



## RETAILERS ARE SIZING UP SMALL TOWNS

[Some retailers have found considerable purchasing power tucked away in the small towns across America. Others are starting to venture in that same direction, though with some caution.](#)

Generally, the more prosperous ones have been the value retailers and the franchise concepts that offer such essentials as haircuts, hardware and wireless phone services. Dollar stores, to cite one category, have become increasingly present across hundreds of small markets in recent years. “In a small town, they can become the big fish in a small pond, rather than a small fish in a big pond,” observed John Sechser, a senior vice president and the director of retail properties in the Walnut Creek, Calif., office of Transwestern.

Perhaps unsurprisingly, those chains that have already saturated the larger metros are compelled to begin seeking new pastures. “They now have to look at these smaller markets, but I think they certainly need to be selective, because you can make mistakes, and they can be costly mistakes,” said Tony Colvin, a principal and a senior vice president at Mid-America Real Estate Wisconsin.

Small towns cover a broad spectrum of communities, ranging from rural towns to affluent suburbs, with populations ranging from 2,000 to about 20,000. Many retailers view any municipality with a population of less than 100,000 as a small city or a tertiary market, says Cody Howell, a senior vice president at Fort Worth, Texas-based Buxton. “Those smaller cities oftentimes are the ones that get overlooked by certain retail, simply because they are not as attractive on the surface for number of rooftops,” Howell said.

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The obvious risk is the expense, if any new stores happen not to pan out. Walmart closed 154 stores in 2016, including all 102 of its small-format Walmart Express outlets. Initially, Walmart had viewed those 15,000-square-foot Express stores as a way to compete with dollar stores and discount grocers in urban neighborhoods and small towns. Although a few of those Express units were located in major metros such as Chicago, the vast majority opened in small towns and tertiary markets.

Another challenge with small towns involves finding available real estate. In northern California the average retail vacancy rate for smaller communities with populations of 15,000 or less was below 2 percent last year, according to Transwestern. The concept of “build it and they will come” does not typically work in small towns and communities, observes Sechser. “Generally, what you see is build-to-suit, rather than any kind of speculative building,” he said.

That said, there is certainly no shortage of small towns. According to the National League of Cities, roughly 90 percent of the 19,000-plus municipalities in the U.S. have populations smaller than 25,000.



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But retailers are understandably taking care to distinguish between those markets that are thriving and growing and the ones that are languishing with shrinking populations and empty storefronts. The main qualifier often boils down to the size of the population. How large is the captive audience within that town, and also, how large is the population of the bigger trade area surrounding? Other questions: Is there a base of employers wherever there is an active daytime population? Do the people who live there also work and shop there? If not, then where are they shopping and spending their money?

Most retailers reasonably do not wish to go in ahead of the rooftops. They are also looking for small towns that show a positive growth trend and a rising, rather than a shrinking, population. “The critical mass really dictates how much retail the small town can absorb,” said Sechser. “Once you hit that saturation point, it doesn’t matter what you do, you are going to have vacancies.”

There are other factors that can tip the scales, such as any existing tourist attraction. Such infrastructure features as proximity to a major highway or interchange are a big draw as well. Destination retailers such as Cabela's or Bass Pro Shops have enjoyed success in smaller towns located along high-traffic interstates, as have outlet centers. Some retailers making the plunge will adjust their business models to boost profitability — they will reduce overhead by shrinking the footprint, say, or by cutting the costs on a store build-out. “How they navigate those concerns usually dictates how successful they are in smaller markets,” said Colvin.

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These days, retailers are becoming more conservative and strategic with their site selection than ever before. “Retailers in today’s climate don’t roll the dice on a new market,” said Howell. “They are not ‘pioneers’ — they are looking at where they have gone before and been successful.” This cautious instinct is forcing municipalities to work harder to draw retailers. Cities are doing their own due diligence and backing it up with third-party data and market analytics to help figure out which retailers are a good match, and then they are going out to solicit that business. “What a lot of these communities are starting to realize is that if they don’t proactively get on the retailer’s radar, then they never end up being in consideration for that retail location,” observed Howell.



Some need not work as hard as others, however. Small towns in the path of urban sprawl are in a good position to capture the new growth, especially in metros that are pushing out as they run out of land, according to Derek Anthony, a brokerage associate at the Fort Worth–based Woodmont Co. Anthony is an economic development committee member for the city of Justin, a suburb about 20 miles outside of Fort Worth that is home to a population of nearly 3,900. At present, the town has a comparatively small selection of retail businesses, among them a discount outlet for Justin Boots, a local bar and some restaurants. There is no grocery store, nor even a gas station. But Justin is poised for growth, with some 2,000 home sites now under construction or being planned. The surrounding 10 square miles boast a population in excess of 200,000, and the town reaps the benefits of its location at the intersection of two major thoroughfares and its proximity to the Texas Motor Speedway.

Justin is now reaching out to retailers with stores measuring between 30,000 and 60,000 square feet, including mass merchants and such specialized rural retailers as tractor or farm-supply stores. “I think the biggest challenge with rural America,” said Anthony, “is that they want the business, but they don’t know how to get it.” Those cities, he urges, need to present their sales pitch.

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