RETAIL MARKET RESEARCH AND STRATEGIC POLICY RECOMMENDATIONS

A Report

To

CITY OF BOULDER

From

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

December 2019

C1542

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APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE

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INTRODUCTION AND PURPOSE

After receipt of a *Citywide Retail Study* in July 2019, the Boulder City Council had additional questions that required market research and developing more information about:

1. Whether Boulder real estate occupancy costs for retailers and restaurants are significantly higher than those in neighboring communities;
2. Whether the relationship between citywide sales and resident spending potential has and is changing over time; and
3. The factors that may explain the recent trend of declining sales tax revenues in the Food Store segment of the retail base suggested in the *Citywide Retail Study*.

Gruen Gruen + Associates (GG+A) was asked to address the questions outlined above. The results of the market research (including survey of businesses and interviews with retail real estate brokers, retail real estate owners, retail developers and restaurant operators) and analysis of real estate market data collected are described in this report. The synthesis of the research and analysis has been directed to identifying policy recommendations for encouraging a more positive climate and strengthening the retail and restaurant base in Boulder.

WORK COMPLETED AND REPORT ORGANIZATION

In order to accomplish the study objectives, GG+A staff completed the following principal tasks:

1. Reviewed the *Citywide Retail Study*;
2. Completed stakeholder interviews with seven representatives of locally owned retail and restaurant businesses, six commercial real estate professionals, and attended a Downtown retailer round-up meeting;[1]
3. Designed and created an electronic questionnaire for retailers and restaurants and tabulated and analyzed the responses;
4. Obtained and reviewed land use and retail market/property inventory data including tabulations of commercial assessment records from the Boulder County Assessor;
5. Reviewed and analyzed citywide demographic, household, and income estimates over time;
6. Reviewed and analyzed current and historical Consumer Expenditure Survey data to estimate citywide household spending on non-automotive retail goods and eating and drinking;
7. Evaluated and summarized citywide time-series taxable sales trends over the 2001 to 2018 period;

[1] The report includes relevant information gathered by GG+A staff in July 2019 when interviewing business and property owners in the University Hill General Improvement District to understand the potential economic impacts of the proposed University Hill Hotel development.

8. Obtained retail sales estimates from the Colorado Department of Revenue and evaluated recent Food and Beverage Store sales trends to permit direct comparisons between total and per capita sales in the City and remainder of Boulder County;
9. Completed real estate research of comparison retail areas and industry standards to characterize typical costs of occupancy for retailers and restaurants in Boulder; and
10. Synthesized and described the results of the research and analysis outlined above in this report.

Report Organization

Chapter II describes the results of the electronic retailer and restaurant questionnaire and the characteristics of the businesses that responded (between October 28 and November 15, 2019).

Chapter III presents estimates of current retail and restaurant inventory, space availability, asking rents, and sales performance for four geographic areas in Boulder, selected for their representation of areas with a high vacancy rate and a low vacancy rate, and for areas with a General Improvement District tax levy (which impacts occupancy costs) and without. These were:

- Central Area General Improvement District (generally corresponding to Downtown)
- Boulder Valley Regional Center (including the Twenty Ninth Street shopping center)
- Basemar Shopping Area
- University Hill General Improvement District

Comparisons of base rents and pass-through expenses between the districts, and to other retail markets in the region, are also summarized.

Chapter IV describes estimates of the citywide retail sales surplus relative to the sales residents of Boulder alone are estimated to support over time with historical estimates for 2001, 2010, and 2018. The methodology and historical estimates of taxable sales, in relation to estimates of retail expenditure potential of City households (local resident demand), are explained.

Chapter V summarizes a comparison between total and per capita Food and Beverage Store sales within the City and County of Boulder.

The remainder of Chapter I presents principal findings, conclusions, and policy recommendations.

PRINCIPAL FINDINGS

Results of Retail and Restaurant Questionnaire and Interviews Indicate Retail Space Occupancy Costs are High and that Boulder's Constrained Housing Market and Cost Raising Policies Contribute to a Challenging Business Environment

- An electronic survey drafted by GG+A was distributed to Boulder retail operators by emails from the Chamber of Commerce, the Downtown Boulder Partnership and The Hill Boulder merchants association. A total of 42 fully or mostly completed surveys were received. Given the distribution method, the response was skewed to independent merchants located in Downtown Boulder and University Hill. Retailers comprised 62 percent of responses and food service merchants (i.e., restaurants, primarily those with a liquor license) comprised 38 percent of responses.

- All but one respondent leases space, and the reported leases are almost entirely "triple-net" leases – meaning the tenants are responsible for paying the taxes, insurance, utilities, and maintenance costs in addition to the base monthly rent.

- The average annual occupancy costs for the respondents to the survey is approximately $60 per square foot. Annual "base" rents average about $43 per square foot. This amount of base rent equates to about 70 percent of annual occupancy costs. Average annual occupancy costs are higher for occupants of retail space Downtown and the response sample is skewed to Downtown respondents. Annual occupancy costs average $64 per square foot for merchants located Downtown and approximately $48 per square foot for all other merchants located outside of Downtown, primarily in University Hill and the Boulder Valley Regional Center.

- Eighteen percent (18%) of respondents reported higher annual occupancy costs exceeding $85 per square foot.

- Only 30 percent of respondents indicated that a Tenant Improvement allowance or initial rent concession was provided as part of their current lease.

- Food service (restaurant) respondents generate higher sales per square foot rates than retailer respondents. One-half of food service respondents indicated annual sales performance exceeding $650 per square foot. Approximately 78 percent of retail respondents reported sales below $650 per square foot.

- Approximately 45 percent of all respondents incur occupancy costs equal to or less than ten percent of annual sales. Occupancy costs higher than ten percent of sales are typically considered the retail industry maximum to maintain profitability. Twenty-nine percent (29%) of respondents indicated annual occupancy costs equal or exceed 15 percent of sales. Annual sales productivity provides the best explanation of the occupancy cost results. Nearly all respondents who generate at least $650 per square foot in annual sales incur occupancy costs

below 10 percent of sales. Meanwhile, all respondents with annual sales below $450 per square foot incur occupancy costs that exceed 10 percent of annual sales; with most exceeding 15 percent of sales.

- Nine of 42 respondents indicated they incur extraordinary operating expenses to comply with City of Boulder regulations such as Disposable Bag Fees and the Sugar Sweetened Beverage Tax. Most of these respondents are full-service restaurants citing increased wholesale cost of fountain soda. Five food service respondents specifically cited "extraordinary" costs equating to about $6.60 per square foot of space occupied.

- Local construction use tax, permits and plan check fees, development excise tax, capital facility impact fees, land use review, and rezoning application fees, etc., can easily add an upfront cost of $50 per square foot (or more) to the creation of a new retail or restaurant space.

- All food service respondents and most retail respondents find hiring and retaining an adequate labor supply especially challenging. Eighty-one (81) percent of total respondents indicated labor hiring and retention is challenging.

- All respondents expect their annual occupancy costs to increase five years from now and 90 percent expect their payroll expense (as a percent of sales) will increase. Fewer than one-half of respondents anticipate their future sales will increase.

Retail Space Market Rents Are High Relative to Sales Performance and Some Retailing Areas within Boulder Have High Vacancy Rates

- Assessment records indicate a total citywide retail and restaurant building space inventory of 5.3 million square feet. Properties located in the Boulder Valley Regional Center area (including Twenty Ninth Street) and the Central Area General Improvement District comprise nearly 60 percent of total space inventory.

- Current retail space availability rates range from a low of three percent in the Boulder Valley Regional Center (excluding the 150,000-square-foot Macy's store) to a high of 13 percent for the Basemar Shopping Area.

- The average asking base rents and pass-through expenses quoted for small space availabilities in the Central Area General Improvement District is $64 per square foot, an occupancy cost that is identical to the results of the occupancy cost questionnaire. Asking rates and expenses average $40 per square foot in University Hill General Improvement District and the Basemar Shopping Area, and approximate $43 per square foot in the Boulder Valley Regional Center. Occupancy costs for smaller non-anchor spaces at Twenty Ninth Street are reported to reach as high as $75 per square foot.

- Relative to estimated district-wide sales, asking rates and quoted expenses for available spaces in the Central Area GID, University Hill GID, and Basemar Shopping Area are high - equaling 15 to 18 percent of average sales per square foot. Future tenants absorbing available retail spaces in these locations would need to generate sales well above average to achieve an occupancy cost ratio close to 10 percent of sales.

- Districts in Boulder with higher occupancy costs relative to average sales per square foot can be expected to continue to have higher rates of store turnover and vacancy. They will be more susceptible and vulnerable to downward change.

- Asking base rents and estimated expenses for smaller retail and restaurant availabilities in urban Denver neighborhoods are roughly comparable to costs in Boulder, with the exception being the Pearl Street Mall in Downtown Boulder. Interviews with commercial brokers and multiple merchants suggest however that top of the market urban retail locations in Denver are quickly becoming "almost as pricey" as the best locations in Boulder. However, outside of Cherry Creek, base rents exceeding $50 per square foot in Denver are still uncommon, and much of the available commercial space inventory in urban Denver is new construction; landlords in Denver will offer more significant tenant improvement allowances for a comparable base rent and term than Boulder landlords provide.

- In comparison to other retail markets, including Louisville, Lafayette, and Downtown/Old Town Fort Collins, retail real estate in Boulder comes with a higher price tag. Quoted occupancy costs (gross rents) for more than 40 available listings in these areas average $32 per square foot. New construction spaces on the periphery of downtown Louisville and Lafayette are being marketed at base rents of $25 to $27 per square foot with pass-through expenses of about $11 per square foot. These new construction spaces are the equivalent cost of much older available spaces in the University Hill GID and Basemar.

The Amount of Sales Boulder Attracts from Nonresidents Has Been Considerable and Relatively Stable Over A Long Time Period

The City of Boulder attracts considerably more sales from non-residents than it loses to retail shopping and dining alternatives in nearby communities. This overall sales surplus has been essentially stable over a long-term period of comparison, 2001-2018.

- Adjusted for inflation, total taxable retail and restaurant sales recorded by the City's Finance Department have grown by nearly $133 million over a 17- year period. The growth in taxable sales was nearly all due to growth in eating and drinking (restaurant) sales.

- The citywide retail sales surplus grew from $826 million in 2001 to $840 million in 2018.

- The sales surplus for restaurants is especially large. Well over 50 percent of restaurant sales made throughout Boulder are likely attributed to non-resident spending. In regional-serving

districts such as Downtown Boulder and the Boulder Valley Regional Center, interviews suggest an even higher share of restaurant sales are likely supported by non-residents.

- Eating and drinking establishments in Boulder have represented a significant source of sales growth from non-households over time. While non-automotive retail still generated a large surplus in 2018 of $580 million, the estimated surplus in this category has declined by about nine percent or $55 million from an estimated $634 million surplus in 2001.

When Viewed Over a Longer Time Period, Boulder Food Store Sales Have Increased. When Viewed as "Food & Beverage Store" Sales, Boulder Per Capita Sales Have Increased While Those of Other County Municipalities Decreased

- The *Citywide Retail Study* highlighted a decline in total Food Store sales between 2015 and 2018. This is a relatively short period and looks different when put in a longer-term context. For a broader perspective, Food Store sales (adjusted for inflation) grew by $17 million or four percent between 2001 and 2018. Over a more recent eight-year period, Food Store sales grew by $30 million or eight percent between 2010 and 2018.

- The City of Boulder classifies its retail sales tax receipts differently from some other communities and the Colorado Department of Revenue. When beverage and convenience store sales are included (to meet the North American industry classification standard of "Food and Beverage Stores", which the state utilizes in reporting sales tax receipts), the per capita sales in the City of Boulder in 2018 were about $5,300, which exceeds the per capital sales in the rest of Boulder County by 40 percent.

- Per capita Food and Beverage Store sales in the City are estimated to have grown by about three percent between 2015 and 2018 from $5,102 to $5,254. Comparatively, per capita sales in the same category elsewhere in Boulder County declined by about three percent over the same time period.

BASIC CONCLUSIONS AND RETAIL STRATEGY POLICY IMPLICATIONS

Attraction and retention of smaller, independent merchants is likely to be become more challenging under status-quo. Most merchants responding to the survey anticipate that costs will continue to increase faster than sales and for at least one-third of them, real estate occupancy and payroll costs are already a significant challenge to viable operations. Because most tenants occupy space under triple-net leases, and many have invested their own capital into property improvements, City-imposed fees and taxes are predominately passed-through or incurred directly by small retailers and restaurants.

Perceptions of high rents and operating expenses are justified. Boulder's most desirable retailing locations including Downtown and the Boulder Valley Regional Center command base rents with associated expenses that are uniquely high in the region. Rates of store turnover are perceived to be

increasing, but prolonged vacancies for small non-anchor spaces (typically smaller than 5,000 square feet) are still uncommon. High rents and expenses are not necessarily a competitive disadvantage if they are offset by high sales. However, asking rents and quoted expenses for available small spaces in preferred locations tend to be high relative to average sales performance of existing tenants. This condition is likely to lead to increased store turnover and to fewer independent stores. The dynamic of new tenants replacing the former tenants relatively quickly puts less pressure on landlords to invest in tenant improvements and property enhancements.

Limited labor availability and the need to import labor and escalating wages are of particular concern. Each of the Downtown merchants, commercial brokers, and developers with whom we spoke (in addition to 81 percent of survey respondents) cited labor challenges and escalating wages as a significant constraint on operating successfully. Because of the constrained high cost housing market in Boulder, much of the labor for retail and restaurant businesses needs to be imported. High housing costs, traffic congestion, public transit limitations, and limited employee parking are perceived to "exacerbate" the already high real estate costs of operating in Boulder. Students associated with the University of Colorado are an important source of labor for some retailers and restaurants. *Any programs that can help better promote part-time retail and restaurant job opportunities to CU students would be advisable.*

Full-service restaurants with tipped staff are especially concerned about future minimum wage increases without offsetting changes to the "tip credit." The current statewide minimum wage is $11.10 per hour and Colorado law allows employers to claim a tip credit of $3.02 per hour (meaning the effective minimum wage for tipped workers is about $8 per hour). Interviews indicate that many tipped food service workers in Boulder, especially Downtown, earn tips far exceeding $3.02 per hour. If a local minimum wage higher than the statewide requirement is implemented and the tip credit is not adjusted, the minimum payroll expense to operate a food service or entertainment use which relies heavily upon tipped labor may become infeasible. Interviews suggest that price increases needed to absorb additional payroll costs could negatively impact demand. *Therefore, before raising minimum wages further, consider the impacts of a minimum wage increase on the viability of restaurants and retailers as well as consumer price and choice. Also evaluate whether a localized "tip credit" allowance would be appropriate.*

Given that the grocery/food store market in Boulder is highly competitive, the recent sales tax decline and store closures should not be an undue source of concern. In addition to the finding that the City of Boulder captures far higher per capita food and beverage store sales than submarkets elsewhere in Boulder County, shopping centers such as Basemar Shopping Center and Diagonal Plaza where grocery anchors have recently closed - Walmart Neighborhood Market and Whole Foods - had experienced competitive obsolescence and were adversely affected by shopping pattern shifts and other closures (e.g., Sports Authority) well before the grocery anchors departed.

CHAPTER II:
RETAILER AND RESTAURANT OCCUPANCY COST QUESTIONNAIRE

The *Citywide Retail Study* identified challenges that retailers and restaurants were most concerned about in Boulder including "high/increasing rents", high "local fees/taxes", "finding and keeping employees", and parking availability for both customers and employees.

GG+A designed an electronic questionnaire to develop additional information and perspective about the challenges cited, particularly those related to real estate occupancy costs (rents and operating expenses/taxes)[2]. The Downtown Boulder Partnership, Boulder Chamber of Commerce, and City of Boulder staff distributed the electronic questionnaire via email to retail and restaurant merchants in Boulder. Responses were collected between October 28 and November 15, 2019. A total of 42 fully or mostly completed surveys were returned. Not all respondents answered all questions.

CHARACTERISTICS OF SURVEY RESPONDENTS

The response to the survey is heavily skewed to independent merchants and was mostly comprised of merchants located in Downtown Boulder and University Hill. (Many corporate chains will not disclose information on their real estate expenses, sales performance, etc.). However, the unrepresentative response is not necessarily cause for concern. The primary purpose of survey was to develop additional perspective on operational factors affecting the retention of smaller, independent, locally owned businesses. The survey respondents were distributed as follows:

- Downtown Boulder – 28 (66.7%)
- University Hill – 6 (14.3%)
- Boulder Valley Regional Center – 4 (9.5%)
- Other – 4 (9.5%)

Type of Business

Table II-1 shows the number of respondents by type of business. Retail respondents total 26 or approximately 62 percent of all respondents. Food service respondents total 16 respondents or the remaining 38 percent of total respondents.

[2] "Occupancy costs" refer to the total expense to occupy and operate commercial building space, including base rents, percentage rents, property taxes, property insurance, utilities and any other property (non-payroll) expenses, such as common area maintenance (CAM) charges.

Table II-1: Number of Respondents by Type of Business

	Number of Respondents #	Percent of Respondents %
Retail		
Apparel or accessory retailer	8	19.0
Arts/novelty/gift shop retailer	6	14.3
Other	6	14.3
Food and/or beverage retailer	3	7.1
Sporting goods retailer	2	4.8
Home goods/furnishings retailer	1	2.4
Subtotal Retail	**26**	**61.9**
Food Service		
Food service with liquor license	10	23.8
Food service with no liquor license	5	11.9
Bar (limited/or no food service)	1	2.4
Subtotal Food Service	**16**	**38.1**
Total	*42*	*100.0*
Source: Gruen Gruen + Associates		

Food service establishments with a liquor license comprised nearly one-quarter of total responses. Apparel retailers comprised the second largest category of respondents at 19 percent. Arts/novelty/gift shop, and other retailers comprised about 28 percent of all retail respondents.

Duration at Current Location

The average survey respondent has been at their current location in Boulder for approximately 13 years. The response sample was evenly distributed between newer and longer-tenured merchants. Approximately 29 percent of respondents have operated from their current location for less than five years. Another 26 percent of respondents have been operating at their current location in Boulder for more than 20 years.

Occupied Building Space (Square Footage)

The average size of space occupied by respondents is approximately 2,800 square feet of gross building space. Table II-2 shows the number of respondents by type and size of building space.

Table II-2: Respondents by Type and Size of Business

Gross Building Space Occupied	Food Service #	Retailer #	Total #	Total %
Less than 1,500 square feet	3	6	9	21.4
1,500 to 2,499 square feet	6	10	16	38.1
2,500 to 4,999 square feet	3	9	12	28.6
5,000 square feet or larger	4	1	5	11.9
Total	*16*	*26*	*42*	*100.0*
Average Size (in Square Feet)	**3,100**	**2,600**	**2,800**	

Source: Gruen Gruen + Associates

Food service respondents are more evenly distributed among the size categories. One-third of food service respondents are in the 1,500-2,499 square foot size category. Another one-quarter of food service respondents are in the 5,000 square foot or larger category. Retail respondents are more concentrated in the smaller size building space categories. Sixteen (16) retail respondents or nearly two-thirds are in the two smallest size categories, less than 1,500 square feet and 1,500-2,499 square feet. Only one retail respondent is in the largest category of 5,000 square feet or more.

Tenure Arrangement (Own vs. Lease Space)

Nearly all respondents rent their current space. Only one respondent, a retail business, owns its store space.

KEY SURVEY RESULTS

Current Lease Arrangements and Annual Occupancy Costs

All but one of the 40 respondents who answered the question about current lease arrangements indicated they pay rent on a triple-net basis.[3] Of the triplet-net lease respondents, three respondents indicated they pay "base plus percentage rent".[4] The majority of respondents, 36 respondents, indicated they pay triple-net lease costs with a fixed or escalating base rent.

Table II-3 shows the number of respondents by their annual occupancy cost. Annual occupancy costs include base rent, percentage rent, taxes, insurance, utilities, and any other property (non-payroll) expenses.

Table II-3: Respondents by Type of Business and Annual Real Estate Occupancy Cost

Annual Occupancy Cost[1]	Food Service	Retailer	Total	
	#	#	#	%
$85+ per square foot	5	2	7	17.5
$65 to $84 per square foot	2	4	6	15.0
$45 to $64 per square foot	4	11	15	37.5
$28 to $44 per square foot	5	7	12	30.0
Total	*16*	*24*	*40*	*100.0*

[1] Includes base rent, percentage rent, taxes, insurance, utilities and any other property (non-payroll) expenses, such as common area maintenance (CAM) charges.

Source: Gruen Gruen + Associates

For all respondents, the average annual occupancy cost is approximately $60 per square foot.[5] Base rents reported by respondents average about $43 per square foot or approximately 70 percent of total occupancy costs. Food service respondents are more evenly distributed by occupancy cost. An equal proportion incur very high occupancy costs (above $85 per square foot) and the lowest category of occupancy cost (at $28 to $44 per square foot). Six or one-quarter of retail respondents pay annual occupancy costs above $65 per square foot. Two-thirds of retail respondents indicated they pay annual costs of $28 per square foot to $64 per square foot.

Only 30 percent of respondents indicated that a Tenant Improvement ("TI") allowance or initial rent concession was provided as part of the current lease. In all but one instance, respondents that received

[3] In a triple-net lease, the tenant is responsible for paying the taxes, insurance, and maintenance costs of the space in addition to the base monthly rent.

[4] A percentage lease is a type of lease under which the tenant pays a base rent plus a percentage of any sales (usually above a specified threshold).

[5] Annual occupancy costs average $64 per square foot for merchants located Downtown and approximately $48 per square foot for all other merchants located outside of Downtown.

a TI allowance as part of their current lease invested more capital into the space than the initial allowance made by the landlord.

Annual Sales Per Square Foot

Table II-4 summarizes the annual sales performance of the respondents. Sales performance significantly affects what a retail or restaurant business can feasibly pay to occupy and operate its selling space. Sales per square foot is also a key indicator of retail health and vitality.

Table II-4: Annual Sales Performance

Annual Sales	Food Service #	Retailer #	Total #	Total %
$850+ per square foot	6	4	10	27.0
$650-$850 per square foot	1	1	2	5.4
$450-$649 per square foot	5	7	12	32.4
$250-$449 per square foot	2	6	8	21.6
Below $250 per square foot	0	5	5	13.5
Total	*14*	*23*	37	100.0
Source: Gruen Gruen + Associates				

The average sales performance of the respondents is approximately $550 to $600 per square foot.[6] Food service tenants generate higher sales performance than retailers. One-half of food service respondents indicated annual sales performance exceeding $650 per square foot. Eighty-five (85) percent of food service respondents generate sales above $450 per square foot.

Approximately 78 percent of retail respondents reported sales below $650 per square foot. Almost one-quarter of retail respondents generate annual sales below $250 per square foot.

Occupancy Cost Ratios

This section describes the occupancy cost ratios implied by the survey results. In other words, it compares annual occupancy costs to annual sales performance to estimate the real estate expenses incurred by respondents, as a proportion of sales.

An industry "rule of thumb," confirmed locally through discussions with several restauranteurs and commercial real estate brokers, is that restaurants should incur occupancy costs no more than 10 percent of sales to ensure long term sustainability. Restaurant operations can vary significantly between "fast casual" and more labor-intensive fine dining, though secondary data generally suggests

[6] Several respondents indicated sales above $1,000 per square foot or below $250 per square foot. This average sales figure is a likely approximation.

that successful restaurant operations will typically pay annual occupancy costs of about six percent to 10 percent of sales.[7]

Occupancy costs for retailers will vary with type of goods sold. Retailers selling high margin goods (e.g., specialty apparel, jewelry, or designer furniture) can typically sustain higher occupancy costs. Lower margin high volume retailers such as grocery stores usually require lower occupancy costs for profitable operations. The 2017 Census of Retail Trade indicates that occupancy cost ratios (nationwide) for food and beverage stores and general merchandise retailers averaged about four percent. The average occupancy cost for higher margin store segments such as clothing and accessories, home furnishing, and sporting goods/hobby stores was closer to nine percent. Occupancy cost ratios for specialty retailers located in regional and super-regional mall formats are typically even higher. Macerich reports that occupancy costs for non-anchor tenants of its Top 20 malls (in terms of sales performance, which includes the Twenty Ninth Street center) average about 12 percent.[8]

Table II-5 summarizes the survey respondents by estimated occupancy cost ratio. Thirty-five (35) respondents indicated both their annual sales performance and gross occupancy costs.

Table II-5: Estimated Occupancy Cost Ratios

	Food Service	Retailer	Total	
	#	#	#	%
Occupancy Cost > 15% of Sales	3	7	10	28.6
Occupancy Cost 10% - 15% of Sales	3	6	9	25.7
Occupancy Cost < 10% of Sales	8	8	16	45.7
Total	*14*	*21*	*35*	*100.0*
Source: Gruen Gruen + Associates				

The total number of respondents with annual occupancy costs above or below 10 percent of annual sales is nearly evenly split – 16 below and 19 above. Ten of 35 respondents (29 percent) indicated annual sales and gross occupancy costs that equate to an expense ratio at or above 15 percent of sales. An additional nine respondents (26 percent) indicated their occupancy costs range from approximately 10 to 15 percent of annual sales. The largest category of respondents, 16 respondents or 46 percent, have occupancy costs below 10 percent of annual sales.

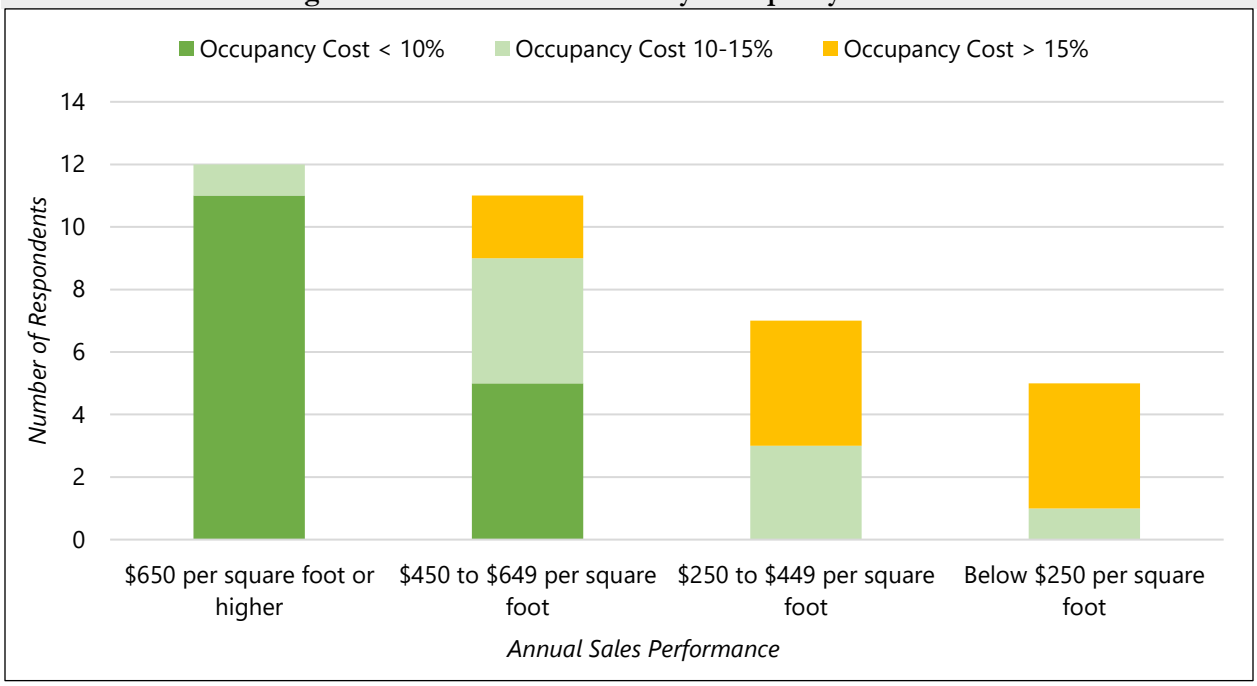
[7] National Restaurant Association operating surveys indicate that typical occupancy cost ratios (nationwide) approximate six and eight percent of sales for full-service and limited-service restaurants, respectively. Data collected by the U.S. Census Bureau in its 2017 Business Expense Supplement (BES) survey indicate that "Food Services and Drinking Places" incur occupancy costs averaging about nine percent of gross sales. Additional restaurant benchmark publications suggest a similar ratio. See for example: http://info.bloomintelligence.com/hubfs/Miscellaneous%20Downloads/Restaurant%20Benchmarks.pdf.

[8] Macerich, Supplemental Financial Information, March 31, 2019.

Respondents with the highest occupancy cost ratios are predominately retailers; one-third of all retail respondents have occupancy costs equal to or above 15 percent of sales. Six of 14 food service respondents (43 percent) indicated occupancy cost ratios that exceed 10 percent of annual sales.

Annual sales productivity provides the best explanation of the occupancy cost results. Figure II-1 summarizes occupancy cost ratios by level of sales per square foot.

Figure II-1: Sales Performance by Occupancy Cost Ratio



Nearly all respondents which generate at least $650 per square foot in annual sales incur occupancy costs below 10 percent of sales. The cost of occupying and operating real estate are likely far less burdensome for merchants generating this level of sales. At the opposite end of the spectrum, every single respondent with annual sales below $450 per square foot incurs occupancy costs that exceed 10 percent of annual sales. The majority of them incur occupancy costs exceeding 15 percent of sales.

Non-Real Estate Costs

The questionnaire also asked respondents if their businesses incur any "extraordinary operating expenses to comply with City of Boulder regulations such as Disposable Bag Fees and the Sugar Sweetened Beverage Tax." Nine of 42 respondents indicated they do incur extraordinary expenses related to these City regulations. Five respondents (all food services) indicated the costs are due to the Sugar Sweetened Beverage Tax. Three respondents indicated that extraordinary expenses relate to Disposable Bag Fees and trash requirements. The average annual per square foot cost to comply with the Sugar Sweetened Beverage Tax is approximately $6.60. The average annual cost to comply with the Disposable Bag Fee program equates to $1.50 per square foot; although a small number of

respondents (three of 42) indicated this was an extraordinary expense. The three respondents cited administrative and compliance costs in addition to higher bag costs.

Respondents were also asked whether adequate labor is a challenge to hire and retain and what current payroll expenses are as a percentage of gross sales revenue. Tables II-6 and II-7 summarize the responses to finding and attracting labor and payroll costs.

Table II-6: Challenges Finding or Retaining Adequate Labor

	Food Service	Retailer	Total	
	#	#	#	%
No	0	8	8	19.5
Yes	16	17	33	80.5
Total	*16*	*25*	*41*	*100.0*
Source: Gruen Gruen + Associates				

All of the food service respondents and a majority of retail respondents find hiring and retaining an adequate labor supply challenging. Eighty-one (81) percent of total respondents indicated labor hiring and retention is challenging.

Table II-7: Current Payroll Expenses (as Percent of Sales)

Payroll Expenses as Percent of Gross Sales Revenues	Food Service	Retailer	Total	
	#	#	#	%
Less than 20%	0	9	9	23.7
20% to 29%	4	7	11	28.9
30% to 39%	9	3	12	31.6
40% or more	2	4	6	15.8
Total	*15*	*23*	*38*	*100.0*
Source: Gruen Gruen + Associates				

A larger proportion of food service respondents than retail respondents indicated labor costs exceed 30 percent or more of gross sales revenues. This finding is not unusual given restaurants are usually more labor-intensive than retail stores. However, nearly three-quarters of food service respondents (11 of 15, or 73 percent) have payroll expenses that exceed 30 percent of annual sales. The 2017 Business Expense Supplement survey of the U.S. Census Bureau indicates an average payroll cost for all food services and drinking places of 31.5 percent. Other industry publications suggest that viable payroll costs for limited-service and full-service restaurants typically range from 25 percent to 35 percent, at most.

Seven of 23 retail respondents (30 percent of retail respondents) indicated payroll costs exceed 30 percent of annual sales. The 2017 Census of Retail Trade identifies average payroll costs for all retail store segments from grocery stores to miscellaneous specialty stores ranging from 12 to 19 percent of sales.

Expectations about Future Operations of Business

Respondents were asked about their expectations of future costs – real estate occupancy and payroll – as well as future sales revenues. Table II-8 summarizes respondents' expectations about changes in future operational costs and sales revenues.

Table II-8: Anticipated Changes in Operational Costs and Sales Performance

	Expectations for change in annual real estate costs five years from now…		Expectations for change in payroll expense five years from now…		Expectations for change in annual sales five years from now…	
	#	%	#	%	#	%
Increase	**42**	**100.0**	**37**	**90.2**	**19**	**45.2**
Remain Stable	0	0.0	4	9.8	21	50.0
Decrease	0	0.0	0	0.0	2	4.8
Total	42	100.0	41	100.0	42	100.0
Source: Gruen Gruen + Associates						

All 41 respondents expect their annual real estate occupancy costs to increase five years from now. Ninety percent of respondents (36 of 40 who answered the question) expect that the percentage of their sales allocated to payroll expenses will also increase. Only 10 percent anticipate payroll expenses will remain stable. While nearly all respondents anticipate further increases in operational costs (due to real estate and payroll), fewer than one-half of survey respondents anticipate their future sales will increase.

This result suggests that the retention and expansion of the types of retail and food service merchants which responded to the survey (primarily small, independent establishments located Downtown and on University Hill) will become increasingly challenging. The vast majority anticipate that costs will continue to increase faster than sales, and for respondents the real estate occupancy and payroll costs are already a significant challenge to viable operations.

CHAPTER III:
EXISTING RETAIL SPACE INVENTORY, CURRENT CONDITIONS, AND COMPETITIVE POSITION OF BOULDER'S RETAIL BASE

This chapter reviews the existing retail and restaurant space inventory, market conditions, rents, and sales of four specific geographic districts in the City:

1. The Boulder Valley Regional Center and Twenty Ninth Street shopping center;
2. Central Area General Improvement District, generally corresponding to definitions of Downtown Boulder though there are many;
3. Basemar Shopping Area; and
4. University Hill General Improvement District.

Comparisons of asking base rents and quoted pass-through expenses between the districts, and to other retail submarkets in the region, are also summarized to provide additional information and perspective about how retail space occupancy costs influence the ability of retailers and restaurants to viably operate.

RETAIL SPACE INVENTORY AND CURRENT DISTRICT CONDITIONS

The *Citywide Retail Study* identified an existing retail space inventory of 6.6 million square feet.[9] Other secondary sources of commercial real estate data including quarterly market reports published by entities such as CBRE and the Boulder Economic Council suggest the City of Boulder retail space supply is smaller – totaling about 5.1 million and 4.5 million square feet respectively.[10]

GG+A obtained and summarized current assessment records from the Boulder County Assessor to more precisely estimate the existing non-automotive retail and restaurant building space inventory of the four districts and for the City of Boulder in entirety. Commercial services and entertainment uses that do not generate local sales tax are not included in the inventory estimate so as to permit the best comparison between taxable retail and restaurant sales (described in Chapter IV) to the on-the-ground inventory of equivalent building space. While increasingly important components of mixed-use retailing destinations, buildings specifically classified as fitness facilities, theatre and cinema uses, banks, medical space, and so forth are not included in the inventory summarized in Table III-1.

[9] Page 7, *Study Session for July 9, 2019 - Citywide Retail Study: Final Report and Next Steps*
[10] See for example:
https://www.cbre.us/research-and-reports/Denver-Retail-MarketView-Q3-2019
https://boulderеconomiccouncil.org/bec_publications/q3-2019-boulder-economic-indicators/

Table III-1: Non-Automotive Retail and Restaurant Building Space Inventory in City of Boulder

Design Classification	Boulder Valley Regional Center (BVRC)[1]	Central Area General Improvement District (CAGID)	Basemar Shopping Area	University Hill General Improvement District (UHGID)	*City of Boulder Total* [2]
Retail	1,516,490	453,608	68,244	114,472	*3,439,628*
Discount Store	340,891	0	0	0	*389,859*
Neighborhood Center	49,913	0	0	0	*49,913*
Supermarket	252,667	29,219	55,637	0	*718,654*
Restaurant	84,989	246,360	56,721	59,753	*585,465*
Bar/Tavern	0	47,616	0	0	*47,616*
Fast Food	9,994	0	11,458	2,275	*40,528*
Other	0	0	3,130	0	*5,530*
Total	**2,254,944**	**776,803**	**195,190**	**176,500**	***5,277,193***
Share of Citywide	*42.7%*	*14.7%*	*3.7%*	*3.3%*	

[1] Includes the Twenty Ninth Street shopping center.
[2] Includes all other space (located outside of these four districts) within City of Boulder municipal limits. Total space inventory estimate is somewhat understated because building records for possessory interest improvements are not included (e.g., any retail and restaurant improvements on public lands such as CU campus or the small amount of City-owned ground floor space located Downtown).

Sources: Boulder County Assessor; Gruen Gruen + Associates.

Assessment records indicate the retail and restaurant building space inventory within the City totals approximately 5.3 million square feet. The BVRC and CAGID geographies comprise nearly 60 percent of the citywide retail and restaurant building space inventory. The Basemar shopping area and UHGID comprise less significant inventory of retail and restaurant space, estimated collectively at seven percent of the citywide total. Together the four districts represent about two-thirds of the estimated citywide inventory.

Table III-2 summarizes estimates of current retail and restaurant space availability, asking rents, and sales per square foot performance for each district.

Table III-2: Current District Performance

	Boulder Valley Regional Center [1]	Central Area GID	Basemar Shopping Area	University Hill GID
Estimated Retail and Restaurant Building Space in Square Feet	2,255,000	777,000	195,000	177,000
Available Space in Square Feet [2]	68,000	63,000	25,000	18,000
Availability Rate	**3%**	**8%**	**13%**	**10%**
Average Asking Rents Per Square Foot				
Base (net) Rent	$31.25	$45.75	$30.25	$27.50
Pass-Through Expense Quote	$12.00	$18.00	$9.25	$13.00
Gross Rent/Occupancy Cost	**$43.25**	**$63.75**	**$39.50**	**$40.50**
Average Sales Per Square Foot ($2019)	**$400**	**$440**	**$270**	**$230**
Gross Rent Percent of Average Sales	11%	15%	15%	18%

[1] Current availability and average asking rents do not include the Twenty Ninth Street property (e.g., the 150,000-square-foot Macy's store being marketed for an office development opportunity). The property owner (Macerich) however reports that non-anchor space at the center was 96 percent occupied between March 2018-2019.

[2] Commercial listings for available retail or restaurant spaces reviewed during Nov/Dec 2019. Not all spaces being marketed for lease are presently vacant.

Sources: Boulder County Assessor; CoStar/Cityfeet; CommercialExchange; Gruen Gruen + Associates.

Active commercial listings for available retail or restaurant spaces indicate that availability rates range from a low of three percent in the Boulder Valley Regional Center area (excluding the 150,000-square-foot Macy's store) to a high of 13 percent for the Basemar Shopping Area which largely reflects the vacant 14,500-square-foot space formerly occupied by Whole Foods. Active listings in University Hill GID total approximately 18,000 square feet for an availability rate of approximately 10 percent. Within Downtown Boulder (defined here as the Central Area GID boundary), our review suggests that approximately 60,000 square feet of retail and restaurant space is being marketed for lease. This represents an availability rate of approximately eight percent of the space inventory. Note that not all space being market for lease is presently vacant.

The average asking base rents and pass-through expenses quoted for availabilities in Central Area GID average $64 per square foot, an occupancy cost that is identical to the results of the occupancy cost questionnaire described in Chapter II. Although based on a much smaller number of available spaces, gross occupancy costs in University Hill GID and within the Basemar Shopping Area approximate $40 per square foot. Asking base rents across the four districts are lowest in University Hill GID. Asking rents and quoted pass-through expenses for availabilities in the Boulder Valley Regional Center (excluding Twenty Ninth Street) equate to an average occupancy cost of approximately $43 per square foot.

Relative to estimated sales per square foot performance based on City sales tax receipts collected in 2018, asking rents and quoted expenses for available spaces appear inordinately high for three of the

four districts – Central Area GID, University Hill GID, and Basemar - equaling 15 to 18 percent of district-wide sales. The sales per square foot "benchmarks" are not precise given they do not explicitly account for retail and/or restaurant building spaces that may have been unoccupied during the reference period – although the comparison does suggest that future tenants absorbing available retail spaces in these locations would need to generate sales well above average to achieve an occupancy cost expense ratio close to 10 percent of sales absent considerable rent concessions.

The Boulder Valley Regional Center including Twenty Ninth Street property have the lowest average occupancy cost expense ratios estimated at approximately 11 to 12 percent. Brokers suggested typical base rents for smaller/non-anchor stores at Twenty Ninth Street will approximate $50 per square foot with pass-through expenses up to $25 per square foot. This is consistent with overall sales performance reported by the property owner. As of March 2019, the non-anchor stores at Twenty Ninth Street reportedly generated sales over the trailing 12-month period equal to $730 per square foot.[11]

PERSPECTIVE ON RETAIL OCCUPANCY COSTS IN BOULDER

One conclusion of the *Citywide Retail Study* was that base retail rents in Boulder appear no more expensive than neighboring peer communities in the US-36 Corridor. Comparing area-wide average base rents does not fully illustrate the relative position of the retailing base within the broader market.[12] Average asking base rents (before expenses) in Boulder and the US-36 Corridor are notably higher than many other retails markets in the region. Table III-3 shows retail conditions including rents and vacancy rates for the Boulder/US-36 Corridor in comparison to other nearby locations.

Table III-3: Retail Conditions by Market Area, 2019 3Q

	Average Asking Base Rent Per Square Foot	12-Month Rent Growth	Vacancy Rate
Boulder/US-36 Corridor[1]	**$25.50**	**1.8%**	**6.9%**
Northwest Denver[2]	$20.25	1.3%	6.0%
Longmont Area	$17.50	2.2%	4.5%
Fort Collins/Loveland Area	$18.75	1.4%	4.5%
[1] Includes Boulder and US-36 Corridor generally consisting of space in Louisville, Lafayette and Superior. [2] Broomfield and Westminster.			
Sources: CoStar Group; Gruen Gruen + Associates.			

Average asking rents for Boulder and the US-36 Corridor as of third quarter 2019 were reported at approximately $26 per square foot. This significantly exceeds average asking rent in proximate market areas such as Northwest Denver, Longmont, and further north to Fort Collins and Loveland. Estimated vacancy rates and year-over-year rent growth are all relatively comparable, though average

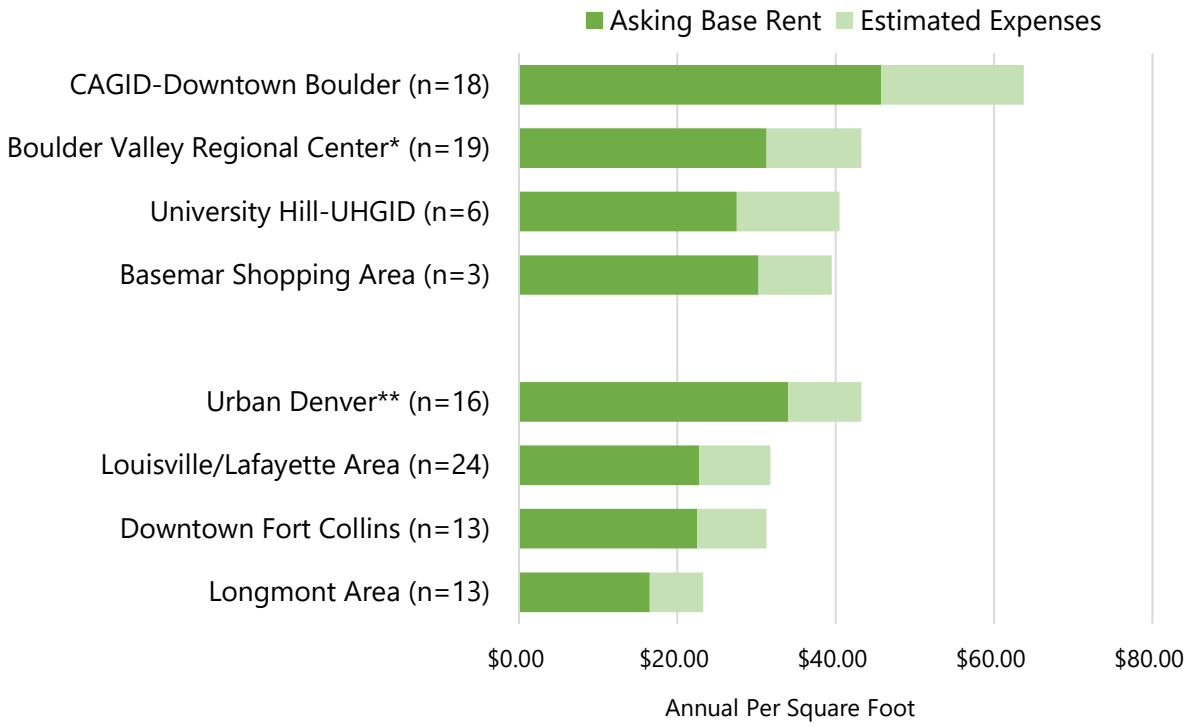
[11] Macerich, Supplemental Financial Information, March 31, 2019.

[12] Average asking base rents can also be misleading for areas with limited retail inventory or one large vacant anchor. CoStar data suggests that average base rents in Superior are higher than in Boulder, for example, although the entire retail space inventory in Superior is essentially comprised by one community shopping center (the Superior Marketplace).

base rents are 25 to 40 percent higher on average. The trade areas served by retailers and restaurants located in the geographic subareas compared above in Table V-3 differ considerably in terms of demographic and income make-up and geography. While retail spaces in Fort Collins, Loveland, or Longmont will generally rent for much less than those in Boulder and the US-36 Corridor, for example, this does not indicate that one market area or another is better aligned with potential retail demands. Instead, average market rents and vacancy rates point to supply and demand fundamentals for retail space. Higher average rents mean demand for space at the location is higher relative to available supply than alternative locations and sales productivity is expected to be higher than sales would be at lower rent locations.

Figure III-1 summarizes average asking rents and quoted pass-through expenses in Boulder (summarized previously in Table III-2) to similarly sized availabilities in four other areas of the Denver region including Downtown Fort Collins, Louisville and Lafayette, Longmont, and urban areas of central Denver.

Figure III-1: Average Asking Rents and Expenses for Available Retail Spaces (Per Square Foot)[1]



**Excludes Twenty Ninth Street*
***For purposes of comparison: includes available listings generally located in the Highlands, Lower Downtown (LoDo) and 16th Street Mall areas of Denver*

[1] Does not include spaces larger than 7,500 square feet. Numbers adjacent to area names correspondent to number of listings included in the average.

Asking base rents and estimated expenses for small existing retail and restaurant availabilities in urban Denver neighborhoods are comparable to costs in Boulder, with the exception being Downtown Boulder. Interviews with commercial brokers and multiple merchants suggest that infill locations of

Denver which are attracting considerable new retail, food service and entertainment-type uses are becoming "almost as pricey" as spaces in Boulder. This partly relates to the fact that most commercial space available is new construction and landlords will offer more significant Tenant Improvement allowances.

A sample of nearly 40 available spaces located in Louisville, Lafayette, and Downtown Fort Collins indicates average asking rents and expenses of approximately $32 per square foot. Quoted triple-net pass through expenses average about $9 per square foot. Average gross rents are well below levels sought for available space in Boulder. The average asking rent for available spaces in Downtown Fort Collins of $32 per square foot is exactly 50 percent of asking rents for similarly sized availabilities in Downtown Boulder. Two new mixed-use developments in the respective downtowns of Louisville and Lafayette include approximately 25,000 square feet of ground floor commercial space with asking base rents of $25 to $27 per square foot and estimated expenses of $11 per square foot. These are new construction, top of the market rents for Louisville and Lafayette that are roughly equivalent to the gross asking rents for small available (and much older) spaces in UHGID and Basemar.

CHAPTER IV:
CITYWIDE RETAIL SALES SURPLUS ESTIMATES

A historical analysis of demographic patterns and taxable retail sales provides a framework for assessing the relative strengths, weaknesses, and shifts within the retailing base of the City of Boulder. It also provides a basis to identify the segments of the sales tax base capturing (or leaking) more sales dollars than would be expected from local household expenditure potential alone.

To obtain a sense of how retail sales in Boulder compare to the sales that would be expected given the household and income make-up of Boulder residents, we estimate the expenditure potential of Boulder households and compare it to actual sales by major category. We make this comparison in order to reach conclusions on the extent to which Boulder as a whole captures more sales from shoppers who reside outside of Boulder than it loses as the result of leakage, or dollars spent Boulder for retail goods and services and dining.

HISTORICAL RETAIL SALES TRENDS

Table IV-1 summarizes the annual citywide retail and restaurant sales for three historical points in time including 2001, 2010, and 2018 (calendar years). The estimates are based on local sales tax receipts reported by the City of Boulder's Finance Department. The definitions used to categorize sales tax revenues are based on SIC code and are according to Finance Department staff subject to some degree of reporting and classification error. Sales taxes collected on businesses related to automotive sales, computer services, transportation, utilities, and so forth, are not included here in a review of "retail and restaurant" sales trends. Historical sales have been adjusted to current 2019 dollars (as of September 2019) based on the Consumer Price Index for the Denver metro area.

Table IV-1: Taxable Retail and Restaurant Sales, 2001-2018[1]

Category	2001 $	2010 $	2018 $	17-Year Change $	17-Year Change %
Food Stores	423.9	410.5	441.5	17.6	4.1
Eating Places	371.3	404.9	483.9	112.5	30.3
Apparel Stores	120.7	98.5	119.3	-1.4	-1.1
Home Furnishings	133.0	96.5	95.4	-37.6	-28.3
General Retail	662.1	648.4	672.5	10.3	1.6
Building Materials	85.1	110.3	123.5	38.4	45.2
Consumer Electronics	76.2	65.5	68.8	-7.4	-9.7
Non-Auto Retail	**1,872.3**	**1,834.6**	**2,004.8**	**132.6**	**7.1**

[1] Figures presented in millions of 2019 dollars.

Sources: City of Boulder; Gruen Gruen + Associates.

Total taxable retail and restaurant sales in Boulder on a real (i.e. inflation-adjusted) basis increased by $133 million or seven percent between 2001 and 2018 to over $two billion. The eating category experienced the largest change of nearly $113 million or 30 percent growth (13.66 percent average annual growth) becoming the second largest retail category by 2018. General retail and apparel sales

remained essentially flat with only a one percent change (increase for general retail and decrease for apparel). Building materials sales also increased over the period. On an inflation-adjusted basis, the home furnishings, and consumer electronics retail categories were the only components of the taxable sales base to experience significant declines over the period of 28 percent and 10 percent, respectively.

ESTIMATED RETAIL SALES SURPLUS AND LEAKAGE

Table IV-2 presents an estimate of non-automotive retail expenditure potential of City of Boulder households over time. [13] The expenditure potential reflects a combination of current and historical demographic estimates for the City and retail spending patterns over time, derived from our review of the Bureau of Labor Statistics' annual Consumer Expenditure Survey ("CES").

Table IV-2: Retail Expenditure Potential of Boulder Households, 2001-2018[1]

				17-Year Change	
	2001	2010	2018	#	%
Population	96,398	97,811	108,507	12,109	12.6
Households	39,400	41,374	44,608	5,208	13.2
Real Average household income	$99,600	$104,600	$112,400	$12,800	12.9
Aggregate household income ($millions)	**$3,924.2**	**$4,327.7**	**$5,013.9**	**$1,089.7**	**27.8**
Retail Expenditure Rates[2]					
Non-auto retail goods	22.1%	18.1%	18.8%		
Eating & drinking (away from home)	4.6%	4.1%	4.4%		
Total	**26.7%**	**22.2%**	**23.2%**		
Retail Expenditure Potential ($millions)					
Non-auto retail goods	$867.3	$783.3	$942.6	$75.4	8.7
Eating & drinking (away from home)	$180.5	$177.4	$220.6	$40.1	22.2
Total[3]	**$1,047.8**	**$960.8**	**$1,163.2**	**$115.4**	**11.0**

[1] All dollar amounts adjusted to current 2019 dollars.
[2] Percent of before-tax household income spent (on average). Denver CBSA is the reference geography.
[3] Potential retail spending of population living in group quarters housing (i.e., CU students living on-campus) is not included here.

Sources: City of Boulder; U.S. Bureau of Labor Statistics, *Consumer Expenditure Surveys*; U.S. Census Bureau; Gruen Gruen + Associates.

Population, households, and average household income are all estimated to have grown by about 12 to 13 percent between 2001 and 2018. The aggregate (total) household income of the City of Boulder grew from $3.9 billion in 2001 to just over $5.0 billion by 2018 on an inflation-adjusted basis.

According to CES data for the Denver region, the expenditure rate for most non-automotive retail goods and eating and drinking away from home averaged nearly 27 percent of before-tax income in 2001. By 2010, following the depths of the Great Recession, the percentage of income devoted to

[13] Population living in group quarters housing (such as on-campus CU students) is not included here in these estimates.

non-automotive retail and eating and drinking expenditures declined by nearly five percentage points. Expenditure rates have since rebounded, though not to peak levels witnessed in the early 2000s. The overall expenditure rate for the Denver area is estimated at about 23 percent of before-tax income.[14]

Total household expenditure potential for non-automotive retail is estimated to have remained relatively stable between 2001 and 2018, growing by $75 million or about nine percent. While the percentage of income typically spent on non-automotive retail goods declined by more than three percentage points over the period, Boulder today has more households with more income than it did in 2001. Household expenditure potential for eating and drinking grew by an estimated 22 percent since 2001.

Table IV-3 summarizes an estimate of the retail sales surplus over time. The expenditure potential of local Boulder households is compared to actual sales performance of the Citywide retailing base. The difference between the two represents the sales surplus or in other words the amount of sales higher than would be supported by expenditure potential of residents alone.

Table IV-3: Retail Sales Surplus in City of Boulder, 2001-2018[1]

	2001	2010	2018	17-Year Change	
				$	%
Sales Surplus [2]					
Non-auto retail goods	$633.7	$646.4	$578.3	-$55.3	-8.7
Eating/drinking places	$190.8	$227.5	$263.3	$72.4	38.0
Total	**$824.5**	**$873.9**	**$841.6**	**$17.1**	**2.1**

[1] All figures presented in millions of 2019 dollars.
[2] Surplus estimates represent supply (actual sales) minus demand (household expenditure potential).

Sources: City of Boulder; U.S. Bureau of Labor Statistics, Consumer Expenditure Survey; U.S. Census Bureau; Gruen Gruen + Associates.

The quantitative comparison between actual sales and estimated household demand in Boulder indicates that the citywide retail base has maintained a large sales surplus. Total sales exceeded household expenditure potential by roughly $825 million to $875 million for each of the three years measured over the 2001-2018 period. The surplus suggests that the City of Boulder attracts considerably more sales from non-residents than it loses to resident spending at alternative shopping and dining places in other communities.

The total size of the sales surplus is estimated to have grown by approximately $17 million or two percent since 2001. However, eating and drinking establishments in Boulder have represented a significant source of sales growth from non-households. While non-automotive retail still had a large surplus in 2018, it declined by about nine percent or $55 million from its $634 million surplus in 2001.

[14] While overall retail spending (as a function of income) has generally declined since 2001, some notable shifts have occurred. The rate of expenditure on Apparel and Home Furnishings declined considerably between 2001-2018, dropping from more than eight percent (8%) of income to 5.4 percent by 2018. This coincides with long-term declining or stagnant sales tax collections in these segments of Boulder's retail base.

CHAPTER V:
FOOD AND BEVERAGE STORE SALES COMPARISON

The first phase of the *Citywide Retail Study* identified a recent pattern of sales tax revenue decline occurring within the "Food Store" category over the 2015 to 2018 period. Food Store sales as classified by the City of Boulder Finance Department have experienced a pattern of stability over a long period. Inflation-adjusted sales grew by $17 million or four percent between 2001 and 2018. Over a more recent period, between 2010 and 2018, Food Store sales grew by $30 million or eight percent.

The chapter summarizes a comparison between "Food and Beverage Store" sales within the City and County of Boulder. To ensure the most accurate comparison between sales performance of the City and broader area, note that Colorado Department of Revenue data and industry definitions are utilized for the analysis.[15]

Note that small changes in taxable retail sales by type of store are not a fool proof method to discern shifts in consumer spending. Sales at a typical supermarket will include a variety of non-food goods (e.g., toiletries, cleaning products), and vice versa; sales reported under different categories include the sale of food and beverages for home consumption. An average Target store, for example, will typically generate about 20 to 30 percent of its sales from food and beverage. The Target store on 28th Street is reported to be the second highest grossing store in Colorado.

[15] Grocery store and other food store sales are reported by the State under NAICS sector 445, corresponding to "Food & Beverage Stores." It includes grocery stores and supermarkets, convenience stores, specialty food stores (e.g., bakeries), and beer, wine and liquor stores. The City of Boulder Finance Department reports retail sales tax receipts under a different classification scheme.

FOOD & BEVERAGE STORE SALES COMPARISON

Table V-1 compares recent Food and Beverage store sales for the City of Boulder and Boulder County.

Table V-1: Comparison of Retail Sales in NAICS 445 (Food & Beverage Stores) for City of Boulder and Boulder County [1]

	2015 $	2018 $	Change $	Change % Growth
Food & Beverage Stores				
City of Boulder	534,800,000	570,100,000	35,300,000	6.6
Rest of County	827,700,000	815,700,000	(12,000,000)	-1.4
Boulder County Total	**1,362,500,000**	**1,385,800,000**	**23,300,000**	**1.7**

[1] Figures are rounded and have been adjusted for inflation to 2019 dollars.

Sources: Colorado Department of Revenue, *Office of Research and Analysis*; Gruen Gruen + Associates.

Food and Beverage Store sales in the City of Boulder grew from $535 million in 2015 to $570 million by 2018, representing growth of about seven percent. Sales within the same category of Food and Beverage throughout the remainder of Boulder County are estimated to have declined minimally by approximately $12 million or 1.4 percent. Countywide sales grew by about $23 million or just under two percent over the same period.

Accordingly, the City of Boulder share of countywide Food and Beverage Store sales has increased slightly, from 39.3 percent in 2015 to 41.1 percent in 2018.

PER CAPITA FOOD & BEVERAGE STORE SALES

Table V-2 summarizes per capita sales for the City of Boulder and Boulder County.

Table V-2: Per Capita Food & Beverage Store Sales in City of Boulder and Boulder County [1]

	2015 $	2018 $	Change $	Change % Growth
Per Capita Sales				
City of Boulder	5,102	5,254	152	3.0
Rest of County	3,864	3,759	(105)	(2.7)
Boulder County Total	**4,271**	**4,258**	**(13)**	**(0.3)**

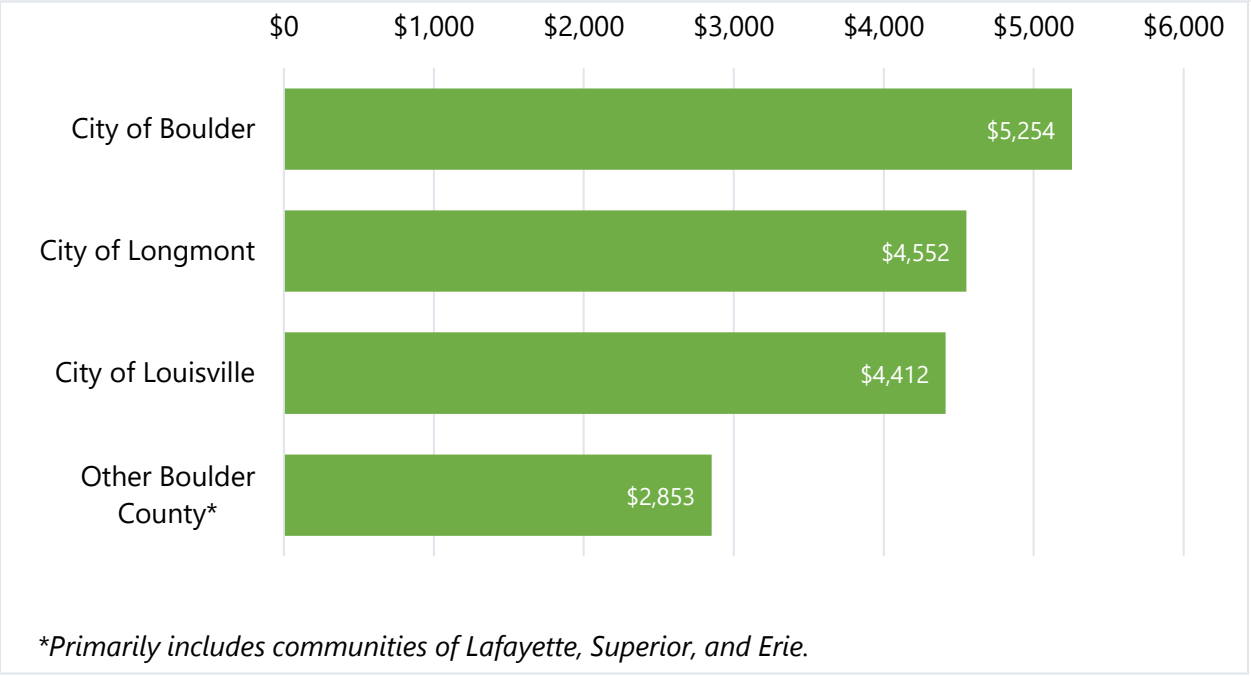
[1] Figures are rounded and have been adjusted for inflation to 2019 dollars.

Sources: Colorado Department of Revenue, *Office of Research and Analysis*; Colorado State Demography Office; Gruen Gruen + Associates.

Per capita sales in the City grew by about three percent between 2015 and 2018 from $5,102 to $5,254. Per capita sales elsewhere in Boulder County declined by about three percent.

Figure V-1 illustrated the level of estimated per capita sales in the Food and Beverage Store segment in the City of Boulder, for 2018, relative to other communities in Boulder County.

Figure V-1: Per Capita Food & Beverage Store Sales ($2019)



**Primarily includes communities of Lafayette, Superior, and Erie.*

Per capita Food and Beverage Store sales in the City of Boulder are estimated to exceed the level of per capita sales elsewhere in Boulder County by approximately 40 percent.

GRUEN GRUEN + ASSOCIATES

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