Retail Market Dynamics

Overland Park, Kansas

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Executive Summary

A Retail Market Assessment has been conducted to determine if the current market for retail space in Overland Park is sustainable. The market analysis has examined two separate districts, a northern district, which includes Census tracts north of I-435, and a southern district, which includes Census tracts south of I-435, as well as Overland Park as a whole. Issues that were examined as part of this market analysis are:

- What have been the trends in terms of the growth of demand for retail space?
- What have been the trends in terms of growth of retail supply?
- What are these trends for the northern and southern districts as well as for the City as a whole?

Based on the Retail Market Assessment, it has been determined that:

- For the City as a whole from 1990 to 2000, inflation adjusted retail spending grew by 3.6 percent per year (Table 2). Retail space grew at a comparable pace of 3.5 percent per year (Table 8). This indicates that the market was in balance during this time period.
- For the City as a whole from 2000 to 2007, inflation adjusted retail spending actually declined (Table 2). The stock of space continued to grow, although at a much slower 1.7 percent pace, despite stagnant real spending levels (Table 8). This condition is not considered healthy.
- Overland Park has two very different retail submarkets within its boundaries. In the area of the City north of I-435, the population is declining, but this is being offset by slow income growth. In the area of the City south of I-435, both population and income continue to grow but at slower rates than were experienced before 2000.
- The decline in the retail pull factors over time (1.28 in 2000 to 1.17 in 2006, Table 6) suggests that the City is attracting fewer, not more, shoppers from outside the City. However, local spending appears to have sustained a pace that will support a modest growth in the stock of retail space.
- Buying power (measured through aggregate income of the population) in the tracts south of I-435 continues to grow at 3.1 percent per year after adjusting for inflation (Table 5). This pace of growth in buying power suggests that the southern district can support approximately 170,000 square feet of additional space each year.
- Buying power in the tracts north of I-435 continues to enjoy growth, but at a very slow pace. Despite a declining population, the north district can support approximately 0.8 percent more retail space each year.

I. Introduction

The capacity of Overland Park to support retail space is a function of spending on retail goods and services. To the extent that developers want to build new space, it needs to be supported by growth in demand, measured by inflation adjusted growth in retail spending or buying power.

This research compares the growth in retail demand with the growth in retail supply. It estimates demand through tracking changes in both buying power and retail spending. It estimates supply through tracking changes in the stock of retail space. When supply exceeds demand, the city is overbuilt and risks the undesirable situation in which new projects harm existing retail (a zero-sum game). When demand exceeds supply, the city is not keeping pace with market conditions. The closer the match between supply and demand, the healthier the economic conditions for the city.

II. Retail Demand

Retail demand for Overland Park is examined through methods that look at demand coming from residents living in the City as well as demand for city retail goods and services coming from shoppers living outside the community.

- **Growth in Retail Demand—Retail Sales:**

  Growth in retail sales was examined by collecting sales tax data from the Kansas Department of Revenue. This determined the amount of dollars spent on retail goods and services in Overland Park from 1990 to 2007. This data were adjusted for inflation using the Consumer Price Index (CPI) from the United States Bureau of Labor Statistics.

- **Growth in Retail Demand—Buying Power:**

  Data on population and aggregate income from the United States Census Bureau were used to calculate the citywide buying power in Overland Park from 1990 to 2006. Additional research was conducted using tract-level data for the City to determine the buying power in each tract. These tracts were then grouped into districts reflecting the differences in population growth. Results were obtained for a southern district, which includes tracts south of I-435, and a northern district, which includes tracts north of I-435.

- **Growth in Retail Demand—Surrounding Communities:**

  The ability of Overland Park to capture retail dollars from people living outside the City was calculated for 1990, 2000, and 2006 by comparing retail sales in Overland Park with sales for the entire state, accounting for the higher levels of income found in Overland Park. The resulting statistic, called a pull factor, was used to determine the percent of retail dollars received from households living outside Overland Park.

A. **Growth in Retail Demand—Overland Park Retail Sales:**

Table 1 shows retail sales in Overland Park from 1990 through 2007. Sales Tax Distribution is the amount of sales tax dollars collected by Overland Park each year. Taxable sales per year are determined by dividing the Sales Tax Distribution by the corresponding sales tax rate for each year. Taxable sales were then adjusted for inflation, using the Consumer Price Index, giving Taxable Sales in 2007 dollars.

Table 1: Taxable Sales, Overland Park 1990-2007

Year	Sales Tax Distribution	Tax Rate	Taxable Sales	CPI	Taxable Sales (2007 dollars)
1990	16,421,623	1.00%	1,642,162,300	126.0	2,534,651,444
1991	16,925,821	1.00%	1,692,582,100	131.2	2,508,930,444
1992	17,820,873	1.00%	1,782,087,300	134.3	2,580,629,605
1993	19,587,404	1.00%	1,958,740,400	138.1	2,758,391,559
1994	21,725,333	1.00%	2,172,533,300	141.3	2,990,177,662
1995	24,760,230	1.00%	2,476,023,000	145.3	3,314,070,730
1996	25,319,917	1.00%	2,531,991,700	151.6	3,248,147,848
1997	26,478,659	1.00%	2,647,865,900	155.8	3,305,226,652
1998	28,554,306	1.00%	2,855,430,600	157.8	3,519,146,310
1999	30,279,274	1.073%	2,821,926,747	160.1	3,427,891,892
2000	34,922,467	1.125%	3,104,219,289	166.6	3,623,682,251
2001	35,889,086	1.125%	3,190,140,978	172.2	3,602,877,045
2002	35,879,471	1.125%	3,189,286,311	174.0	3,564,650,647
2003	36,875,784	1.125%	3,277,847,467	177.0	3,601,539,534
2004	37,482,106	1.125%	3,331,742,756	180.7	3,585,799,664
2005	38,968,019	1.125%	3,463,823,911	185.3	3,635,407,504
2006	40,267,999	1.125%	3,579,377,689	190.1	3,661,829,529
2007	40,496,107	1.125%	3,599,653,956	194.5	3,599,653,956

Source: Kansas Department of Revenue, Bureau of Labor Statistics

Table 2 shows the rate of annual growth in retail spending for each year. After accounting for inflation, retail spending in Overland Park has grown in the past, but it is now effectively stagnant. From 1990 to 2007, real (inflation adjusted) retail spending grew by 2.1 percent per year. Retail spending grew much faster from 1990 to 2000, growing by 3.6 percent per year. However, there has been no measurable growth in retail spending for the last several years with real retail spending actually declining by 0.1 percent per year from 2000-2007.

Table 2: Annual Growth Rates of Taxable Sales
Overland Park, Kansas 1990-2007

Year	Taxable Sales (2007 Dollars)	Annual Growth Rate
1990	2,534,651,444	
1991	2,508,930,444	-1.01%
1992	2,580,629,605	2.86%
1993	2,758,391,559	6.89%
1994	2,990,177,662	8.40%
1995	3,314,070,730	10.83%
1996	3,248,147,848	-1.99%
1997	3,305,226,652	1.76%
1998	3,519,146,310	6.47%
1999	3,427,891,892	-2.59%
2000	3,623,682,251	5.71%
2001	3,602,877,045	-0.57%
2002	3,564,650,647	-1.06%
2003	3,601,539,534	1.03%
2004	3,585,799,664	-0.44%
2005	3,635,407,504	1.38%
2006	3,661,829,529	0.73%
2007	3,599,653,956	-1.70%

Annual Growth 1990-2007: 2.1%
Annual Growth 1990-2000: 3.6%
Annual Growth 2000-2007: -0.1%

Source: Kansas Department of Revenue, Bureau of Labor Statistics

B. **Growth in Demand—Citywide Buying Power:**

Retail spending, at least that portion locally generated, is supported by the buying power of the City's population. This buying power is assessed by the aggregate income of the households in the City. **Table 3** shows per capita and aggregate incomes for Overland Park's population over time. From 1990 to 2000, aggregate income grew at a very healthy rate of over 4.5 percent per year. However, since 2000, income growth has slowed considerably to about 1.0 percent per year.

Table 3: Population and Income Growth
Overland Park, Kansas 1990-2006

Year	Population	Per Capita Income	Buying Power (Aggregate Income in current dollars)	CPI	Buying Power (Aggregate Income in 2006 dollars)	Annual Growth Rates of Real Buying Power
1990	111,790	21,214	2,371,513,060	126.0	3,577,973,275	
2000	149,080	32,069	4,780,846,520	166.6	5,580,877,853	4.55%
2006	163,044	36,267	5,913,116,748	190.1	5,913,116,748	0.97%

Source: U.S. Bureau of the Census, Census 2000 and American Community Survey 2007

As shown in **Table 4**, the population of the City grew by 2.9 percent per year from 1990 to 2000. During this time, the buying power grew by 4.6 percent per year because incomes grew faster than inflation.

From 2000 to 2006, the City's population growth rate is estimated to have slowed to 1.5 percent per year. During this time, buying power grew by only 1.0 percent per year. Thus, the rate of growth of income has slowed considerably and is now slightly less than the rate of population growth.

Table 4: Population and Income Annual Growth Rates
Overland Park, Kansas 1990-2006

Period	Population	Real Aggregate Income
1990-2000	2.92%	4.55%
2000-2006	1.50%	0.97%

C. **Growth in Demand—Buying Power by Area:**

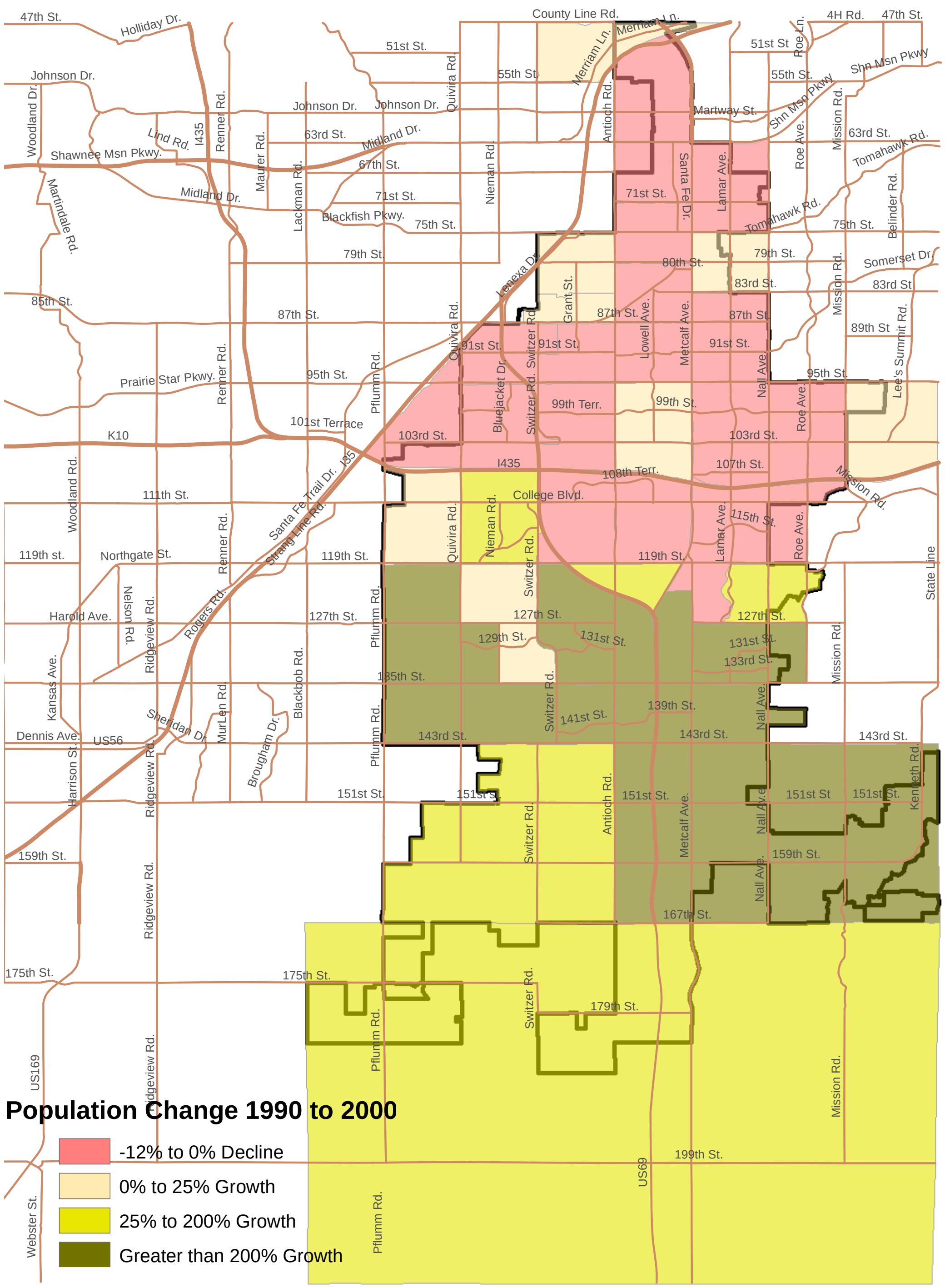
To obtain data on retail demand in Overland Park by area, the City was divided into two separate districts using Census tracts whose boundaries approximate those of the City. The northern district consists of tracts that lie north of I-435. The southern district consists of tracts that lie south of I-435. **Map 1** shows these tracts.

What can be seen from **Map 1** is that Overland Park is simultaneously a growing and a declining city. Of the 37 tracts used to approximate the City of Overland Park, 17 lost population from 1990 to 2000 while the remainder gained in population. The 17 tracts that lost population averaged about a 5 percent loss over the decade. The 20 tracts that gained in population averaged over 400 percent as some of the tracts were essentially rural and were developed during the 1990s. The declining tracts lost only about 3,800 people while the growing tracts gained over 45,000 people.

What is more dramatic about this change is the spatial location of the growing and declining tracts. Of the 17 declining tracts, all but three are north of I-435, and those three abut I-435. Of the 20 growing tracts, all but 6 are south of I-435. Those tracts that show the most growth are between 119th and 167th Streets. These are the tracts closest to the developed parts of the City. This reflects a conventional pattern of growth with development moving into areas adjacent to already developed areas, rather than leaping over other undeveloped areas. Those tracts south of 167th Street grew, but by more modest amounts during the 1990s. They are in the path of the next wave of development.

This means that the City's buying power is changing; it is increasingly moving south. What the City of Overland Park confronts is the need to serve this changing buying power while continuing to maintain a healthy stock of retail space in the northern, older parts of the City.

Map 1: Census Tracts by Population Change 1990 to 2000



Retail buying power is a function of both growth in population and growth in income. It was examined for the entire city and by district using tract-level data. Results indicate that as a whole, Overland Park's population and income increased, but very different patterns of growth were experienced north and south of I-435.

Pace of Growth for Population and Aggregate Income —Citywide, Tract-Level:

As shown in **Table 5**, the City tracts' population growth rate rose slightly from 2.65 percent during the 1990s to 2.76 percent during 2000-2007. Note that these growth rates are slightly different from the areas inside the city limits as the tract boundaries do not coincide exactly with the city limits (See Table 4). Although the growth rates of buying power outpace population growth rates during both periods, growth in buying power slowed slightly from 4.02 percent growth per year in the 1990s to 3.78 percent per year from 2000-2007.

Table 5: Population and Income Growth by Area
Overland Park, Kansas 1990-2007

Area	1990-2000		2000-2007	
	Population Growth Rate (annual)	Buying Power Growth Rate (2007 dollars) (annual)	Population Growth Rate (annual)	Buying Power Growth Rate (2008 dollars) (annual)
City Tracts	2.65%	4.02%	2.76%	3.78%
Northern District—Tracts North of I-435	-0.27%	0.25%	-0.17%	0.82%
Southern District—Tracts South of I-435	8.33%	9.50%	2.13%	3.14%

Source: Mid America Regional Council, 2004 Long-Range Population, Households, and Employment Forecast

Pace of Growth for Population and Aggregate Income—Northern District, Tract-Level:

Tracts north of I-435 showed population declines during both time periods. However, the rate of decline is slowing, dropping from -0.27 percent per year in the 1990s to -0.17 percent per year from 2000-2007. This reflects the moving out of children from family households. Once this has occurred, the population tends to stabilize with "empty nester" households. Buying power shows a different trend in northern tracts. It never declined and actually increased from 0.25 percent per year in the 1990s to 0.82 percent from 2000-2007.

These data suggest that the Northern District is continuing to enjoy increases in buying power, but at a very small pace of growth. Despite population losses, this district can support small increases in retail space per year (0.8 percent). However, this small pace of growth is highly susceptible to economic downturns, which could quickly wipe out any increase in buying power.

Pace of Growth for Population and Aggregate Income—Southern District, Tract-Level:

Tracts south of I-435 show the population continuing to increase but at a substantially slower rate now than in the past. During the 1990s population in the southern tracts grew by 8.33 per year. During 2000 to 2007, the growth rate slowed to 2.13 percent per year. Growth in buying power also slowed from an impressive 9.5 percent growth per year rate during the 1990s to 3.14 percent per year during 2000 to 2007.

Despite the substantial slowing of population and income growth, these data suggest that buying power in the southern district is still experiencing healthy growth and can support an increase in retail square footage at 3.1 percent per year.

D. **Decline in Retail Demand from Shoppers Living Outside the City:**

Overland Park's ability to capture retail dollars from surrounding communities can be measured through the use of pull factors. A pull factor is calculated by dividing a city's per capita retail sales by the state per capita retail sales and then adjusting for the differences in income between the city and the state per capita income. If the community's income-adjusted per capita sales are greater than the statewide average, then the pull factor is greater than one.

Table 6 shows that when adjusting for Overland Park's higher income, the City had a pull factor in 2006 of 1.17. This can be interpreted as Overland Park drawing in 14 percent of its retail sales from outside its municipal boundaries. The pull factor for Overland Park has decreased since 1990 and 2000 when the City experienced pull factors of about 1.28.

Table 6: Calculated Pull Factors for Overland Park, Kansas 1990-2006

Year	Overland Park Population	Overland Park Real Income	Overland Park Real Sales
1990	111,790	3,577,973,275	2,534,651,444
2000	149,080	5,580,877,853	3,623,682,251
2006	163,044	5,913,116,748	3,661,829,529

Year	Kansas Population	Kansas Real Income	Kansas Real Sales
1990	2,477,574	49,715,275,170	27,561,206,744
2000	2,688,418	62,903,966,766	31,788,806,291
2006	2,764,075	65,834,724,600	34,937,636,736

Year	Overland Park Per Capita Sales	Overland Park Per Capita Income	Kansas Per Capita Sales	Kansas Per Capita Income
1990	22,673	32,006	11,124	20,068
2000	24,307	37,435	11,824	23,348
2006	22,459	36,267	12,640	23,818

Year	Overland Park Pull Factors (adjusted for income)	Percent of Retail Sales by Outside Dollars	Overland Park Pull Factors (unadjusted for income)	Ratio: Overland Park, Kansas Income
1990	1.28	22%	2.04	1.6
2000	1.28	22%	2.06	1.6
2006	1.17	14%	1.78	1.52

Table 7 indicates that if the aggregate retail sales are adjusted for these pull factors, the growth in locally supported retail sales is slightly different. In this calculation, the locally generated retail sales grew by about 3.6 percent per year during the 1990s. This is the same rate of growth found in the 1990s for all sales, both locally generated and total. However, the locally generated sales grew by just under 0.2 percent per year during the years following 2000. Note that total sales, meaning sales locally generated and sales brought in from outside Overland Park, actually declined by 0.1 percent per year (Table 2). Thus, this analysis suggests that Overland Park's decline in retail sales is entirely a function of a loss in sales from non-residents; residents actually spent more in recent years.

Table 7 Locally Generated Retail Sales in Overland Park

Year	OP Sales	Pull Factor Adjusted Sales	Adjusted Sales Growth
1990	2,534,651,444	1,979,254,475	
2000	3,623,682,251	2,806,178,150	3.64%
2006	3,661,829,529	3,128,367,053	0.17%

III. Retail Supply

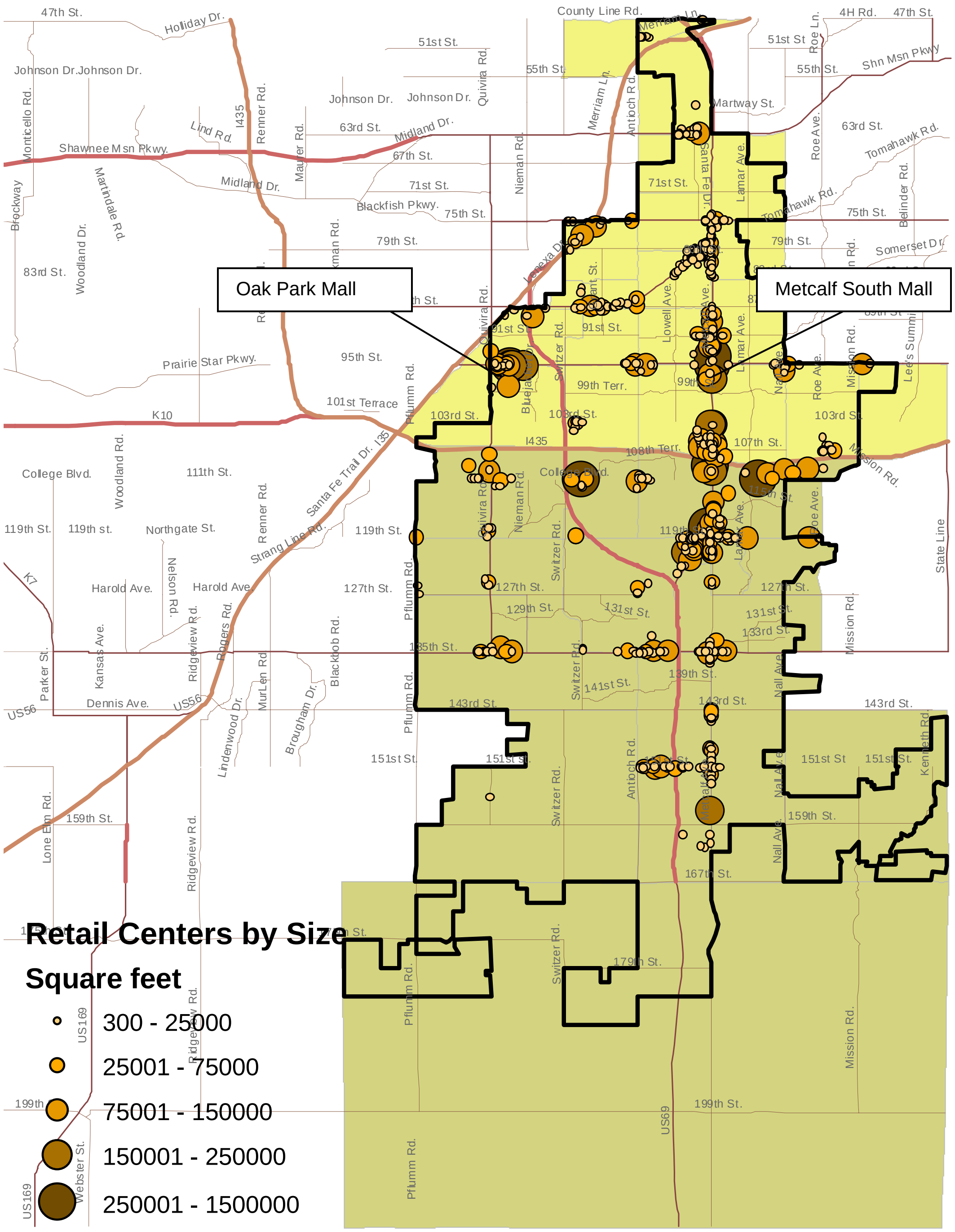
A. Current Supply of Retail Space:

The information on the various estimates of the growth in demand for retail space can be used as gauges of the amount of space that can be supported.

Data from the Johnson County tax assessor were located on a map. This data describe the location of the shopping center along with its size in square feet and the year the space was developed. This permits calculation of the rates of growth for the entire stock of retail space and for the space located in each district of the City. These rates can be compared to the rates of growth in demand to determine whether the market can sustain the stock.

Map 2 shows Overland Park's retail space by location and size in 2007. Metcalf Avenue continues to be the central commercial corridor for Overland Park. Retail space exists along its entire length from the northern to the southern boundaries of the City. There are, however, very important east-west corridors as well. The Oak Park Mall sits on the western end of 95th Street and is a very large magnet for retail spending. The Metcalf South Mall is also on 95th Street at Metcalf Avenue, but this center is not fully productive.

Map 2: Retail Space, Overland Park, Kansas 2007



B. Growth in Retail Space:

Growth in retail supply is estimated by tracking the square footage of retail space by location and by year built.

Pace of Growth for Retail Space—Citywide, Tract-Level:

As shown in **Table 8**, the stock of retail space grew citywide by 3.5 percent per year from 1990 to 2000 and 1.7 percent per year from 2000 to 2007.

Pace of Growth for Retail Space——Northern District, Tract-Level:

In the tracts north of I-435, retail space grew by 1.1 percent per year from 1990 to 2000 and 0.4 percent per year from 2000 to 2007.

Pace of Growth for Retail Space——Southern District, Tract-Level:

In the tracts south of I-435, retail space grew by 9.1 percent per year from 1990 to 2000 and 3.5 percent per year from 2000 to 2007.

Table 8: Square Footage and Growth Rate by Square Feet by Area
Overland Park, Kansas 1990-2007

	Square Feet	Growth Rate
Overland Park		
1990	10,023,074	
2000	14,073,468	3.5%
2007	16,623,872	1.7%
Northern District—Tracts North of I-435		
1990	7,738,161	
2000	8,613,973	1.1%
2007	8,941,411	0.4%
Southern District—Tracts South of I-435		
1990	2,284,913	
2000	5,459,495	9.1%
2007	7,682,461	3.5%

Source: Johnson County, Kansas Tax Assessor's Office

IV. Conclusions

Conclusions can be drawn by comparing the growth rates of retail demand with the growth rates of retail supply:

- For the City as a whole, 1990 to 2000, the retail space grew at a sustainable pace. The stock of space grew at a rate of 3.5 percent per year which is effectively the same as the inflation adjusted rate of growth in spending of 3.6 percent per year. The pace of growth in supply may have even lagged behind the pace of growth of spending power. Aggregate income, a measure of spending power, grew at 4.6 percent per year for the City and 4.0 percent for the tracts that approximate the City. Both growth rates are greater than the growth rate of retail spending.

- For the City as a whole, 2000 to 2007, the square feet of retail space grew despite stagnant real spending levels. The stock of space grew by 1.7 percent per year while inflation adjusted spending actually declined at - 0.1 percent per year. Spending power continued to grow during these years, but growth in spending power has not translated into more actual spending. Shoppers are not coming to Overland Park as they did prior to 2000. This may be due to the growth of alternative shopping destinations. This may also be due to households being forced to take money out of retail spending and allocate it to other forms of consumption, such as gasoline purchases.

- It is in the City's interests to maintain a balance between the stock of its retail space and the demand for that retail space. The market maintained a healthy balance during the 1990s. However, the City must now confront changing conditions. The northern district of the City is losing population and income growth is sluggish at best. The southern district is growing, but its growth rates have softened in recent years. The City is not attracting shoppers from outside its city limits as it did in the past. The City should closely monitor these conditions. It should keep the growth in the stock of space closely matched with the growth in demand and not let any more space be built than the City can support.

- Income south of I-435 continues to enjoy a growth rate of 3.1 percent per year while growth in retail space is 3.5 percent per year. Development of retail square footage is slightly outpacing the growth in spending power by .4 percent per year. A 3.1 percent per year growth in spending power suggests the southern district can support about 170,000 square feet of additional retail space per year.

- Income north of I-435 continues to enjoy real growth at 0.8 percent per year. Despite a declining population, the northern district can support small increases in retail space each year. However, because economic downturns could quickly wipe out this small increase in buyer power, it will be difficult for this district to support any significant additions to its stock of retail space. In the future, the city's planning staff will need to monitor market conditions closely to determine if there are any declines in buying power.

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Mid-America Regional Council
600 Broadway Suite 200
300 Rivergate Center
Kansas City, MO 64105

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Johnson County, Kansas Appraiser's Office
11811 S. Sunset Dr., Suite 2100
Olathe, KS 66061-7060

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