

GROCERY STORE TRENDS AND OPPORTUNITIES IN ARLINGTON VIRGINIA

Executive Summary

The food retailing industry has changed dramatically over the past several decades, introducing new products and formats at both the national and local levels. Gone are the days when shoppers spent a majority of their at-home food budget at conventional 30,000 square-foot supermarkets; now, a throng of non-traditional food retailers has stepped in alongside to compete. Take-out restaurants, which provide quick and ready-made meals catering to convenience-driven shoppers, are also capturing a greater share of the food dollar. In an effort to differentiate themselves, grocery stores of all types are exploring new markets, in terms of both product and location, as well as adding expanded onsite services and amenities with the ultimate goal of transforming their stores into one-stop-shopping destination experiences. This study aims to identify these and other significant trends and examine their impact on local businesses and the overall Arlington market.

Demographics are key to analyzing household shopping patterns and framing new opportunities for retailers. Age, income, and household size all play a significant role in determining where and

when consumers shop and also give insight into the types of products they buy. For example, certain grocery store types and formats attract and cater to particular demographic groups more so than others. High-earning singles and young professionals are more likely to shop at supermarkets and organic/specialty stores than low-income households and families with children (who in contrast shop more frequently at supercenters). Men are more likely than women to buy food at a convenience store, and minorities who live in urban areas are the most likely to shop at ethnic markets.



Harris Teeter, Pentagon Row

With its diverse population, small households, and high household incomes, Arlington is uniquely positioned to take advantage of many of the industry's new trends and opportunities. As of January 2007, there were 143 food stores in Arlington, including neighborhood and community supermarkets, specialty/ethnic markets, convenience stores (both stand-alone and gas station-affiliated), commissaries, wholesalers, and farmers' markets. In 2006, Arlington households spent significantly more than the average U.S. household on both food at home and food away from home, and spent even slightly more in each category than our regional counterparts.

However, despite the amount Arlington households spend on food, recent data suggests the County is leaking approximately \$260 million in food expenditure dollars to other jurisdictions. Partly, this can be attributed to a shortage of large grocery store formats, but it may also be a result of Arlington's "invisible borders" and the fact that it may sometimes be closer and easier for Arlington residents to go to grocery stores in neighboring jurisdictions. While the County has worked aggressively to create a favorable business climate for both large chains and new small businesses, certain private sector limitations related to the urban environment (including the high cost of space, a limited amount of developable land, and challenges relating to parking and deliveries) may necessitate new creativity in exploring methods of capturing the leaking sales.

Introduction

In 2006, Arlington County Board Chairman Chris Zimmerman announced a new "Small Business Initiative" aimed at supporting Arlington's small and locally-owned businesses. The goal of this three-pronged effort was to support retail businesses, assist companies affected by Department of Defense Base Realignment and Closure Commission (BRAC) recommendations, and help small non-profit and cultural groups improve their businesses practices.

As part of the effort to support retailers, the County Board directed Arlington Economic Development (AED) to conduct a study of the food retailing industry in Arlington. While the original impetus for the study was to assess how small specialty stores and ethnic businesses were faring in the context of the overall market, the study ultimately expanded to include a review of the greater industry's trends and opportunities, and

their impact on Arlington retailers. The context of the study includes both an economic and placemaking view, examining questions related to how much retail Arlington can support, if the



Arlington County is leaking approximately \$260 million annually in food expenditure dollars to other jurisdictions.

County is leaking sales to other jurisdictions, and identifying not only the types of stores that encourage community, but also whether or not Arlington can support those types of stores in a significant way.

This study first outlines broad trends affecting the food retailing industry as a whole – some of these trends include greater competition, increased stores size, and expansion into new markets. It then continues by exploring how differences in household demographics affect consumer shopping habits and expenditure patterns. Lastly, the study provides an overview of recent local industry news and analyzes local data in the context of the previously identified grocery trends and consumer shopping habits.

Survey and anecdotal data related to national trends and consumer shopping habits were obtained primarily from industry association publications, including the Food Marketing Institute, Progressive Grocer, Organic Trade Association, National Association of Convenience Stores, and the International Council of Shopping Centers, as well as articles and interviews from major national and regional news publications. For expenditure data and demographic information, sources included the U.S. Census Bureau, the Bureau of Labor Statistics, the USDA Economic Research Service, as well as several university research center studies and publications.

Obtaining data for the local analysis proved more challenging. While the Arlington County Commissioner of Revenue was able to provide general information relating to grocery store sales in Arlington, the office could not provide store-specific data – even classified by a general type of store – due to privacy regulations. Site plan documents and Certificate of Occupancy reports provided useful, but limited data pertaining to square-footage of stores. Online data sources such as the U.S. Census Bureau provided good (albeit slightly outdated) local area information, and the Food Marketing Institute generously shared portions of its regional survey data related to consumer shopping patterns. Staff conducted its own field inventory of grocery stores and ultimately categorized them based on independent observation and analysis.

Defining Grocery Stores

In a review of the various (non-restaurant) stores that sell food throughout the County, it quickly became apparent that the definition of a grocery

store was not so clear cut. Arlington has stores big and small, with some that focus on one-stop shopping for mainstream consumers and others that cater to specific demographic groups. For example, places like 7-Eleven target the in-and-out convenience shopper, while others like Arrowine encourage customers to linger by holding in-store tastings and educational seminars. And while one

can buy food at both, but they have very different characteristics with regard to their economic contribution and placemaking value.

It became clear that before any attempt to inventory Arlington's grocery stores could take place, a better definition of a grocery store and a way to classify the different store types and formats was needed. The Food Marketing Institute (FMI), a leading association for the food retailing industry, defines a grocery store as "any retail store selling a line of dry grocery, canned goods, or nonfood items plus some perishable items."

Although FMI also provides a near exhaustive list of traditional and non-traditional store types and formats, AED struggled to categorize Arlington's stores into the industry definitions. The industry defines itself primarily using quantitative data related to number of stock-keeping units (SKUs), square-footage, sales volumes, and percentage of selling area allotted to certain types of products, none of which speaks to what makes a store successful in terms of local economics or placemaking.

In other words, the industry definitions lack the critical qualitative information that answers the question: "Why would Arlington want one type of store versus another?" There is little within the



Non-traditional and specialty/ethnic stores have a strong following in Arlington.

FMI Industry-Level Definitions

Convenience Store — Any full-line, self-service grocery store offering limited line of high-convenience items. Open long hours and provides easy access. The majority sell gasoline with an annual sales of \$2 million or more. (Example: 7-Eleven)

- **Convenience Store (Traditional)** - A small, higher-margin store that offers an edited selection of staple groceries, non-foods, and other convenience food items, i.e., ready-to-heat and ready-to-eat foods. The traditional format includes those stores that started out as strictly convenience stores but might also sell gasoline.
- **Convenience Store (Petroleum-Based)** - The petroleum-based stores are primarily gas stations with a convenience store.

Internet - An Internet-based grocery distribution operator. Included in this format are all Internet operators who use the Internet as the primary means of accepting grocery orders for home delivery or pickup. Also included are major food retailers that generate a portion of their sales through Internet-based sales. Internet suppliers typically offer 12,000 SKUs or more for home delivery. (Example: Peapod)

Supercenter - A large food/drug combination store and mass merchandiser under a single roof. The supercenters offer a wide variety of food, as well as non-food merchandise. These stores average more than 170,000 square feet and typically devote as much as 40% of the space to grocery items. (Examples: Wal-Mart, Kmart, Super Target)

Supermarket - Any full-line self-service grocery store generating a sales volume of \$2 million or more annually. (Examples: Harris Teeter, Giant, Safeway)

- **Conventional Supermarket** - The original supermarket format offering a full line of groceries, meat, and produce with at least \$2 million in annual sales. Conventional stores will realize 9% of their sales in general merchandise/health and beauty care (GM/HBC) products. These stores typically carry approximately 15,000 items, offer a service deli and frequently a service bakery.
- **Superstore** - A larger version of the conventional supermarket with at least 40,000 square feet in total selling area and 25,000 items. Superstores offer an expanded selection of non-foods (at least 10% GM/HBC).

Wholesale Club - A membership retail/wholesale hybrid with a varied selection and limited variety of products presented in a warehouse-type environment. These 120,000 square-foot stores have 60% to 70% GM/HBC and a grocery line dedicated to large sizes and bulk sales. Memberships include both business accounts and consumer groups. (Examples: Sam's Club, Costco, BJ's)

Source: Food Marketing Institute

FMI definitions to explain why certain store types and formats succeed and are well-suited to urban areas like Arlington. Ultimately, AED determined that the industry definitions, while a suitable “jumping off point”, were incomplete for the purposes of the study. As a result, staff formulated its own categories (see p.16). In most cases the AED categories incorporate the industry’s quantitative information, but are supplemented with economic sustainability and placemaking characteristics.

Grocery Industry Trends

With so many different store types all fighting for market share, the food retailing industry is changing dramatically. Although food sales have long been the purview of conventional supermarkets, these once impenetrable retailers are now facing fierce competition from other store types/formats. Studies suggest that sales by these traditional food retailers, which accounted for 52 percent of the market in 2004, will only comprise 40 percent of grocery sales by 2013.¹

What is the cause of the grocery industry to sap such a significant portion of sales from traditional retailers? The following section explores these key trends:

- Supercenters and wholesalers, which operate with higher volumes and can undercut competitors, have moved aggressively into food retailing.

¹ Fusaro, Dave. Feb. 28, 2006. *Nontraditional Retailers May Overtake Supermarkets*, Food Processing Magazine.

- Restaurants offering expanded takeout and delivery options pose a threat by catering to time-pressed and convenience-driven consumers.
- Even amongst themselves, traditional food retailers are pulling out all the stops to expand their product selection and differentiate themselves from similar store formats.
- Grocery stores are exploring new opportunities in urban markets, wooed by the demographics of “returning-to-the-city” middle- and high-income singles, young professionals, and empty-nesters.
- Large format specialty ethnic stores are capturing market share in areas with high immigrant populations and “ethnic foodies”.
- Food retailers are taking notice of the fast-growing organic foods market. Many stores are expanding their selection of organic products and actively marketing them to consumers.

Supermarkets Struggle With Increased Competition

The conventional supermarket is fighting for survival in an ultra-competitive marketplace. With the U.S. population growing at a modest rate and the cost of food holding relatively steady, there is a limited amount of available food dollars, and a diverse group of retailers battling to get it, including (but not limited to) supercenters, wholesale clubs, organic and natural foods stores, specialty markets, convenience stores, and even Internet grocers.

Wal-Mart’s Impact

There is particular reason to be concerned about supercenters, especially when it comes to Wal-Mart, the nation’s #1 grocery operator. Retail Forward, an Ohio-based research firm, estimates

that in 2004, Wal-Mart sold \$109 billion in groceries, taking a 19 percent share of the market. It projects that the number of Wal-Mart Supercenters will triple by 2010, attracting an estimated 35

Forty-five percent of grocery retailers rate the impact of supercenters on their company as “extreme”. Additional perceived threats include other supermarkets in the same market area (27.2%), warehouse clubs (16.0%), and natural/organic stores (11.1%).

Source: Food Retailing Industry Speaks (2006); FMI

percent share of the grocery business. How? Wal-Mart undercuts supermarket prices by as much as 20 percent, but is still able to generate considerable grocery profits because of its enormous volume and huge buying power. According to the American Journal of Agricultural Economics, a new Wal-Mart typically captures up to a 17 percent share of existing grocery business within the first two years of operation.²

Wal-Mart’s crippling effect on the conventional grocery industry is not only due to the proliferation of its massive 185,000 square-foot Supercenters. Located intentionally in the same markets to appeal to time-pressed shoppers, Wal-Mart’s Neighborhood Markets™ directly compete with the conventional supermarket head on with their 40,000-50,000 square-foot stores. Similar to large national chains, Neighborhood Markets offer a complete grocery line and an array of complementary services (e.g. pharmacy, photo lab, etc.). Like the Supercenters, the Neighborhood Markets are tied in to Wal-Mart’s online inventory and are able to operate with less staff than local competitors, thus giving them the ability to significantly undercut competitors. In 2006, sales at Wal-Mart’s 110 Neighborhood Markets approximated \$7 billion.

² Spring 2007. *Washington Area Retail Outlook*, Delta Associates.

Conventional Supermarkets Still Dominate

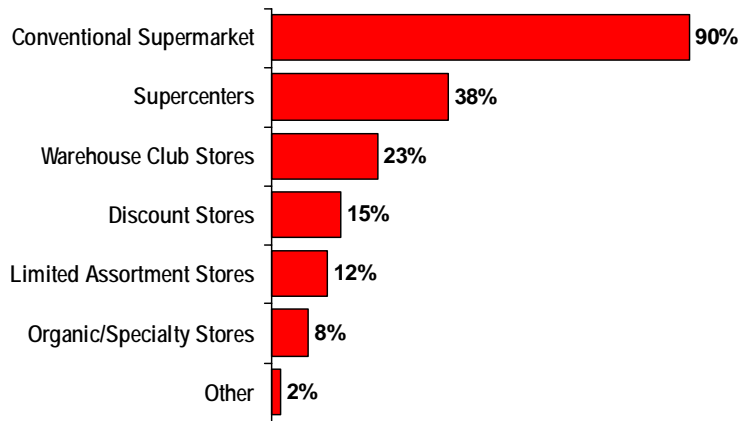
Despite the heavy competition and the ‘Wal-Mart effect’, shoppers are still much more likely to shop at conventional supermarkets than any other format. According to U.S. Grocery Trends, a survey conducted by the Food Marketing Institute, 90 percent of shoppers mention at least one supermarket among the list of stores they patronized within the last 30 days, with supercenters and warehouse club stores falling far behind at 38 percent and 23 percent, respectively (see Figure 1). Furthermore, when people go to a conventional supermarket, they generally consider it their primary store, or the store where they spend the most money.

Restaurants Are Increasing Market Share

People who cook may still be heading to the supermarket for groceries, but there is also a growing number of people skipping the food preparation process altogether and opting for pre-prepared meals. As a result, competition has increased between traditional grocery retailers and restaurants (including fast-food, full-service, and takeout/delivery) which cater to time-pressed shoppers and those who dislike cooking by offering quick, convenient, and ready-to-eat meal options.

According to U.S. Grocery Trends, a majority of shoppers (91%) prepare at least one home-cooked meal each week, but during the same period significant numbers also eat at fast-food establishments (24%), full-service restaurants (25%), or eat ready-made meals at home (22%). As shown in Figure 2, among those that eat ready-made foods at home, 44 percent opt for restaurant takeout (e.g. pizza, Chinese), with fast-food and prepared items from the supermarket following at 23 and 17 percent, respectively.

Figure 1: Most Frequently* Patronized Food Stores by Type United States



*Stores patronized within last 30 days.
Source: 2006 U.S. Grocery Shopper Trends, Food Marketing Institute

Figure 2: Primary Source of Prepared Food Eaten at Home United States



Source: 2006 U.S. Grocery Shopper Trends, Food Marketing Institute

Differentiation and Consolidation in Food Stores

New Services

Amidst stiff competition, grocery stores are diversifying to attract consumers. From getting a cappuccino to filling up your gas tank, retailers are appealing not only to consumers' desire for convenience and "one-stop-shopping", but they are also

Grocery Stores Appeal to Time-Pressed Shoppers

To appeal to the busy consumer, Super Stop & Shop markets have added gadgets and gizmos to encourage a one-stop shopping experience. The center aisle beckons like a movie marquee, stocked with DVDs, video games, and books. Customers can buy toilet seats and towels, Play-Doh and Barbies as easily as toilet paper, paper towels, and detergent. As part of the chain's store-within-a-store concept, there is a Staples office supply section in one aisle, a Boston Chicken outlet in the prepared foods section, and a small dining area equipped with wireless Internet service. For those in a hurry, Stop & Shop offers self-checkout and a "shopping buddy", a computer tablet that goes on the cart, identifies specials, and navigates the stores at the swipe of a store card.

Source: Fischler, Marcelle S., Super Duper Markets, *The New York Times*, July 29, 2006

hoping to create destination experiences that will keep shoppers lingering longer and ultimately spending more. According to the authors of *The Experience Economy*, a book exploring the strategies of successful companies, they are on the right track: "Those businesses that relegate themselves to the diminishing world of goods and services will be rendered irrelevant. To avoid this fate, [they] must learn to stage a rich, compelling experience."³

Yesterday's ways of luring in customers – by having separate bakeries, pharmacies, delis, and floral departments – have given way to a host of new in-store amenities, including cafés, cooking demonstrations, health screenings and clinics, childcare, dry cleaning, and DVD movie rentals. Many larger food retailers have reached out to complementary retail to keep shoppers in the store – bank branches and onsite Starbucks® coffee locations are common examples. One downside to this: according to one Midwest firm which specializes in grocery store-anchored shopping centers, as the grocery stores bring in "outside tenants" they once might have operated next to, they become mini shopping centers themselves. This trend has forced developers to scale back shopping center projects and made it more difficult for landlords to lease other space in grocery-anchored centers.⁴

Size Considerations

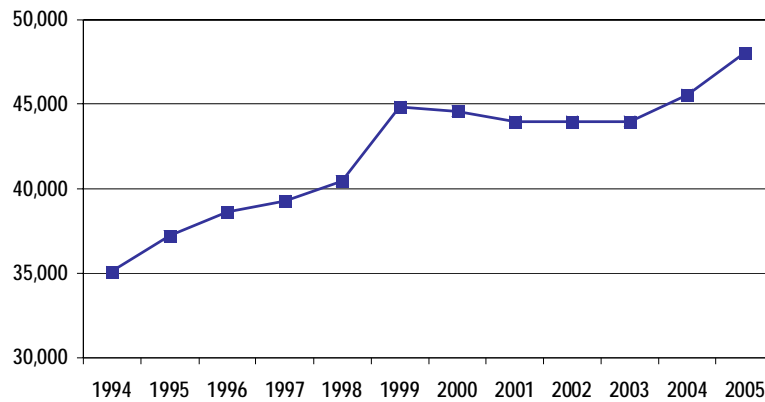
To accommodate all these on-site new products and services, grocery stores need more space, and as a result, the median average grocery store size is on the rise. According to the Food Marketing Institute, from 1994 to 2006, the average store size grew 37 percent, from 35,100 square feet to 48,750 square feet (see Figure 3).

However, some research suggests that while the big stores are getting massive in their attempts to squeeze in Starbucks® and the neighborhood dry cleaner, the real "growing" market is in the smaller, 10,000-20,000 square-foot range, where specialty retailers like Trader Joe's are proving that shoppers are willing to forego the large selection of products at traditional supermarkets for the quality, convenience, and service of smaller formats. For some shoppers, the fact that grocery stores are getting bigger and bigger is not a plus – not only can the layout of the stores be difficult to navigate, but it can be a turnoff for those shoppers who only need a few quick convenience items.

³ Gilmore, James H. and B. Joseph Pine. 1999. *The Experience Economy*, Harvard Business School Press, 25.

⁴ McCartney, Jim. May 2003. *Added Services Turn Supermarkets Into Centers*, Shopping Centers Today; International Council of Shopping Centers, 156.

Figure 3: Average Grocery Store Size*
United States



* Square Feet
Source: Food Market Industry Speaks, Food Marketing Institute, 1994-2005

Consolidation

A number of larger national chains have also grown their market share by acquiring smaller local or regional chains. In January 2006, SUPERVALU bought over 1,100 Albertsons’ stores, jumping to from #9 to #5 in a list of top North American food retailers. More recently in February 2007, Whole Foods acquired competitor Wild Oats at a price tag of \$565 million, hoping to better compete with both traditional grocers and Wal-Mart as those retailers expand their organic offerings. Table 1 outlines a list of the top 2007 food North American food retailers.

Urban Store Formats

Grocery stores are rethinking both their site selections and store formats. Years ago, high crime and a middle-class exodus from large cities led food stores to follow higher-income households to the suburbs. Amid strip centers and seas of parking, major supermarket chains grew and expanded both in number and store size. Back in the cities, convenience stores remained the only food retailers in lower-income areas, leaving residents with limited selection and without convenient access to nutritious foods.

Now urban areas are coming alive again as high-earning singles, young professionals, and empty nesters weary of suburban traffic and eager for convenient amenities return to major cities. Grocery stores hoping to capitalize on the return of these higher-income households are moving back along with them, but are finding they must adapt their traditional suburban models to be successful in the urban marketplace. Developing a grocery store in an urban area is not without its challenges, including costly and time-consuming land assemblage, zoning and land use issues, and neighborhood opposition to store

design. Even the inventory of urban supermarkets is different from the items suburban stores carry; for example, given that families with children are less likely to live in urban areas, urban groceries can remove less profitable paper-goods items (e.g. diapers) and instead stock the shelves full of more profitable items that cater to busy professionals (e.g. take-out food).

Table 1: Largest North American Food Retailers (2007)

| Ranking | Company | Total Number of Stores | 2006 Estimated Sales (\$B) |
|---------|----------------------------|------------------------|----------------------------|
| 1 | Wal-Mart | 2,981 | 232.9 |
| 2 | Kroger | 4,276 | 66.6 |
| 3 | Costco | 458 | 59.0 |
| 4 | Safeway | 1,767 | 40.5 |
| 7 | Ahold (Giant, Stop & Shop) | 827 | 24.0 |
| 11 | 7-Eleven | 6,013 | 15.0 |
| 23 | Whole Foods | 188 | 5.6 |
| 27 | Trader Joe's | 262 | 5.0 |
| 32 | Wegman's | 71 | 4.1 |
| 40 | Harris Teeter | 152 | 2.9 |

Stores in the Washington metro area

Source: Supermarket News

Supermarkets are exploring different formats and offering new services and amenities to meet the needs of urban shoppers and make their stores profitable in the “new” marketplace. Some supermarkets have begun partnering with commercial and residential developers to plan mixed-use projects with ground-floor grocery stores and offices or apartments/condos above. While such projects are not without many of the challenges mentioned above, grocery stores and developers are employing new strategies to make projects feasible. For example, a Safeway in Seattle, WA, added a truck delivery zone under the store to accommodate deliveries without disrupting street traffic. Built underneath a 51-unit condominium complex, the developer took extra care in routing

Large Specialty/Ethnic Stores On The Rise

According to the Agricultural Marketing Resource Center, the U.S. ethnic foods market generates \$75 billion in annual sales. Restaurants account for 65 percent of ethnic food sales with grocery sales making up the remaining 35 percent. The expanding market is due to both an influx of immigrants as well as the growing popularity of ethnic cuisine among mainstream consumers. In response, grocery stores have begun adding a larger selection of ethnic products to their inventories, often with lower prices that undercut and put pressure on smaller specialty markets.

Tesco Launches Small-Format Fresh & Easy Market

Tesco, one of the top three food retailers in the world, announced in April 2007 that it would open the first fourteen locations of a new 10,000 square-foot prototype called “Fresh & Easy Neighborhood Market” in the Las Vegas area, with plans to expand into Phoenix, Los Angeles, and San Diego by the end of the year.

A result of extensive customer research, the Fresh & Easy Neighborhood Market stores are intentionally designed small to give customers a faster and more convenient shopping experience. It is estimated that Tesco could have up to 250 locations by the end of 2008, generating annual sales of \$4 billion within five years and capturing market share from existing retailers in markets where they operate.

Sources: Plain Vanilla Shell, *April 26, 2007* and *Maestri, Nicole*, Tesco, Target Seen Shaking Up U.S. Grocers, *REUTERS, April 27, 2007.*

ventilation and providing adequate sound barriers to prevent disturbances to residents.⁵ To make urban stores work in Arlington, Harris Teeter has made changes to its normal model, including shrinking the size of its aisles, using carts one-third smaller than the typical size, developing two story formats in Ballston and Potomac Yards and a smaller store in Shirlington.

Traditional grocery stores are not the only ones who have noticed the opportunities ethnic food sales present. Sizeable grocery stores specializing only in ethnic foods are springing up across the country and sapping ethnic food market share from both traditional supermarkets and small ethnic businesses.

HanAhReum Asian Mart (commonly known as H Mart) has 16 stores from New York to Georgia, and matches its store size to the largest format in the local market (e.g. its Fairfax, VA store is 54,000 square-feet).⁶ Global Foods, catering to Asian and Hispanic shoppers, boasts a 51,000 square-foot

and a 56,000 square-foot store in Manassas, VA and Woodbridge, VA, respectively.⁷ 99 Ranch Market (also known as Tawa Supermarket), operates 21 Asian food stores along the West Coast. Fiesta Mart operates 49 stores across Texas and caters primarily to Hispanic customers. While there is little validated data available to support that large-format ethnic stores are

⁵ Engleman, Eric. Dec. 5-11, 2003. *Shop at Home*, Puget Sound Business Journal, Vol. 24, No. 31.

⁶ H Mart (www.hmart.com)

⁷ Global Foods (www.theglobalfood.com)

poised to be a major presence in the food retailing, anecdotal evidence suggests they will be an important segment of the industry to watch.

The Organic Food Market

In recent years, consumer interest in organic foods has increased as new research has exposed the possible adverse effects of pesticides, hormones, and other genetically-altered food. The Organic Trade Association (OTA) estimates organic food sales more than tripled between 1997 and 2005, growing from \$3.5 to \$13.8 billion. During that same period, organic food sales averaged an annual growth rate of between 15 and 21 percent, while total U.S. food sales grew only in the range of two to four percent.

While the organic foods market is experiencing significant growth, its sales still only comprises a small portion of total U.S. food sales. In 2005, its “penetration rate”, or organic food sales as a percentage of total U.S. food sales, remained relatively low at 2.5 percent, up from 0.8 percent in 1997.

In the past, with a limited number of producers, shoppers could only purchase organic products at farmers’ markets, co-ops, or independent health and natural food stores. Now, the largest natural food chains (led by Whole Foods Market and recently-acquired Wild Oats)

represent approximately \$3.2 billion of total organic food sales. Coupled with the sales from independent natural food stores, they represented 47 percent of U.S. organic food sales in 2005. Sales at conventional supermarkets, mass merchandisers, and club stores amounted to 46 percent, and the remaining seven percent was made up from sales in non-traditional retail formats, such as farmers’ markets and co-ops.⁸

Demographic Trends and Food Expenditures

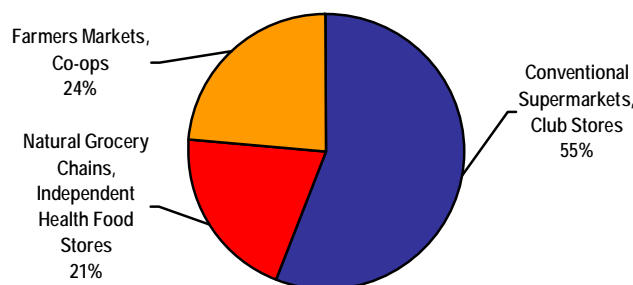
The food retailing industry is significantly impacted by demographics, as consumers vary distinctly in their shopping habits based on age, income, household size, and household type. As retailers look at the overall industry’s trends and opportunities, attention should be given to demographic information as market strategy and next steps are determined.

Age

According to U.S. Grocery Shopper Trends, older shoppers (age 65+) are much more likely than younger households to cook at home, with 85 percent of survey respondents cooking at home three or more

days per week versus 55 percent for younger households. Younger households prepare fewer meals at home and generally value speed and convenience more than any other age group.

Figure 4: Organic Food Sales by Store Type United States



Source: Organic Trade Association, 2003

⁸ 2006 Manufacturer Survey. Organic Trade Association, 1.

Wal-Mart Expands Into Organics

In the spring of 2006, Wal-Mart began expanding its offerings of organic foods, nearly doubling the number of organic products on its shelves. The following July, it launched a marketing campaign solely focused on organics, announcing it wanted to make organic products affordable to those who could not afford typical 20-30% premiums, selling them for just 10 percent more than their conventional equivalents.

Source: Warner, Melanie, Wal-Mart Eyes Organic Foods, The New York Times, May 12, 2006



The advertisement features a photograph of a woman and a young girl sitting at a table, smiling and eating cereal from a white bowl. The woman is holding a spoon with cereal. The background is a bright, indoor setting with a window. The text 'What will you bring to the table?' is overlaid on the image. The Wal-Mart logo is in the top right corner. The bottom section of the ad is green and contains promotional text and the 'organics at Wal-Mart' logo.

WAL*MART

What will you bring to the table?

Know what goes well with organic milk? Organic cereal and knock-knock jokes. Introducing organics at the Wal-Mart price. Find more food for thought at walmart.com/food.

© 2006 Wal-Mart

organics at Wal-Mart

As shown in Figure 5, younger households under age 34 generally spend roughly the same amount on food at home as they do on food away from home. However, as people age, they tend to begin spending more on at-home food than food away from home, and ultimately spend significantly more on food at home versus food away from home as they reach their 60s. There are a number of possible reasons for this trend. For households with children, especially multiple children, eating out may be too costly, time-consuming, or aggravating compared to cooking at home. Older couples and retirees may find themselves with less disposable income than they had while working, and therefore more conservative in their spending on expensive restaurant meals.

Income

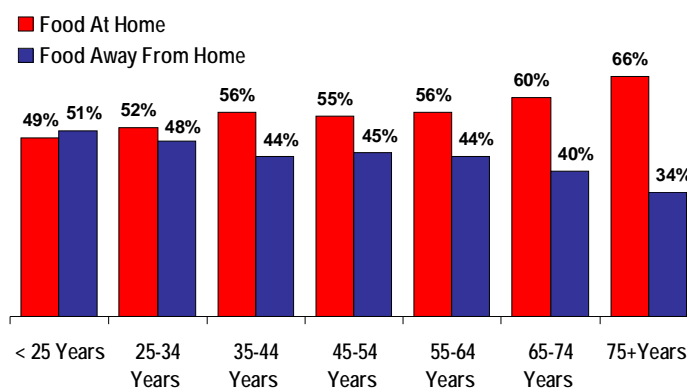
As one might expect, grocery spending is directly related to income; that is, higher-income households spend more on both food at home and food away from home. The Food Marketing Institute's *Grocery Store Trends* reports that respondents who earned more than \$75,000 per year spent \$114.00 per week on groceries, versus \$76.60 for those making less than \$25,000 (the average is \$93.40).⁹ A report issued by the USDA Economic Research Service states that households in the lowest 20 percent of the income distribution spend 30 percent of their food budget on food away from home, compared to 44 percent for the wealthiest.¹⁰

Household Size

Household size significantly impacts grocery spending. The average weekly grocery bill ranges from \$50.50 for one-person households to \$140.40 for large households of five or more people. Per-person spending (not household spending) is inversely-related to household size – to put it

another way, five or more person households spend less per person than any other group. How? Larger households are able to lessen their per person costs by buying larger-package or bulk items with lower unit prices. Smaller households, on the other hand, generally end up spending more on smaller, individual-size higher-priced packages.

Figure 5: Food Expenditures by Age of Shopper United States



Source: 2005 BLS Consumer Expenditure Survey

Larger households are also able to achieve some economies of scale in cooking at home, whereas the one- or two- person household cannot. For example, a person cooking for five people could spend 30 minutes preparing and cooking a meal for the entire household. Excluding the incremental difference in time needed to prepare larger portions (e.g. chopping more vegetables), it would take someone the same amount of time to prepare the same meal for a one- or two-person household. The larger household might spend slightly more money on ingredient quantities, but with the lower unit costs of large packages, even the cost difference in meal preparation is nominal compared to what it would cost to prepare the same meal for a one- or two-person household.

⁹ U.S. *Grocery Shopper Trends*. 2006. Food Marketing Institute, 20.

¹⁰ Blisard, Noel and Hayden Stewart. March 2007. *Food Spending in American Households; 2003-2004*. Economic Information Bulletin No. 23, USDA Economic Research Service, 2.

Table 2: Average Weekly Food Spending by Household Size - 2007
United States

| Size of Household | Average Expenditure |
|-------------------|---------------------|
| One | \$62.20 |
| Two | \$83.20 |
| Three-Four | \$107.20 |
| Five or More | \$ 131.40 |

Source: U.S. Grocery Trends 2007 - FMI

Household Type

The population is becoming more ethnically diverse, and as minority groups grow in size, so does their buying power. Most notably, the U.S. Hispanic population currently constitutes 14.2 percent (or approximately 40.5 million) of the U.S. household population, and is projected to comprise nearly a quarter of the total population by 2050.¹¹ Research suggests this substantial growth, coupled with greater employment opportunities, will boost Hispanics' buying power to over \$863 billion in 2007 and nearly \$1.2 trillion by 2011.¹²

A study performed by the Food Marketing Institute, "El Mercado 2005 – U.S. Hispanic Grocery Shopper Trends", explains how Hispanic shoppers' habits differ from the general U.S. shopper. Hispanic shoppers make an average of 26 grocery trips per month (three times more than the general U.S. shopper) and spend approximately \$133.00 per week, whereas non-Hispanic shoppers average \$93.40. Like most consumers, they frequent grocery stores for their basic purchases, but they are significantly more likely to patronize small ethnic businesses like panaderías (bakeries) and carnicerías (butcher shops).

Who is Shopping Where?

According to U.S. Grocery Trends, some store formats appeal to particular demographic groups more than others. For example, high-earning middle-age shoppers and people in their 30s tend to frequent conventional supermarkets more often than families with children and low-income shoppers. College-educated shoppers, full-time workers, two-person households, and "big spenders" also tend to be loyal supermarket shoppers.

High-earning shoppers tend to steer clear of supercenters. Only 15 percent of this income group identify supercenters as their primary store, compared to 22 percent overall and 43 percent of



Whole Foods Market, Clarendon

the lowest income group. Women, particularly single mothers and part-time workers, are also significantly more likely to shop at supercenters than men. Supercenter shoppers also tend to be people who prefer to combine visits to multiple stores into one shopping trip.

When it comes to supermarkets versus supercenters, the influence of geographic location on shopping patterns and preferences

¹¹ March 2004, U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin. U.S. Census Bureau.

¹² Humphreys, Jeffrey M.. 2006. *The Multicultural Economy 2006*, Georgia Business and Economic Conditions Vol. 6, No. 3, The University of Georgia.

should not be overlooked. People living in the East are more likely to shop at conventional supermarkets than those living in the Midwest, while Midwesterners are significantly more likely (four times, in fact) than their eastern counterparts to shop at supercenters. Suburban shoppers tend to frequent supermarkets, whereas shoppers in rural areas or small towns are more likely to shop at supercenters.

Men, along with singles and full-time workers, are most likely to purchase food at a convenience store. Along with high-earning young professionals and college-educated shoppers, they are also significantly more likely (2x the average shopper) to shop at natural/organic food stores. These shoppers tend to be less concerned with price and cost-savings than other demographic groups.

Ethnic supermarkets tend to attract a younger (under age 49) group of shoppers who live in urban areas (although this may simply be a reflection of where immigrant populations and ethnic markets are concentrated). Singles and minority shoppers are also more likely to frequent ethnic food stores.

Arlington's demographics are not typical of the nation's. With higher than average levels of household income and educational attainment, small household size, and a young and diverse population, Arlington households exhibit different shopping patterns and habits from the typical U.S. shopper. Nor is the Arlington market, with its dense commercial corridors, typical. While retail in many localities surrounding Washington, D.C. is concentrated in strip centers, Arlington's retail is spread among centers, enclosed malls, and ground floors of commercial and residential buildings. The following chapter highlights current market conditions in the region and Arlington and then explores findings related to local demographics and household expenditures.

The Regional Market

National industry trends have trickled down to the local level, and coupled with increased competition, have led many of the region's largest retailers to make changes to stay competitive.

Food Lion has converted 40 of its Maryland and Northern Virginia stores into Bloom, a high-end alternative that is the result of two years of research and analysis of customer and retail trends.¹³ The store bills itself as "a different kind of grocery store", and targets convenience-driven shoppers with easy-to-navigate stores, personal scanners to speed the check-out process, and a "TableTop" area featuring ready-to-eat meals. In an attempt to capture all segments of the market, Food Lion has also converted some of its stores to Bottom Dollar, a discount store.

Giant Food is closing two store locations in Prince George's County and Fairfax County, and plans to renovate its remaining stores to feature the types of layouts and products that appeal to higher-end shoppers. Giant will likely suffer a loss of profits as a result of Whole Foods' February 2007 purchase of natural foods competitor Wild Oats. Wild Oats and Giant's online grocery delivery service, Peapod, joined forces in the Washington metro area in September 2006, with over 120 Wild Oats-branded natural and organic products available to shoppers on the Peapod website.¹⁴

Wal-Mart will open its first store inside the Beltway this year at the Capitol Plaza Shopping Center in Prince George's County. According to the American Journal of Agricultural Economics, a new Wal-Mart typically captures a 4-17 percent share of existing grocery business within the first two years of operation, a threat-

¹³ *Washington Business Journal*, March 2007.

¹⁴ Wild Oats Markets, Inc. News Release (9/14/06)

ening trend that has likely not escaped the over 20 traditional grocery stores within a five-mile radius of the new Prince George's location.¹⁵

As of May 2007, 4 notable grocery-anchored shopping centers and mixed-use developments, totaling just over 3 million square feet, were under construction in the Washington Metro region. Market Square on Center Park, a mixed-use development with 81,000 square feet of retail and the expanded Village at Shirlington with a 60,700 square foot component, are the only Arlington projects.

The Arlington Market

In Arlington, there are three significant grocery projects in the pipeline: the 50,000 square-foot

Harris Teeter in the Market Square on Center Park, the 18,000 square-foot Harris Teeter in the Village at Shirlington, and the approved 61,500 square-foot redeveloped Giant in the Penrose Square project on Columbia Pike. Plans for an expanded Harris Teeter with surrounding condominiums are underway for its current Ballston location.

Smaller retailers continue to look at Arlington as well. The Arlington franchisees of Marvelous Market, an 1,800 square-foot gourmet specialty and convenience market, are actively searching for three locations in the Rosslyn-Ballston corridor, and hope to open a first location by late 2007. As plans are being developed for a new residential and retail project at N. Pershing Dr. and Route 50, a 12,400 square-foot space is proposed for a specialty grocery store.

Table 3: Grocery-Anchored Shopping Centers Under Construction Washington Metro Area - Spring 2007

| Shopping Center | County | Rentable Building Area | Anchor |
|---|----------------------------|------------------------|--------------------------|
| Potomac Town Center | Prince William County, VA | 660,000 | Wegmans |
| Wisconsin Place | Montgomery County, MD | 305,000 | Whole Foods |
| Dulles 28 Centre | Loudoun County, VA | 300,000 | Wegmans ¹ |
| Fort Evans Plaza II | Loudoun County, VA | 250,000 | Food Lion |
| University Town Center | Prince George's County, MD | 242,000 | Safeway |
| White Flint Crossing | Montgomery County, MD | 230,000 | Whole Foods ² |
| Bristow Shopping Center | Prince William County, VA | 200,000 | Harris Teeter |
| Rockville Town Square | Montgomery County, MD | 180,000 | Super Fresh |
| Metropolitan Shops | Prince George's County, MD | 170,000 | Giant Food ³ |
| Fairwood Green Shopping Center | Prince George's County, MD | 117,000 | Safeway |
| Shops at County Center | Prince William County, VA | 110,000 | Harris Teeter |
| Madison Crescent Marketplace | Prince William County, VA | 102,000 | Harris Teeter |
| Market Square on Center Park ⁴ | Arlington County, VA | 81,000 | Harris Teeter |
| Village at Shirlington | Arlington County, VA | 60,700 | Harris Teeter |
| | Total | 2,947,000 | |

¹ Using existing Wegmans as an anchor

² Relocating from existing store at Congressional Plaza

³ Using existing Giant Food as an anchor

⁴ Mixed-use development

Source: Delta Associates / CoStar, Washington Business Journal, May 2007

¹⁵ Washington Area Retail Outlook, Delta Associates, Spring 2007

Arlington Grocery Categories

Arlington County has a varied mix of grocery store types/formats. Although the Food Marketing Institute definitions helped initially guide the classification of the store inventory, AED found the need to modify certain definitions to better reflect the sizes and types of stores in Arlington. In particular, staff created the following categories, defined below: “Commissary”, “Community”, “Neighborhood”, “Specialty/Ethnic”, and “Transient/Temporary”. Industry-level definitions served well to characterize Arlington’s convenience stores, gas station-affiliated convenience stores, and wholesale clubs.

Commissary refers to retail stores on military bases that offer food and merchandise at reduced prices exclusively to military personnel, retirees, and their families. Commissaries offer a full grocery line; most include deli departments, bakeries, fresh seafood counters, and many other services and amenities common to conventional supermarkets. Commissary patrons purchase items at cost plus a five percent surcharge, which covers the costs of building new commissaries and modernizing existing ones. The Association of the United States Army estimates that commissaries offer savings of 30 percent or more over commercial grocery stores.

Community grocery stores are approximately 40,000 square feet or larger and serve a trade area of approximately 3-6 miles (in Arlington, the average community store is 45,471 square feet). They offer a greater selection of products, better service, and more amenities. They are often newer stores, and may have a cleaner, brighter appearance as well as just provide a more pleasant shopping experience. Community grocery stores in Arlington are destinations – shoppers will travel further and allot time for dedicated trips (versus multiple convenience trips to pick up one or two items). Shoppers are likely to spend a significant amount of their food at home budget at community stores. Given the quality of the product line and the

investment into store appearance, prices may be somewhat elevated and attract a more affluent customer base.

Neighborhood grocery stores generally offer a similar product line as community stores, but are less than 40,000 square feet and serve a smaller trade area of approximately 1-3 miles (in Arlington, the average neighborhood store is 17,611 square feet). Neighborhood grocery stores, particularly older locations, may lack the extended services and amenities that most larger and newer community stores provide (e.g. pharmacies, bakeries, etc.). In some cases, this may lead to lower prices and attract more lower-income households.

Neighborhood stores are not a destination – shoppers may patronize them if they need several quick items for a recipe or forgot something at the community store and do not want to make a return trip. In some ways, they could be described as more convenience-oriented without actually being a convenience store (substantially differentiated by the size of stores as well as the product line).

Specialty/Ethnic stores are primarily engaged in retailing specialized lines of food, including natural and health food stores, wine shops, bakeries, etc. They also may carry ethnic products catering to specific demographic groups. They range from approximately 1,500-4,000 square feet (in Arlington, the average specialty/ethnic market is 2,257 square feet), although there are also a growing number of larger-format (10,000-20,000 square feet) specialty chains e.g. Trader Joe’s and Balducci’s. Specialty/ethnic markets comprise much of what contributes to placemaking in Arlington from a food retailing perspective. In contrast to community or neighborhood stores, price (at least anecdotally) does not seem to carry as much importance for specialty/ethnic shoppers; more so, what matters is the experience of going to the store, forming a relationship with the owners and employees, getting personal attention and service, and having a quality selection of desired products.

Transient/Temporary refers to producer-only farmers’ markets, meaning that only farmers who sell products they grow or produce may participate. There are four farmers markets occurring seasonally in Arlington, and one (the Arlington Farmers’ Market near the Court House Metro station) which operates year-round.

Like specialty/ethnic markets, farmers’ markets also contribute significantly to placemaking in Arlington. Not only are they locally run and operated, for the most part by the various partnerships (e.g. Clarendon Alliance, Rosslyn Renaissance, etc.), but they connect local buyers with local farmers. Arlington residents frequent them not because of a lack of alternatives, but because farmers’ markets provide an element of community that traditional supermarkets do not.



study as neighborhood and community grocery stores - account for 13.4 percent of the inventory, but 488,450 square feet of the 986,190 total square feet of food retail space in the County. As shown in Table 4 and illustrated in the map above, 91 grocery stores, or 64 percent of all the grocery stores in the County, are located outside of the densely-populated Rosslyn-Ballston and Jefferson-Davis metro corridors.

Arlington Inventory

Arlington has 142 grocery stores, with convenience stores and specialty/ethnic markets comprising over 2/3 of the inventory. What many would consider traditional supermarkets – defined in this

Table 4: Food Stores by Category
Arlington, Virginia 2007

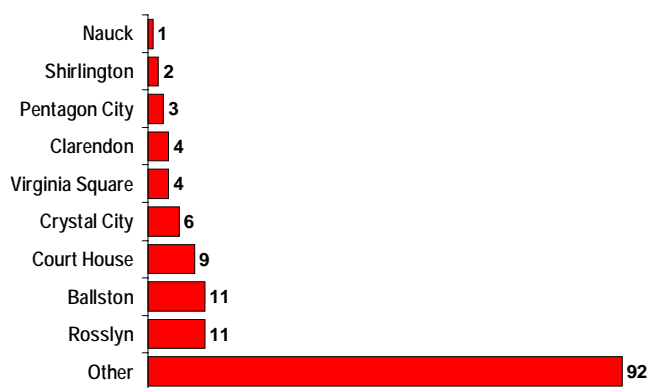
| Store Category | Number of Stores | Distribution |
|---------------------|------------------|---------------|
| Convenience | 49 | 34.3% |
| Specialty/Ethnic | 49 | 34.3% |
| Convenience w/Gas | 19 | 13.3% |
| Neighborhood | 12 | 8.4% |
| Community | 7 | 4.9% |
| Commissary | 1 | 0.7% |
| Transient/Temporary | 5 | 3.5% |
| Wholesaler | 1 | 0.7% |
| Total | 143 | 100.0% |

* Includes new Harris Teeter in Shirlington

** Includes new Harris Teeter in Potomac Yards

Source: Arlington Economic Development

Figure 6: Food Stores by Location
Arlington



Source: Arlington Economic Development, 2007

Demographics

In January 2007, Arlington had an estimated population of 202,800 persons, reflecting a seven percent increase since 2000. More than one-third of the population is between age 20-34, and the County has an average household size of 2.15 (42.3 percent are one-person households). It is among the most densely populated jurisdictions in the country with a population density of about 7,761 persons per square mile – in 2000, Arlington was the 13th most densely-population jurisdiction in the United States.¹⁶

Arlington's average median household income is \$84,800, well above the average U.S. household income of \$46,242. Sixty-one percent of the population is employed in professional and managerial occupations, with sales and office occupations taking a distant second place at 18 percent. Some 66 percent of adults age 25 or over have a bachelor's degree or higher (versus 24 percent nationally), and 30 percent have a graduate or professional degree.

About 35 percent of Arlington residents are Hispanic/Latino, African-American, Asian, or multi-racial, and over a quarter of the population was born outside of the United States, compared to 12.4 percent nationally.

Hispanic Food Expenditures: Arlington Impact

According to the U.S. Census, there are 8,144 Hispanic households in Arlington. Assuming the weekly household expenditure data collected in the FMI *El Mercado* survey, Hispanic households in Arlington spend \$1,083,152 weekly on groceries.

(This does not assume Hispanic households spend that entire amount in Arlington.) As shown in Table 5, Hispanic households in Arlington also spend a greater percentage of their income on groceries than non-Hispanic households.

Table 5: Annual Grocery Expenditures by Household Type, 2005
United States

| | Hispanic | Non-Hispanic |
|--|-----------|--------------|
| Average Median Household Income - Arlington | \$ 56,963 | \$ 93,005 |
| Amount Spent Weekly on Groceries** | \$ 133.00 | \$ 93.40 |
| Amount Spent Annually on Groceries | \$ 6,916 | \$ 4,856 |
| Percentage of Annual Income Spent on Groceries | 12.14% | 5.22% |

*El Mercado 2005 – U.S. Hispanic Grocery Shopper Trends

Source: American Community Survey 2005

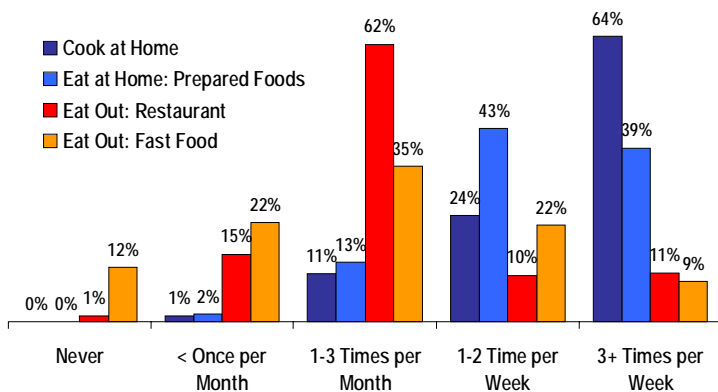
Arlington Food Store Trends

Frequent Grocery Store Visits

Shoppers in the Washington, D.C. metro area go to the grocery store more often than the U.S. average shopper. According to the Food Marketing Institute, the average U.S. shopper visits a grocery store 2.1 times per week, whereas consumers in the D.C. area go 2.9 times. However, for the national shopper 1.6 of those visits will be to their primary store (i.e. the one store where consumers spend the majority of their grocery budget), with other supermarkets, warehouse clubs, discount stores, and specialty stores making up the difference. In the Washington metro region, 2.3 grocery visits (of the total 2.9) are made to the primary store. With a high percentage of small households, Arlington shoppers likely have fewer weekly grocery trips, but a greater proportion of primary trips.

¹⁶ Arlington County Department of Community Planning, Housing, and Development

Figure 7: Household Eating Habits
Virginia, Maryland and Washington, DC



Source: 2006 U.S. Grocery Shopper Trends, Food Marketing Institute.

Take-out & Delivery Popular

Arlington households eat ready-made meals at home considerably more often than their national counterparts. Forty-three percent of FMI survey respondents reported choosing take-out or delivery foods 1-2 times per week, while nationally only 18 percent reported similar habits. In Arlington, this difference could be contributed to a number of factors including:

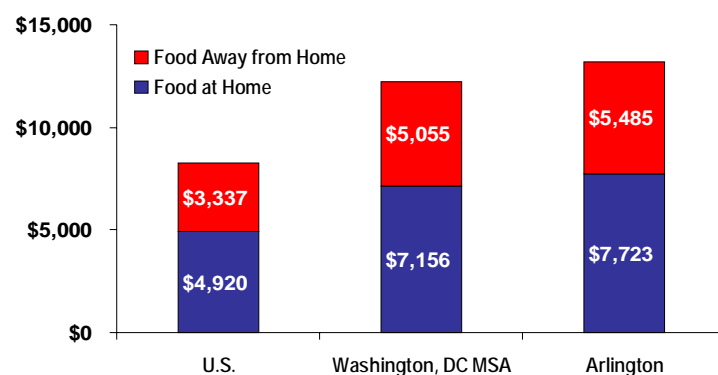
- **High household incomes:** The Arlington median household is \$84,800. Consumers with greater disposable income have less of a need to buy raw ingredients and spend time cooking at home versus buying more expensive ready-to-eat meals at their convenience.
- **Small household size:** The average Arlington household size is 2.15 people, but 42 percent are single-person households. The costs of buying groceries to cook at home and buying ready-made meals may be comparable, and the time to simply “pick something up” may pale in comparison to the time and effort involved with buying groceries and cooking at home.

- **Workaholics and time-pressed shoppers:** The convenience of pre-made foods may appeal to those with limited time to shop. People who work long hours or spend little time at home may fear perishables going to waste in their absence.
- **Younger population:** Over one-third of Arlington’s population is between age 18-34. Some younger residents may not know how to cook, may be adverse to it, or, lacking substantial financial commitments (e.g. mortgage, childcare), may be able to allocate a higher percentage of disposable income towards pre-made food.

Higher Than Average Food Spending

Arlington households spend approximately 60 percent more than the national average as it relates to total food expenditures (purchases on food eaten at home and dining out). As shown in Figure 8, the average Arlington household spends \$7,723.23 on food at home, compared to \$7,156.28 spent by shoppers in the region and \$4,920.42 spent by shoppers nationally. Some of the difference in spending could be attributed to variations in cost of living; however, Arlington households still spend 8.2 percent over what others in the region spend.

Figure 8: Average Annual Food Expenditures
United States



Source: ESRI Business Analyst, Retail Goods and Services Expenditures, 2006

More Health-Conscious

While Arlington shoppers purchase more than the average American shopper in every category of food, the greatest spread is in fruits and vegetables, where in 2006, Arlington households spent 63 percent (\$1,394.75) more than the national average (\$856.87) and 10 percent more than regional shoppers (\$1,273.97).

Placemaking in Arlington

Specialty/Ethnic Markets

Specialty and ethnic markets offer the greatest potential for placemaking in Arlington. With their unique products, knowledgeable staff, and “extras” like cooking classes or tastings, specialty/ethnic stores win the loyalty of customers. Their size is an advantage – requiring only an average of 2,000-3,000 square feet, they can locate virtually anywhere.

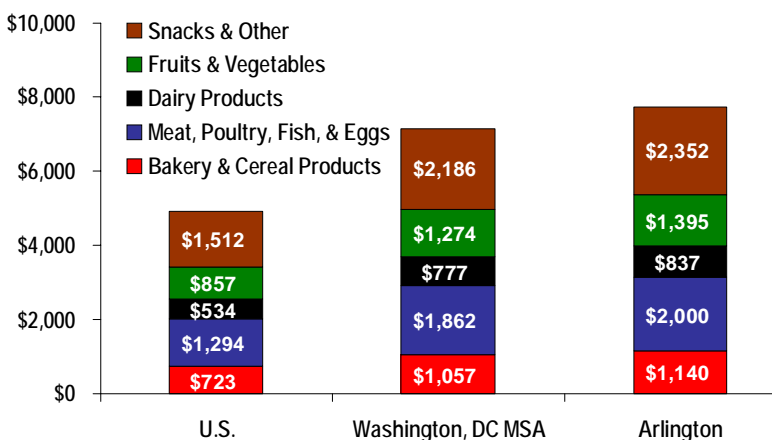
In fact, recent trends suggest building owners are now actively recruiting gourmet specialty stores (not necessarily ethnic businesses), considering them a high-end amenity to tenants and a way of strengthening the appeal of the property and the surrounding area (and raising overall property values in the process). With higher sales per square-foot than typical food store tenants, the building owners know they can lease space to gourmet and specialty stores at higher rents, which can making starting out difficult for the independent retailer. Still, Arlington’s significant concentration of high-earning singles, young professionals, and empty-nesters (all with considerable disposable income) makes the County an ideal marketplace.

Despite the promising demographics, Arlington has not had much penetration among specialty stores, particularly the larger format specialty stores

(10,000-20,000 square feet) like Trader Joe’s and Balducci’s, both of which have circled Arlington with other locations. The retailers may feel the trade areas of the regional locations cover the County, or there may be locational issues relating to the cost and/or availability of space in Arlington.

These same demographics, coupled with the County’s diverse population and Hispanic household shopping patterns, add up to another placemaking staple: ethnic markets. For some ethnic populations, the markets are more than just a place to shop – they are community gathering places, places where friends can congregate and pick up foreign-language newspapers along with their groceries, and immerse themselves in their

Figure 9: Average Annual Expenditures on Food at Home by Category



Source: ESRI Business Analyst, Retail Goods and Services Expenditures, 2006

culture. The County is already well-known for its diverse population and assortment of ethnic restaurants – specialty/ethnic markets contribute to that character, building on a reputation that makes Arlington unique in the region.

Like independent specialty retailers, ethnic markets may have difficulty finding and retaining affordable space in the County. In some cases, they may also encounter difficulty in terms of overcoming language barriers with customers and understand-

ing the County’s regulatory process. Furthermore, ethnic markets in Arlington face a unique challenge: Arlington’s explosive development over the past several years brought in new residents with high household incomes – in theory, a retailer’s dream. However, the new development has also decreased affordability in the County and put pressure on lower-income immigrant and minority households, many of which shop at ethnic markets. It is yet to be determined how this trend of decreasing affordability will affect ethnic markets in Arlington.

Commissaries

Between Fort Myer, the Pentagon, various Department of Defense agencies and related contractors, there are many active and retired military personnel who live and work in Arlington. Although the general public is not permitted to shop at Fort Myer’s commissary, the commissary does contribute to placemaking in Arlington by providing first-rate service and quality amenities to a tight-knit, exclusive community. In a 2006 Defense Commissary Agency survey, customers rated commissaries at an average 4.61 (out of 5) on savings and prices; store hours, decor and appearance; product quality, selection and availability; checkout procedures; and employee customer service – which garnered the highest score at 4.77.¹⁷

Fort Myer’s commissary caters to the needs of its customers; like many grocery stores, it offers a “Grab N’ Go” section for quick ready-made meals, but also has a “Grab N’ Go” 15-minute parking section to make those in-and-out trips even easier. Disabled shoppers are allowed to begin shopping

30 minutes before the store opens, and uniformed military have priority at checkout during certain posted hours. With its focus on the military community and its highly-competitive pricing, the commissary at Fort Myer is likely an oft-overlooked, but important player in Arlington’s food retailing industry. While the County is experiencing leakage to other jurisdictions, it may also be experiencing leakage to the commissary as military personnel and their families take advantage of this convenient and exclusive amenity.

Convenience Stores

Some store types, such as convenience stores, also vary in the way in which they contribute to placemaking. Convenience stores as a store type have their proper place in the food retailing industry and in Arlington County – they provide quick and easy access to a wide variety of food items. Customers do not need to spend time preparing shopping lists, consulting with the store owner, or navigating the aisles with a shopping cart. They can be in-and-out

in a matter of minutes, an important quality in a fast-paced urban area.

Despite the fact that all convenience stores carry a similar product line, their character differs based on their location. In the Rosslyn-Ballston and Jefferson Davis corridors, many convenience stores occupy ground floor retail space in residential and commercial buildings. With limited parking in the corridors, these stores are heavily dependent on pedestrian traffic. They cater to a daytime office population and neighborhood residents who patronize particular store locations based on



Arlington Market, Ballston

¹⁷ Sept. 2006, *Commissary Fast Facts, Issue 59*. Association of the United States Army

proximity. Given that these types of stores are generally surrounded by other retail tenants, they also may reap ancillary business from their neighbors e.g.. one may decide to buy a gallon of milk after picking up dry cleaning, simply because it is convenient to do so.

In contrast, outside of the major commercial corridors, many convenience stores lease space in strip centers or occupy their own properties (7-Eleven is a notable example of the latter).

In this scenario, the stores generally position themselves along busy roadways that cater to drivers rather than pedestrians. Unlike the commercial corridor locations which serve a small trade area, these stores hope to capture anyone driving by in need of a quick item. For the driver who could choose to stop at any number of convenience stores on a given route, these convenience stores aim to have the easiest in-and-out access and the most available parking. While the strip center locations may reap some ancillary business from neighboring retailers, the ones that occupy their own properties are purely focused on convenience shoppers.

There is a need for convenience store locations in both ground floor retail of the major commercial corridors and in the surrounding areas of the County. Given that the non-commercial corridor stores are more easily-accessible to a greater volume of customers, it is possible they achieve higher sales figures which contribute more tax revenue to County coffers. There is also no discounting the importance of capturing driver-oriented sales in Arlington that could otherwise result in leakage to surrounding jurisdictions.

Ground floor retail convenience stores contribute more towards the County's goal of placemaking, providing amenities where people live and work as well as eliminating the need to have to drive to pick up a few convenience items. However, this does not imply that Arlington would be a stronger

community if every building had a ground floor convenience store. Convenience stores do little to instill a sense of place and there are few distinguishing factors (besides location) to sway customers to go to one location versus another. Furthermore, convenience stores which operate extended hours, inviting a steady stream of customers and noise, may not be well-suited to particular types of properties, most notably multi-family residential buildings.



Whole Foods Market, Clarendon

Conventional Supermarkets

Arlington has aggressively pursued smart growth strategies in the development of its urban villages, creating walkable, mixed-use communities concentrated around Metro stations or otherwise well-served by public transit. The Rosslyn-Ballston corridor has experienced tremendous growth in recent years, and while new development has occurred to a lesser extent within the Jefferson Davis corridor, the proposed redevelopment of Crystal City will ultimately transform that area as well.

However, despite this substantial growth and subsequent influx of high-income households, major food stores (conventional supermarkets in particular) have been slow to adjust to the changing landscape, unsure of how to shoehorn a suburban

model into a densely-populated urban environment. There has been some movement – in Arlington, Harris Teeter has taken the lead, with mezzanine-level shopping in both its Ballston and (although not in a major corridor) Lee-Harrison locations and the development of an 18,000 square-foot store in the Village at Shirlington. Giant will see its 20,000 square-foot Columbia Pike store leapfrog into a new 61,500 square-foot store as part of a mixed-used development served primarily by underground parking. Still, the challenges of urban development and mixed-use development – the lack of available large land parcels, the costs of land and construction, community opposition, and the difficulties inherent in development partnerships – deter major food retailers from taking on what could be considered risky and troublesome projects.

These same challenges, particularly the lack of large developable sites and community opposition, also make it unlikely that Arlington will ever be able to accommodate a sprawling supercenter such as Wal-Mart or a Wegmans, whose store size ranges from 80,000 to 130,000 square feet. Wal-Mart's smaller format Neighborhood Market stores could possibly have a place in Arlington, but given Wal-Mart's strategy of locating Neighborhood Market stores in the same market area as Supercenters, that may also be unlikely. At present, there are no Wal-Mart Neighborhood Market locations in the Washington, D.C. metro area. As shopping at supercenters and large-format stores like Wegmans grows in popularity, Arlington will likely experience continued leakage to other jurisdictions, notably Fairfax County.

Present and Future Needs

At present, Arlington has the greatest grocery need – excluding the need for convenience stores – in Rosslyn and Crystal City. Rosslyn is served primarily by a 24,750 square-foot Safeway, built in 1973. There has been no conventional supermarket

in Crystal City since Safeway closed its doors in 2005, although there is a 50,000 square-foot Harris Teeter under construction at the Market Square on Center Park, near the southern tip of Crystal City.

Both areas are densely-populated areas with an aging building stock and a daytime office population that has dominated the character of local retail. For years, the retail in both urban villages has been primarily-oriented to serve workers and not the people who live there, creating a void of after-hours activity and offering no reason for people to shop or dine past five o'clock. New retail along Crystal Drive, including notable chains such as Morton's Steakhouse, Caribou Coffee, and local bookstore Olsson's, has drawn more people to Crystal City, but the area is still far from having the character and defining sense of place that other Arlington urban villages enjoy. Rosslyn is stymied by the same lack of interesting after-hours type



Safeway, Rosslyn

retail – while thousands of people live there, its identity is tied to its towering office buildings.

Both Rosslyn and Crystal City could benefit from having new conventional supermarkets and specialty/ethnic stores. With only the one new Harris Teeter in Crystal City and the small Safeway in Rosslyn, residents in both areas need outlets for their primary grocery shopping needs.

However, given that the placemaking potential of both areas is also stymied by a lack of interesting retail, they would be well-served by specialty/ethnic stores. Not only would the specialty/ethnic stores add something unique about the area and create chatter about the new retail, but it could likely attract similar-minded businesses, gradually enhancing the surrounding neighborhood and making it a destination people would want to visit and linger at rather than an area to simply pass by on the way to work.

Economic Analysis

Supportable Retail

As of September 2006, Arlington had 986,190¹⁸ square feet of food store space. Multiplied by \$352.50 (median food sales/sf¹⁹), Arlington's total food expenditures were \$347,631,975. With an estimated food demand of \$610,767,248²⁰, AED estimates that Arlington could support an additional 746,483 square feet of food retail for a total of 1,732,673 square feet of grocery store space.

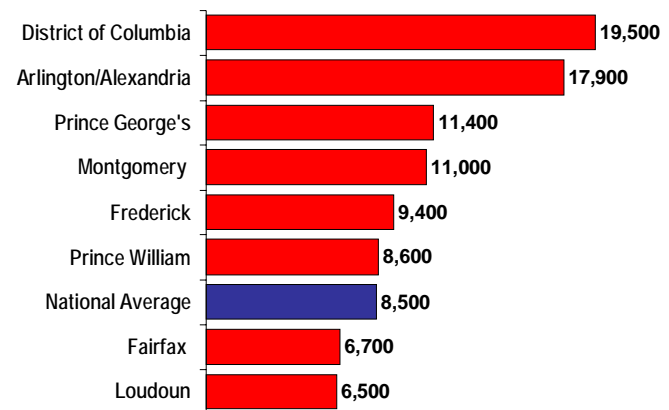
On a scale of -100 to 100, where -100 represents a total surplus or oversupply and 100 represents total leakage or unmet demand, Arlington scores a 20.9 in the food and beverage store industry.²¹ Where are those sales going? For food retailers, trade areas are not defined by jurisdictional boundaries. Given Arlington's small size, it is easy for residents who live near the border of Fairfax County or the City of Alexandria, or those who have easy access to major roadways such as I-66 and Route 50, to shop elsewhere. Stores right over the Arlington County line may be on a shopper's way home from work, have easier

parking, or carry a better selection of products than an equidistant Arlington location.

Arlington Is Underserved

Nationally, there is an average of one grocery store²² for every 8,500 people. According to a study by Delta Associates, the Alexandria/Arlington market is vastly underserved (surpassed only by the District of Columbia), with one grocery store for every 17,900 people. As mentioned above, while Arlington may in fact be underserved, it may not in reality be underserved to the extent

Figure 10: Persons per Grocery Store*
Washington Metro Jurisdictions



* Includes only grocery stores with more than \$2M in sales.

Source: Food World, Claritas, Delta Associates, 2007

the Delta Associates data portrays. Delta's data looks at jurisdictional boundaries only and compares the number of stores to population; food retailers looking at the same market may likely consider their trade areas covered, e.g. that a Fairfax County location may cover areas of Arlington.

¹⁸ Arlington County Commissioner of Revenue, Sept. 2006.

¹⁹ *Dollars & Cents of Shopping Centers®/The SCORE® 2006*. Median food sales per square-foot includes all types of food sales formats (e.g. supermarkets, health food stores, specialty food, bakeries, etc.);

²⁰ 2001-2003 Consumer Expenditure Surveys, Bureau of Labor Statistics

²¹ 2001-2003 Consumer Expenditure Surveys, Bureau of Labor Statistics

²² Includes only grocery stores with over \$2 million in annual sales.

Conclusions

Given Arlington's demographics and household spending habits, it would seem the County would not lack for food retailers. However, it can be challenging to attract and retain the right number and types of stores which accomplish both the County's economic and placemaking goals. Small specialty/ethnic stores provide uniqueness and diversity in an industry dominated by impersonal supermarkets and supercenters, but they face challenges in finding suitable and affordable space. Convenience stores have a strong place in the market, but vary in terms of how they contribute to placemaking. Larger-format conventional supermarkets struggle with development limitations, all the while trying to hold onto market share as the low prices of supercenters/discount stores and the specialized product lines of gourmet specialty and ethnic markets lure away customers. Supercenters are de-facto excluded from entering urban markets due to a lack of large developable parcels and inherent community opposition.

Certain areas of the County, notably Rosslyn and Crystal City, are underserved both by conventional supermarkets and specialty/ethnic stores, which are desperately needed as part of an effort to introduce more interesting retail into the community and foster a sense of place in what are predominately office-oriented neighborhoods. Arlington has not had much penetration among smaller specialty stores like

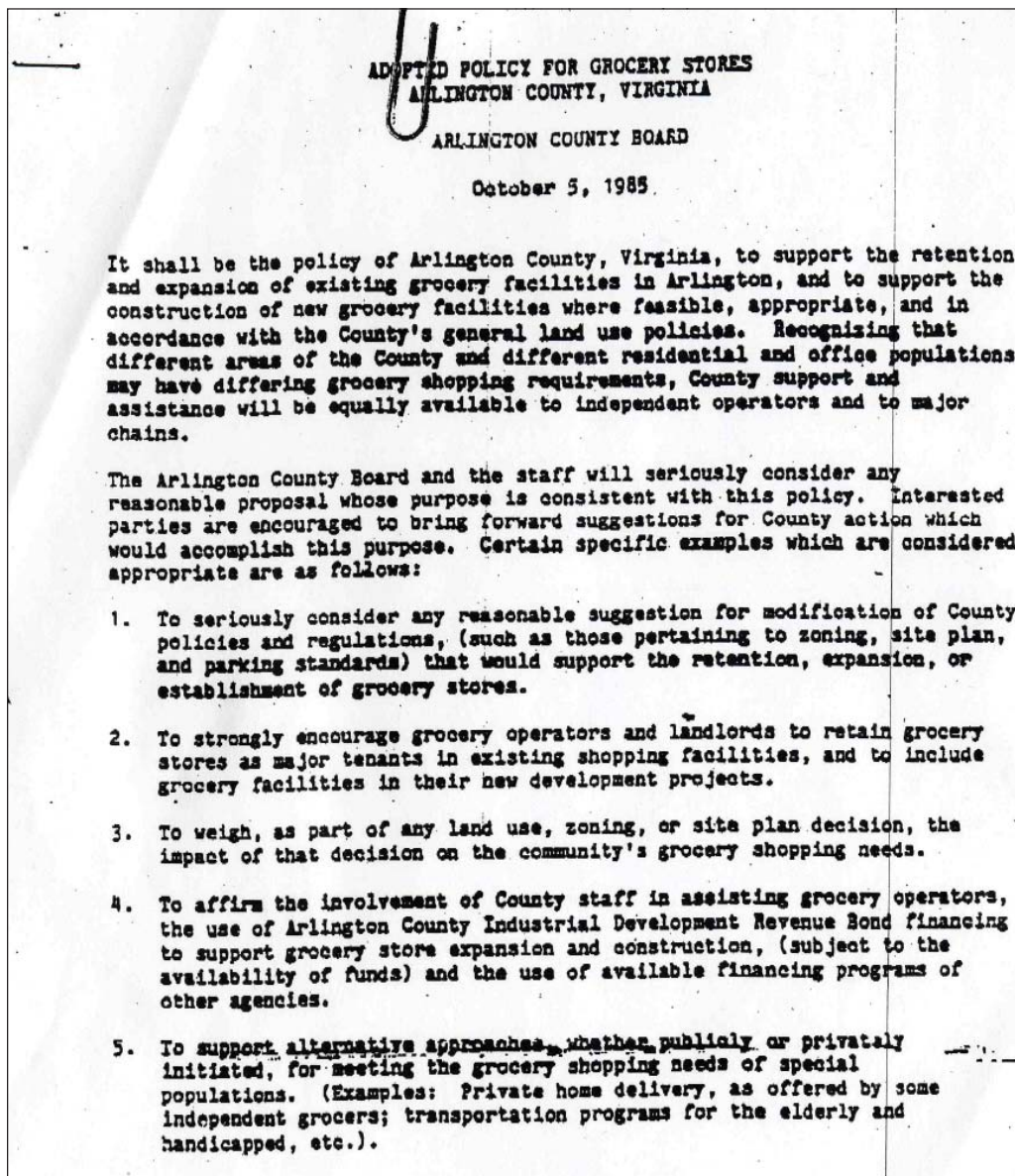
Balducci's and Dean and DeLuca given that these retailers tend to want to locate in already established and thriving retail markets, but there may be opportunities for local businesses or independents in other locations. Given the space requirements, Arlington is unlikely to accommodate a supercenter or a large-format Wegmans-type store.

Arlington has added grocery stores in all its urban villages, but it still must recruit certain store types and formats if the County hopes to capture leaking sales and create and sustain attractive and livable communities. There is a need for conventional supermarkets – particularly urban models that can be successful in mixed-use projects and multi-storey formats. Harris Teeter and Giant have begun introducing new types and formats in Arlington, but there still may be unexplored and improved means of facilitating grocery stores in new development and redevelopment. Convenience stores are well-represented in Arlington; given their ability to fare successfully in a variety of market conditions (e.g. leasing space in ground floor retail versus occupying their own properties along major roadways), it does not seem the County needs to make special effort to attract and retain these types of food stores. On the other hand, if placemaking is to be a priority, the County will need to consider creative ways of attracting and retaining specialty/ethnic stores – both the larger 10,000-20,000 square-foot Trader Joe's-type formats and smaller independent retailers.

This study was prepared by Jennie Geisner, Retail Development Specialist, of Arlington Economic Development.

APPENDIX A: ARLINGTON COUNTY GROCERY STORE POLICY

In 1985, Arlington County adopted a grocery store policy designed to facilitate and promote the recruitment, expansion, and retention of a variety of store types and formats. Its intent was to minimize regulatory barriers and create avenues of opportunity for both major chains and independent operators, recognizing that grocery requirements vary throughout the different residential and commercial areas of the County. The policy encourages interested parties to submit grocery store proposals, and when reasonable, directs staff to assist operators, consider alternative approaches, and modify existing regulations to help accomplish goals consistent with the policy.



APPENDIX B: FOOD STORES BY TRADE NAME & CATEGORY

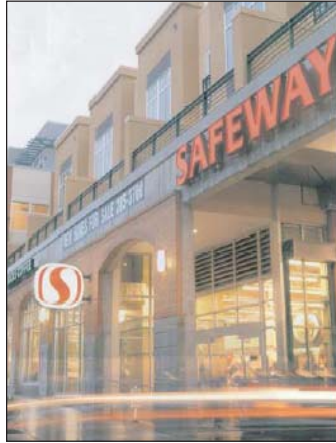
| Trade Name | Store Category | Number of Stores |
|---|---------------------|------------------|
| 7-Eleven | Convenience | 22 |
| America Seafood | Specialty/Ethnic | 1 |
| Andy's Convenience | Convenience | 1 |
| Arlington Farmers Market | Transient/Temporary | 1 |
| Arlington Market | Convenience | 1 |
| Arrowine | Specialty/Ethnic | 1 |
| Asia Halal Meat & Grocery | Specialty/Ethnic | 1 |
| Asia Market | Specialty/Ethnic | 1 |
| Asian Grocery | Specialty/Ethnic | 1 |
| Atilla's Middle Eastern Grocery | Specialty/Ethnic | 1 |
| Bakery Express | Specialty/Ethnic | 1 |
| Ballston Farmers Market | Transient/Temporary | 1 |
| Bangkok 54 Food Market | Transient/Temporary | 1 |
| Bangla Bazar | Transient/Temporary | 1 |
| Best Cellars | Transient/Temporary | 1 |
| BP Service Station | Convenience w/Gas | 1 |
| Carlton Market | Convenience | 1 |
| Castro's Bakery | Specialty/Ethnic | 1 |
| Central Market | Specialty/Ethnic | 1 |
| Chaparrastique Market | Specialty/Ethnic | 1 |
| Charleston Market | Convenience | 1 |
| Cherrydale Liberty Service Station | Convenience w/Gas | 1 |
| Chevron Service Station | Convenience w/Gas | 1 |
| City Market & Deli | Convenience | 1 |
| Clarendon Farmers Market | Transient/Temporary | 1 |
| Columbia Pike Farmers Market | Transient/Temporary | 1 |
| Commissary at Fort Myer | Commissary | 1 |
| Costco | Wholesaler | 1 |
| Courthouse Place Market & Café | Convenience | 1 |
| Courtland Convenience Store | Convenience | 1 |
| Cuco Lindo Mercado Latino | Specialty/Ethnic | 1 |
| Dak Halal Groceries | Specialty/Ethnic | 1 |
| Dama Market | Specialty/Ethnic | 1 |
| Dama Pastries | Specialty/Ethnic | 1 |
| Dominion Market | Convenience | 1 |
| Eithiopian Market | Specialty/Ethnic | 1 |
| El Chaparral Market | Specialty/Ethnic | 1 |
| El Encanto Grocery | Specialty/Ethnic | 1 |
| El Latino & African Market | Specialty/Ethnic | 1 |
| Euro-Latino Grocery | Specialty/Ethnic | 1 |
| EuroMarket | Specialty/Ethnic | 1 |
| Exxon Service Station | Convenience w/Gas | 7 |
| Fiesta Oriental Store | Specialty/Ethnic | 1 |
| Food Mart/Dominion Hills Grocery & Deli | Convenience | 1 |
| Food Star | Neighborhood | 1 |
| Fort Perroir Wine & Gourmet | Specialty/Ethnic | 1 |
| Gallery Market & Café | Convenience | 1 |
| Gene's Market and Deli | Convenience | 1 |
| Giant Food | Community | 1 |
| Giant Food | Neighborhood | 3 |
| Glebe Market | Neighborhood | 1 |
| Gourmet Market | Convenience | 1 |
| H & J Enterprises / Market Basket | Convenience w/Gas | 1 |

| Trade Name | Store Category | Number of Stores |
|-------------------------------|---------------------|------------------|
| Halal Market | Specialty/Ethnic | 1 |
| Harris Teeter | Community | 4 |
| Harris Teeter | Neighborhood | 1 |
| Heidelberg Pastry Shoppe | Specialty/Ethnic | 1 |
| Hyde Park Grocery & Cleaners | Convenience | 1 |
| India A-1 Grocery | Specialty/Ethnic | 1 |
| International Market | Specialty/Ethnic | 1 |
| K-1 Convenience Store | Convenience | 1 |
| La Union Grocery & Deli | Specialty/Ethnic | 1 |
| Las Palmas Latin Market | Specialty/Ethnic | 1 |
| Lebanese Taverna Market | Specialty/Ethnic | 1 |
| Lee Super Market/IGA | Neighborhood | 1 |
| Lenox Gourmet Market & Deli | Neighborhood | 1 |
| LIDETA Market | Specialty/Ethnic | 1 |
| Lincoln Market | Convenience | 1 |
| Lucky 7 Food Mart | Convenience | 1 |
| M. Slavin & Sons Fish | Specialty/Ethnic | 1 |
| Main Street Market | Convenience | 1 |
| Mercado Latino | Specialty/Ethnic | 1 |
| Metro Market & Café | Convenience | 1 |
| Miguels O-Mart | Convenience | 1 |
| Mobil Service Station | Convenience w/Gas | 3 |
| Mother's Macaroons | Specialty/Ethnic | 1 |
| M's Deli & Market | Convenience | 1 |
| One Stop Food Market | Convenience | 1 |
| Oriental Supermarket | Specialty/Ethnic | 1 |
| Pacific Enterprises | Specialty/Ethnic | 1 |
| Pak Halal | Specialty/Ethnic | 1 |
| Philippine Oriental Market | Specialty/Ethnic | 1 |
| Pure Service Station | Convenience w/Gas | 1 |
| Randolph Deli & Grocery | Convenience | 1 |
| Richmond Market & Deli | Convenience | 1 |
| Rosslyn Farmers Market | Transient/Temporary | 1 |
| Rosslyn Market | Convenience | 1 |
| Safeway Food Store | Neighborhood | 3 |
| Safeway Food Store | Community | 1 |
| Saran Indian Sweets | Specialty/Ethnic | 1 |
| Sharieff Halal Meat & Grocery | Specialty/Ethnic | 1 |
| Shell Service Station | Convenience w/Gas | 3 |
| Sun Deli & Market | Convenience | 1 |
| Sweet Surrender | Specialty/Ethnic | 1 |
| Texaco Service Station | Convenience w/Gas | 1 |
| The Curious Grape | Specialty/Ethnic | 1 |
| The Italian Store | Specialty/Ethnic | 1 |
| Tivoli Gourmet & Pastry | Specialty/Ethnic | 1 |
| Tivoli Pastry Shop | Specialty/Ethnic | 1 |
| Tivoli Restaurant | Specialty/Ethnic | 1 |
| Twin Towers Cleaners & Market | Convenience | 1 |
| Westover Market/Food Rite | Neighborhood | 1 |
| Whole Foods Market | Community | 1 |
| Wildflower Bakery | Specialty/Ethnic | 1 |
| Wonder Market & Gifts | Convenience | 1 |
| Total | | 143 |

APPENDIX C: URBAN GROCERY CASE STUDIES

Tribeca Safeway (Seattle, WA)

Take the Safeway in TriBeCa, a mixed-use project in Seattle's Lower Queen Anne neighborhood. An outdated store was converted into a refreshed two-level 35,000



square-foot two-level Safeway, made possible by cart-only escalators and nestled underneath a 51-unit condominium complex. Safeway, which had previously turned down proposals to be a part of a mixed-use project, signed on

with the TriBeCa project in 2000 because it wanted a “bigger, more modern store and knew that a mixed-use project was likely to win approval from the Queen Anne Design Review Board and the City of Seattle, which are both strong backers of mixed-use development”.ⁱ

The developer, Milliken South Slope LLC, used innovative design to make the most of the site. The property measured 48,000 square feet, with the old store taking up 16,000 square feet and the rest dedicated to parking. Milliken added store space by designing an underground parking garage one-story deep and extending underneath the entire store; a truck delivery zone was also added under the store to accommodate deliveries without disrupting street traffic. To work with a sloping topography of 20 feet end to end, the supermarket was built into the slope, rather than on it.

One of the principal complaints about mixed-use projects, particularly in dense urban areas, is that the sights and sounds of the retail can be bothersome to residents. At TriBeCa, Safeway brought in new

refrigeration compressors that are quieter and can be located in cabinets within the store. Meanwhile, ventilation shafts were routed so they did not end on the roof – some of them pass through the walls of the condos and others empty out of the sides of the buildings into alleys. The condos above were made of vibration-reducing steel and concrete, and were placed back from the roof's edge so the supermarket would not be in the sight lines. TriBeCa's retail and residential parking and access are separated to ensure the uses are complementary.

Uptown Harris Teeter (Charlotte, NC)

In Charlotte's Uptown neighborhood, Harris Teeter took similar steps to shield residents of the upstairs Fifth and Poplar Condominium Homes from the noise of its supermarket on the ground floor, building “housing” for its HVAC units. The designer, Little Diversified Architectural Consulting, also worked to adapt the Harris Teeter model to the feel



and form of the surrounding neighborhood, transforming the exterior and interior signage, finishes, decor elements, fixtures, lighting, and visual displays to evoke downtown Charlotte's mix of art galleries, banks, restaurants, museums and theaters.

To accommodate the traditional variety of products in a small 18,000 square-foot space, Harris Teeter made some changes to its normal model. Instead of regular seven foot aisles, the store has six foot aisles and uses carts about 1/3 the size of ones seen in typical stores. Rather than stocking large quantities of food, the store receives more deliveries. A two-

ⁱ Engleman, Eric. Dec. 5-11, 2003. *Shop at Home*. Puget Sound Business Journal, Vol. 24, No. 31.

story wine library with a modern steel staircase and balcony makes use of the stores taller ceiling while adding storage space for the many international wine varieties Harris Teeter stocks. Designers patterned the check-out counter like those of Manhattan eateries, with customers cueing in one line and stepping up to the long counter to pay, facilitating entry and exit to and from the store.ⁱⁱ

PCC Natural Markets (Fremont, WA)

PCC Natural Markets, the largest consumer-owned natural food co-operative in the nation, occupies 20,500 square feet of ground floor space in the Epicenter, a six-story mixed-use retail-residential project in Seattle's Fremont neighborhood. In addition to PCC Natural Markets, the Epicenter includes 150 rental units, restaurants, and a coffee bar. The eco-friendly supermarket boasts a host of energy-efficient features, including solar-powered



electricity, strawboard custom cabinetry, 100% recycled structural steel, worktops manufactured using recycled paper, low-toxic paints, and an elevator hydraulic system powered by biodegradable canola oil.ⁱⁱⁱ

To encourage a pedestrian-friendly environment, the entire half-block perimeter of Epicenter may be walked without getting wet. An umbrella of wide canopies rings the site, transparent on the shady north and east sides and metal to protect from glare on the west. Three intimate outdoor areas provide a place to pause, sit, eat, drink and people watch; glass canopies cover two. The developer, Fremont Housing Group, LLC (an affiliate of Security Properties, Inc) also worked

to attract bicyclists, adding 11 bike racks around the site. There are a significant number of angle parking spaces for shoppers in too much of a hurry to drive down the alley to a parking garage.^{iv}

Whole Foods (Portland, OR)

A 50,400-square foot Whole Foods Market anchors a five-block, mixed-use redevelopment on the site of the former Blitz-Weinhard Brewery in Portland, OR. Operating within the historic art deco walls of a 1929 Chevrolet dealership, the store encompasses an entire 200' x 200' city block, and occupies both the ground level and a second-floor mezzanine. The store is located a block from Portland's Streetcar line and includes an underground parking garage with a passenger elevator and a vertical conveyer system for groceries.

To make the project economically-feasible, the three upper floors of the building offer over 80,000 square feet of office space, a majority of



which is occupied by a state-of-the-art telecommunications center for Tyco Telecom. The \$37 million LEED Silver project also serves all the buildings in the Brewery redevelopment with a rooftop district cooling system, which provides area building owners with a host of financial and energy savings and meets the neighborhood's air-conditioning needs in a sustainable way.

ii *Uptown Harris Teeter Offers Down Home Charm*, Harris Teeter

iii PCC Natural Markets

iv Simpson, Mark. Oct. 2, 2003. *Living Over the Store in Funky Fremont*, Seattle Daily Journal of Commerce.