not likely to cause the Willow Street Albertsons store to be displaced from its existing location. This conclusion is premised on the following points:

Strength of Grocery Industry

- Nationally, the grocery industry – although subject to ongoing changes in the competitive landscape due to mergers, acquisitions, and new firm entries – is generally in a growth mode, with strong sales performance and a recent “surge” in the numbers of stores. In stark contrast to other retail sales categories, “brick and mortar” supermarkets have been relatively immune to sales cannibalization by ecommerce. In terms of land use demand, grocery-anchored shopping centers are the one type of retail facility that is currently in favor with developers, tenants and lenders.

Potential Effects of Intensification of Surrounding Land Uses

- While it is true that intensification of allowable development tends to create incentives for landowners to redevelop older sites with higher-density uses over time, it is likely that densification of the surrounding neighborhood will actually *enhance* the viability of certain types of commercial development, including grocery stores. Thus, rather than being displaced by “higher value” uses, there is a strong possibility that the market position of the Albertsons store would actually be strengthened due to increased population/household growth and the resultant growth in local retail demand. Within TOD-oriented neighborhoods, this synergistic effect is likely to be further enhanced by the presence of commuters and other transit users.
- The latest official demographic forecasts¹ show relatively modest growth in the area surrounding the Blue Line station. Within the area² bounded by I-710 (west), I-405 (north), Orange Avenue (east), and East Pacific Coast Highway (south), growth in households over the next five years is projected at 352 new households. However, these projections do not specifically reflect the potential intensification of land uses in the area. Therefore, it is likely that the area would ultimately exceed expected population/household growth, creating stronger demand for future retail sales.
- Later in this memorandum, we have generally estimated demand for new grocery store space in the vicinity of the subject site (see Attachment A). Over the next five years, we project demand for new grocery space as follows:
 - 1-mile radius: 20,000 square feet
 - 2-mile radius: 73,000 square feet
 - 3-mile radius: 139,000 square feet

Again, these demand projections are based on demographic forecasts that do not specifically reflect the potential densification of residential development. Thus, the actual demand growth is likely to be higher.

- Consistent with the above, it should be emphasized that the updated Land Use Element envisions both vertical and horizontal concepts for mixed-use development. Throughout southern California, there are examples of mixed-use projects that include both vertical and horizontal component within the same project. In some cases, the horizontal component is a major supermarket. These examples suggest that, while increasing allowable densities can make

¹ The 2016 Regional Transportation Plan (RTP) forecasts adopted by the Southern California Association of Governments (SCAG).

² This area represents the primary market area for the Albertson’s store since it is “unencumbered” by other major supermarket chains.

it attractive for a developer to pursue mid-rise development on *a portion* of a site, traditional-format retail space can be a viable component of a balanced project³.

Locational Attributes of Albertsons Site

- The Albertsons store is well-located based on its proximity to the Blue Line station and general access/visibility within the surrounding neighborhood.
- The store also has an advantageous location in terms of the absence of major competitors. The closest major chain competitor is Food 4 Less, which is located approximately 1.2 miles from the Albertsons site (see additional discussion below regarding the inventory of grocery stores in the 3-mile radius surrounding the subject site).
- In terms of land ownership, the Albertsons site is subject to unique conditions that favor long-term retention of the Albertsons store in its present location. In particular, the site was originally redeveloped as a joint venture between the Long Beach Redevelopment Agency and the Los Angeles County Metropolitan Transit Authority (MTA). Albertsons has a long-term ground lease on the site, which originated in 1998 has an initial lease term through 2033 (35 years). Albertsons may exercise options to extend the lease up to an additional 50 years (through 2083), subject to periodic fair-market value increases in the ground lease rate. Due to the dissolution of redevelopment agencies in California in 2011, the City of Long Beach (successor agency to the Long Beach Redevelopment Agency) is now subject to a State mandate to dispose of the property. The City is currently considering several potential buyers of the site, with the understanding that future owners of the site would be legally obligated to maintain the lease agreement with Albertsons. The City recognizes the importance of maintaining a supermarket in the neighborhood and, as such, is focusing on prospective buyers that would either allow Albertsons to remain in its present building through the term of the lease (and all possible options to extend), or specifically accommodate Albertsons in any redevelopment plan for the site.
- Albertsons officials report that this location has met the firm's expectations with respect to sales performance and they do not foresee moving or closing the store.

³ One recent example is the La Floresta project in Brea, California (opened in February 2016). This project – widely regarded as an excellent example of contemporary mixed-use development – includes single-story retail/restaurant development (anchored by a Whole Foods market) on the same site has a mid-rise apartment complex.

Existing Supermarkets Near Subject Site

TNDG identified 25 existing grocery stores within a 3-mile radius of the Albertsons store site⁴. As shown in the map in Attachment B, five of these stores are major national supermarket chains (Vons, Food 4 Less, and Ralphs), while three are regional supermarket chains (Big Saver Foods, El Super, and Northgate Gonzalez Markets). The remaining 17 grocery stores are relatively small independent/ethnic-focused grocers. The 25 existing grocery stores within a 3-mile radius of the Albertsons store site are distributed as follows.

- 0-1 mile: 2 stores
- 1-2 mile: 11 stores
- 2-3 mile: 12 stores

National Trends in the Supermarket Industry

Key grocery industry trends affecting the potential long-term viability of the Willow Street Albertsons store are summarized as follows:

- As a share of sales of Food at home, the *supermarket* segment peaked in 1993. That year, supermarkets⁵ accounted for 76.3% of total sales, according to the Economic Research Service (ERS), United States Department of Agriculture (USDA). In 2014 (most recent year data are available), supermarkets accounted for 64.9% of total sales, a drop 11.4 percentage points. In contrast, *warehouse clubs and supercenters*⁶ accounted for only 2.5% of total sales in 1993. By 2014, this segment accounted for 16.5% of total sales.
- While *supermarkets* are still the dominant player in the sales of food at home – accounting for close to two-thirds (64.9%) of all sales – the *warehouse clubs and supercenters* segment has captured a significant amount of market share over this 22-year period from 1993 to 2014
- The U.S. grocery store industry has become increasingly concentrated in recent years, as illustrated in the chart below. Much of the industry concentration was driven by mergers and acquisitions.

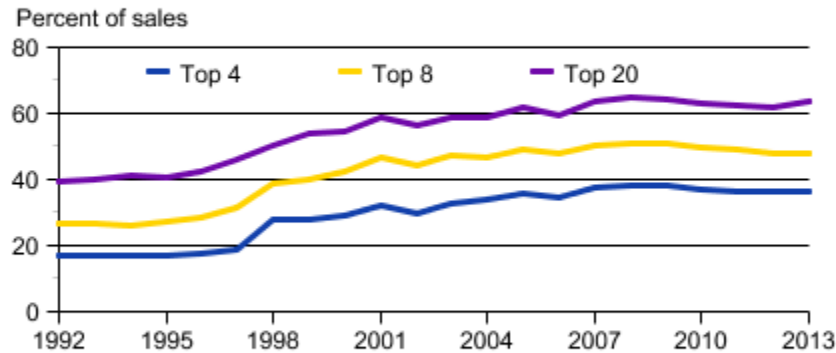
⁴ Based on review of grocery store listings in Google Earth.

⁵ As defined by the U.S. Census Bureau, a supermarket is a store offering a full line of groceries, meats, and produce with at least \$2 million in annual sales.

⁶ The U.S. Census Bureau defines this segment as follows. Warehouse clubs offer customers a wide selection of merchandise at discounted prices in exchange for customer membership fees. Supercenters are large discount stores that also sell groceries, with no membership requirements for customers.

Top 4, 8, and 20 firms' share of U.S. grocery store sales, 1992-2013

In 2013, the share of sales in the top 20 U.S. grocery retailers rose for the first time since the 2007-09 recession



Source: USDA, ERS calculations using data from U.S. Census Bureau, Monthly Retail Trade Survey, company annual reports, and industry sources. Sales based on North American Industry Classification System (NAICS).

As shown in the chart, in relative terms the Top 4 group has increased the most over this period. In 1992, this group accounted for 16.8% of sales, more than doubling to 36.4% in 2013 (the most recent year data are available).

In addition to mergers and acquisitions, the growth of Walmart Supercenters also contributed to the increasing concentration of sales among the largest grocers. According to the ERS, Walmart Supercenters generated approximately \$117.4 billion in grocery (food and non-food) sales in 2013, making it the largest U.S. retailer of grocery-related products. More recent data available from Progressive Grocer suggests this trend has continued in recent years. As part of its 2016 *Super 50* publication, Progressive Grocer estimates that Walmart accounted for more than one-fourth (26%) of total grocery sales among the 50 largest grocery chains in the U.S. Further, the 2016 *Super 50* profile shows that the top three grocery chains account for more than one-half (52.2%) of total grocery sales among the 50 largest grocery chains in the U.S. The top three chains are Walmart, The Kroger Co. (Kroger, Harris Teeter, and Ralphs), and AB Acquisition LLC (Safeway, Albertsons, and Vons).

- A recent article on Boomborg.com also highlighted some recent trends in the grocery industry⁷, including the following:
 - *Store surge.* The number of grocery, drug, and discount stores were up 4.5% in 2016. This increase results partly from the fact that grocery sales have been relatively immune

⁷ See "Why the Retail Crisis Could Be Coming to American Groceries - These five forces are going to shake up the American supermarket", May 4, 2017 (<https://www.bloomberg.com/news/articles/2017-05-04/why-the-retail-crisis-could-be-coming-to-american-groceries> - accessed on July 11, 2017).

from e-commerce competition. Only about 1% of the \$1.5 trillion dollar industry's sales come from online. From a real estate developer's perspective, this has made grocery stores attractive retail tenants, given the limited amount of shopping in this segment that has moved online relative to other retail sectors.

- *Discount stores and pharmacies.* To attract more customers, discount dollar type stores and pharmacies have continued to add grocery to their core merchandise lines. In addition, some of these stores are aggressively expanding store locations. Dollar store added about 900 locations in 2016, bringing its total store count to more than 13,000 locations. The company plans to open 1,000 new stores in 2017.
- *Grocery store growth.* Grocery store count expanded by close to 12% in 2015 (led by Aldi, a German grocer with a significant southern California presence). In 2016, the grocery store growth rate was close to 6%. Growth is expected to continue with Lidl (a German grocery chain) entering the U.S. market. The chain is expected to open about 20 locations in Virginia, North Carolina, and South Carolina this year. Over the next six years, the chain could potentially open 630 new grocery stores in the U.S.
- *Store visit behavior.* Last year, shoppers trips to the grocery store increased by 1%, which was the first annual gain in the last decade. This trend is being driven by increased preferences for fresh food, which leads to shopping more often and buying fewer items per trip. In addition, the emphasis on fresh and prepared foods is a response to increasing competition from meal kit services (e.g., Blue Apron) and grocery delivery services⁸.

⁸ The increasing frequency of grocery shopping trips suggests that grocery stores would be a natural retail centerpiece for transit oriented development (TOD). As the number of shopping trips increase with smaller purchase on each trip, the value of living close to a grocer – without the need to travel by car – increases commensurately.

ATTACHMENTS:

ATTACHMENT A
Projected Growth in Grocery Store Demand
Albertson's Site in Long Beach
2017 - 2022

Projection Factors

Taxable Food Sales in Long Beach, 2015	\$317,181,870
Conversion Factor for Total (taxable + nontaxable) Food Sales	3.5
Estimated Total Food Sales in 2015	\$1,110,136,545
Households in Long Beach, 2015	166,279
Food Sales per Household	\$6,676

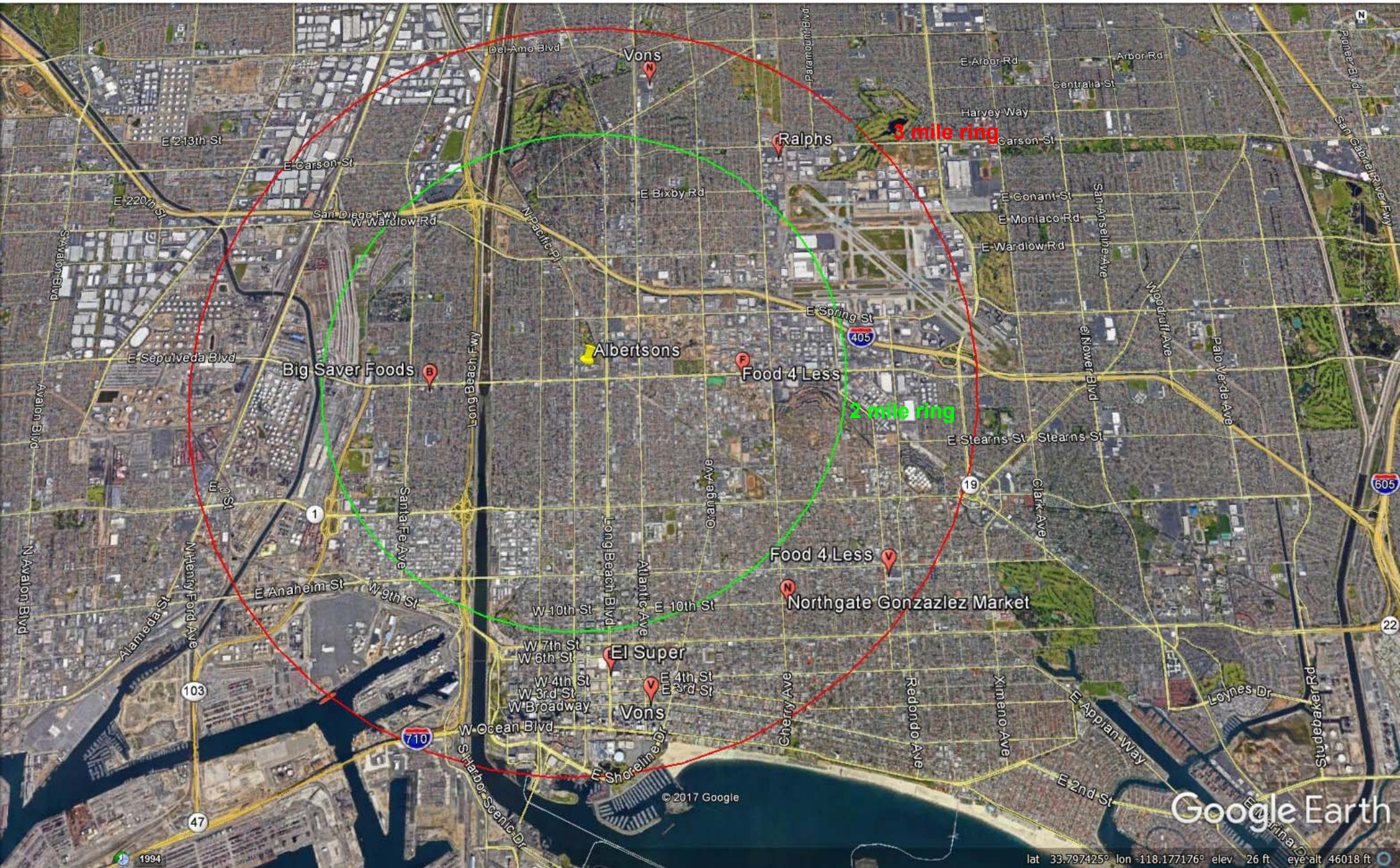
<u>Projected Growth in Demand (2017-22)</u>	<u>New Households</u>	<u>New Food Sales</u>	<u>Square Feet (1)</u>
Albertson's-area TAZ's	352	\$2,350,075	4,700
1-mile radius	594	\$3,965,751	7,932
2-mile radius	2,261	\$15,095,224	30,190
3-mile radius	5,195	\$34,683,630	69,367
Number of households required to support a new supermarket (2)	3,745		

(1) Assumes support standard of \$500 per square foot.

(2) Assumes average supermarket size of 50,000 square feet and sales of \$500 per square foot.

Sources: State Board of Equalization; State Department of Finance; Economic Census; Demographic Reports; TNDG.

Attachment B: Major Supermarket Chains within a 2- and 3-mile Radius of the Albertsons Store



Source: Google Earth; TNDG.