

Executive Summary

**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.