

**IMPACT OF AN ANTICIPATED**

**WAL-MART**

**ON**

**The Northern Neck**

**Including Kilmarnock and nearby communities**

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## **BACKGROUND**

Residents of Kilmarnock, Lancaster County and The Northern Neck have expressed a concern that a contemplated shopping center that would include a large Wal-Mart and possibly other businesses would potentially result in adverse effects on the community. The objective of this analysis is to examine likely economic and fiscal effects were Wal-Mart to locate in Kilmarnock. Both costs and benefits are considered to provide elected officials and residents with factual data where such information is available. Data sources include numerous Federal State and business publications. In this report, information not based on quantifiable data is identified as such.

## **AREA SIZE, CHARACTERISTICS AND TRENDS**

This study examines the likely impact of a proposed shopping center on the Town of Kilmarnock and nearby areas. In such an analysis, the first task is to determine the number and characteristics of shoppers at the proposed new business. As discussed later, the primary market area of Kilmarnock for most goods (and services) is Lancaster County. The secondary market area for the anticipated shopping center is part of Northumberland County.

### Market Area Variation

The specific market area for retail sales varies with the product sold. Convenience goods, for example (which are typically sold at a 7-11), tend to be purchased in close proximity to one's home or place of work. Shopper goods, or items people shop for (which comprises most of Wal-Mart or typical department store non-food sales), have a spatially larger market as would many of the products sold by Lowe's.

### Demographic Characteristics

The most notable demographic characteristic of The Northern Neck, including Kilmarnock, market area is its age distribution. As seen in Table 1, the two counties that form the primary and secondary market have the highest percentage of persons above the age 65 of any city or county in the entire Commonwealth of Virginia. It is one of the few places nationally where the number of deaths exceeds births. This means a very high retirement population - persons who elect to come to the area because of its high quality of life and rural setting. One out of three persons in the area is a Social Security recipient - again the highest percentage in Virginia. The critical nature of this demographic characteristic is discussed in more detail later in the report.

### Income Characteristics

Per capita income in Lancaster County is somewhat above the Virginia average, with

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Table 1

ECONOMIC AND DEMOGRAPHIC  
MARKET AREA CHARACTERISTICS

<u>Characteristics- Demographic</u>	<u>Lancaster C.</u>	<u>Northumburland County</u>	<u>Virginia</u>	<u>Lancaster as Share of VA</u>
Population (1996)	11418	12908	6,700,000	-
Under 5 Yrs	5%	6%	7%	0.67
65 and Over	26.8%	25.8%	11.2%	2.39
Birth Rate	9.1	9.2	14.8	0.61
Death Rate	17.1	15.1	7.9	2.16
Net Migration	1161	1155		
1990-1997	1161	1155		
Household Size	2.34	2.34	2.75	0.85
<u>Economic.</u>				
Social Security				
Recip. per 1000	328	306	143	2.29
Retail Employment	1030	901		
Average Payroll	\$17,894	\$22,421		
Retail Sales (1992)	\$90.5	\$33.3	60822	
Ret Sales Per Capita	7,926	2,580	9,078	0.87
Per Capita Income	\$27,420	\$21,498	\$24,010	1.14
Bank Deposits 1992	216855	133245	79799	
Per Capita	18,992	10,323	11,910	1.59
Tax.Sales 1996 Mil\$	82	38	53,923	0.15%
Per Capita 1996	7,450	2,918	8,048	0.93

household income close to the State average. Northumberland per capita income is, however, considerably below average. On the other hand, wealth (as measured by bank deposits) is 60 percent above the Commonwealth average in Lancaster County. The source of income is also unique among political subdivisions in Virginia, as a large share of income is from investments. Specifically, over two thirds of all income in Lancaster County is derived from dividends, interest and retirement pay. Earnings (mostly from wages and salaries) account for only 30 percent of all income. In no other Virginia County or city is there a parallel to this income distribution. In most of Virginia, the major income sources are earnings from wages and salaries (see Table 2). The critical nature of this demographic characteristic and the mobility it implies for the populace is discussed in more detail later in the report.

### Employment Characteristics

As shown in Table 3, employment at place of work in Lancaster County totals about 4,000. This is a below average rate given the population level. However, seasonal unemployment spikes but year round unemployment is low. Therefore, the rate is due to the population distribution. Most jobs are in services (40 percent), followed by retail employment (22 percent).

### Retail Sales Trends

Retail sales, as reported by the Virginia Department of Taxation, have risen very slowly in Lancaster County since 1994, below the growth in the State of Virginia. The 1992 Census of Retail Trade (Bureau of the Census) estimated all retail sales in that year at about \$85 million. Sales subject to local sales taxes were \$79 million in 1992, rising to \$85.1 million in 1996. The cause for the modest gains is the most likely the slow population growth.

## **PROPOSED NEW SHOPPING CENTER**

Kilmarnock, as noted earlier, is anticipating a proposal for a new shopping center, with approximately 109,000 square feet Wal-Mart Supercenter as the anchor. (Wal-Mart could also be a freestanding unit without other stores). There is a possibility that a Lowe's could also locate in the proposed center. However, a review of their location strategy suggests that this market is too small for a 100,000-sq. ft. or more stores they are now opening. Other locations (such as where the nearest Wal-Mart stores to Kilmarnock are located) would appear to be a more appealing site for such a large building materials store.

What, if any, other retail or service stores would locate in the shopping center is not known. Fast-food outlets typically locate near Wal-Marts, although most new Wal-Marts have such fast-food operations within the store.

### Wal-Mart Characteristics

Table 2

INCOME BY SOURCE IN LANCASTER COUNTY, VA

	Lancaster County		State of Virginia	
<u>Amount</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Earnings	\$8,431	30.75%	\$16,312	67.94%
Retirement Pay	\$6,122	22.33%	\$3,148	13.11%
Other Transfers	\$408	1.49%	\$274	1.14%
Dividends, Interest	\$12,460	45.44%	\$4,275	17.81%
Total	27,421	100.00%	24,009	100.00%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Table 3

**1998 LANCASTER COUNTY EMPLOYMENT**

<i>Sector</i>	<u><i>No. Jobs</i></u>	<i>Average</i> <i>Weekly Wage</i>	<u><i>No. Establish.</i></u>
Agriculture	94	\$293	18
Construction	216	387	52
Manufacturing	222	385	25
Trade- Wholesale	114	481	19
Retail	877	258	93
FIRE	290	694	41
Services	1568	385	166
Local Govt	401	391	6
State- Fed	87	579	14
Transportation	138	597	19
Total	<b>4007</b>	<b>\$392</b>	<b>453</b>

Source: State of Virginia

When assessing the economic viability of any retail business, the source of clientele is a primary issue. In the case of Wal-Mart, the issue is not complicated. Each Wal-Mart carries the same basic categories of merchandise. The Supercenter Wal-Marts also carry grocery items and some very large Wal-Marts include additional specialized departments, as observed in Tappahannock) but there is a common element to all stores. As a result of this consistency in product (but not consistency in price, per Wal-Mart's pricing policy), distance to the nearest Wal-Mart is a good guide to its market area. There are two Wal-Marts about 45 minutes driving distance from Kilmarnock: one in Gloucester and another in Tappahannock. As noted later, the latter is a very large (recently expanded) Wal-Mart, with what appears to be over 140,000 sq. ft of space. Because of its size and other shopping opportunities in the market area, which includes Warsaw, the Tappahannock Wal-Mart will probably continue to draw from much of Northumberland County. As such the market area for a Wal-Mart in Kilmarnock is expected to be all of Lancaster County and, as a secondary market, the eastern part of Northumberland County. The communities of Heathsville, Burgess, Reedville would be included as the secondary market, while areas west of Heathsville would be part of the Warsaw/Tappahannock market. Middlesex County residents are drawn to Gloucester. Some Kilmarnock area residents even with a local Wal-Mart may also shop at the other Wal-Mart stores- and conversely, a Middlesex resident could shop in Kilmarnock. Generally, however, the market areas appear stable based on current shopping patterns.

Kilmarnock does offer "higher market end" shopping opportunities that can attract more affluent shoppers from a larger market area. However, these consumers are typically not Wal-Mart shoppers because the store does not carry these higher quality products.

#### Population of Wal Mart Market and its Implications

The population of Lancaster County (as of 1996) was 11,418. This represents less than a one- percent annual growth since 1990 and there are no obvious reasons to assume a radical change in the growth rates. If we include one half of Northumberland County, the total Wal-Mart market area has about 18,000 persons. This appears to be substantially less than the market for any Wal-Mart in Virginia or in other states the writer of this report studied. There are currently 59 Wal-Mart stores (excluding Sam's Club) in Virginia outside Fairfax and Arlington counties (these two counties combined have about one million residents but only two Wal-Marts). With a net state population of 5.7 million, there is one Wal-Mart per 96,000 persons. Excluding the largest metropolitan areas in the State, the Virginia average Wal-Mart market has about 60,000 residents. Even in Arkansas (the state with the highest number of Wal-Mart stores per capita) there are 83 stores, or one Wal-Mart per 32,000 persons (although the average store size in the State is below the national average). Given these facts, why is Wal-Mart interested in this market with fewer residents than in Arkansas, the home of the chain?

Wal-Mart (as distinct from other businesses) apparently does not produce market studies as part of its location decisions unless required or asked to do so by local officials. Were such a study to be undertaken by Wal-Mart, it would help local elected officials to determine the impact of the store in Lancaster County. In the absence of such a study, we can only speculate on their motivation. However, Wal-Mart's interest is likely due to two factors: there is no sizable general



merchandise store in the market, and Wal-Mart has exhausted the most obvious sites. Because of this, Wal-Mart now has a policy to "backfill" gaps on a map where there are no Wal-Marts. An examination of Wal-Mart locations indicates that Lancaster County is such a gap. The company, as shown by the location of its newest stores such as in Woodstock, Va., is now closing gaps to assure that no one is more (except in very low density areas, such as Montana) than 30 minutes from one of its stores

The blanket coverage policy that is being carried out nationally is intended to maximize the Wal-Mart market and block competitors from entry into smaller markets. The policy seems to work, as per store sales continue to rise.

#### Sales in Market Compared to National Averages

The typical 109,000-sq. ft. Wal-Mart in 1997 had average sales of about \$330 per sq. ft. or \$36 million. By comparison, total taxable and prescription drug sales in the Lancaster County market area during 1998 are estimated at about \$95 million (some products, specifically motor vehicles and certain fuels, are not subject to sales taxes). Adding secondary market sales in parts of Northumberland County, total market sales total about \$110 million.

Taxable sales include restaurants, building materials and all other goods subject to the state sales tax. On this basis, Wal-Mart sales would equal about a third of all taxable sales in the market as defined. There are about 7,500 households in the total market area. This means that, on average, every household would have to spend about \$4,500 at the Wal-Mart each year. Nationally, Wal-Mart domestic sales are about \$110 billion (including Sam's Club), or about \$1,100 per household. Thus, local Wal-Mart sales would have to be 4.1 times the national average. However, the national average includes large cities with few stores. Therefore, a more reasonable local sales multiple would be 3-3.5 times the national average.

#### Comparison to Other Wal-Mart Stores in Virginia

The newest Virginia Wal-Mart store is to open in Woodstock during 1999. This is one of the smaller Wal-Mart markets in the State. However, the market area nonetheless has about 35,000 persons, twice the size of the local market. A smaller Wal-Mart in South Boston (opened in the 1980's) has a similar sized market of about 32,000 persons.

#### Is A Local Wal-Mart Viable?

Given the small market size, would Wal-Mart be a viable enterprise? At first, the response would appear to be *no*. But as will be shown, it could be viable and potentially profitable given a set of assumptions. It is important to note that between 1992 and 1997 Wal-Mart expanded the number of stores from 1,932 to 2,667. The number of stores closed during this period was 38 or 1.4 percent of the total. Thus 98.6 percent remained viable (Wal-Mart K-10 SEC filings). The typical Wal-Mart store generates pre-tax *profits* of close to \$2 million. By contrast other chains, such as K-mart, closed hundreds of stores in recent years with profits at best only a fraction of Wal-Mart.

# DISTRIBUTION OF WAL-MART SALES

Softgoods/domes	25%	5525000
Hardgoods	25%	5525000
Stationary&candy	11%	2431000
Record&'Electron	10%	2210000
Pharmaceuticals	9%	1989000
Sporting goods to	9%	1989000
Health& beauty ai	7%	1547000
Shoes	2%	442000
Jewelry	2%	442000
TOTAL	100.00%	22,100,000

This financial and closure record means that a Wal-Mart, once opened, is very likely to stay. Given that the Wal-Mart pricing policy can eliminate any competition, this is understandable. The worst situation would be for Wal-Mart to enter the market and leave after competitive stores are no longer present. This would leave local residents with practically no shopping options and must be considered.

## **WAL-MART MARKET SHARE**

The common method of comparing retail stores to each other is "market share". Typically, a proposed store estimates what share of current and future market area sales it would need to be economically viable. Given only slow sales growth in the area market, sales would have to be mostly from those generated by the current population base.

### Wal-Mart Food Products

There are three supermarkets in Kilmarnock: Food Lion (Lancaster Square Shopping Center), Vin-Dixie (Chesapeake Common Shopping Center) and Tri-Star Grocery. In addition, there is a Food Lion in Heathsville. The combined square footage of these stores is estimated at about 90-95 thousand square feet. In addition there are numerous other small providers of food products, perhaps adding another 17,000 square feet for a total of 107,000-112,000 sq. ft of space. Wal-Mart would add another 37,000-40,000-sq. ft. in an already crowded market given estimated sales per square foot. Currently the local food sales level indicates that there is some food shopping from residents outside Lancaster County. It could also be that local residents are purchasing more non-food items (such as school supplies, sundries) at these stores than in more urban markets. Current food sales in the market area are about \$ 38 million. (based on sales somewhat below national average per sq. ft. or \$340 compared to the \$354 average). Wal-Mart food sales would be about \$13.5 million (39,000-sq. ft. times \$345). Given that about \$13 million would come from existing stores in the market, the Wal-Mart share, would be 35 percent of the market.<sup>1</sup> Given the demonstrated ability of Wal-Mart to maintain high sales, its presence would likely lead to the closure of at least one, but more likely two of the weakest Kilmarnock supermarkets. Were this to happen, local shoppers would have less choice than at present.

### Non-Food Products

In addition to grocery products, Wal-Mart will sell other, more "traditional" products. Based on the typical Wal-Mart store profile, the most vulnerable non-food stores are in the following categories:

Low-medium priced apparel and shoes

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Wal-Mart sales of food products in SuperCenters are estimated in a recent article (*Supersizing the Supermarkets* New York Times November 13 1998) to be 50 percent of all sales. The article discusses the difficulty regional supermarkets have to stay in business in smaller cities when Wal-Mart enters the market

Record/Video  
Pharmacies/ over the counter drug and cosmetic products  
Electronics/small appliances  
Sports goods  
Low-end jewelry/watches  
Cards-low-end gift products  
Photographic  
Garden Supply  
Auto parts-general  
Hardware products-general  
Housewares

### Wal-Mart Capture Rate

Market residents currently shop elsewhere for certain products. This shopping can be divided into three categories:

- \* Products and specific brand names unavailable locally because market is too small (this is typical in all smaller markets.) Some of this shopping is by mail order or special order. Wal-Mart will typically not carry these specialized goods for the same reason local merchants do not sell these products - market demand is inadequate.

- \* Products available locally, but may, in some cases, be purchased at a lower price in large markets. For low-end brand name merchandise, Wal-Mart can "capture" this leakage,

- \* "Big ticket" items when buyers seek to look at numerous alternatives and only a few choices are available locally. Wal-Mart would rarely have these items.

Total primary market leakage is estimated in the \$30 million range with several million additional leakage from the secondary market, or a total of \$34 million. However, Wal-Mart sales from recapture would represent only a minority of their anticipated total sales. Grocery sales are projected to be \$13 million with virtually no recapture sales. Most recapture would be in non-grocery items. Based on observations in other markets, which did not have groceries (groceries generate additional traffic/sales in non-grocery items), at best 25 percent to 30 percent of sales now taking place outside the market could be recaptured, with 25 percent a more realistic upper estimate.

Many local residents, given their disposable income levels and age demographics, seek quality goods and choices not available at Wal-Mart. Others, regardless of income, seek a more competitive market area such as Newport News for expensive items including certain electronics (for example, Circuit City has many more TV brands and sizes and other product choices compared to Wal-Mart). Although Wal-Mart carries many goods, it by no means exhausts all consumer products. A 25 percent recapture rate would be \$8.5 million. This means that \$36 million less \$8.5 million, or \$27.5 million would come from local retail businesses. Of this total, \$13 million would be grocery sales, with \$14.5 million other merchandise.<sup>2</sup> A share of these potential

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<sup>2</sup> Every market has leakage. Even residents of Fairfax County shop by mail or in other

recapture sales probably now take place at the two nearest existing Wal-Mart stores. If Wal-Mart captures these and other sales now leaving the area, this would leave \$14.5m. to be captured from local merchants. However, this recapture level would be concentrated in certain shoppers goods, not across the board. Drug store items and hardware store goods, for example, would be essentially unaffected by recapture, as most persons already purchase these items locally. Most of recaptured sales would be such products as lower-end electronics, appliances, and low-end apparel.

#### Probable Impact of Wal-Mart on Existing Businesses

The distribution of sales by category as reported by Wal-Mart is shown in Table 4. The data in this table show how Wal-Mart sales of \$23 million in non-grocery items would be distributed based on their national sales pattern. Wal-Mart is estimated to capture at least \$13-\$15 m. from non-grocery local sales (the balance is recapture). Local "competitive" sales are shown to total \$25 m. Therefore, Wal-Mart would have to capture between 51 percent and 57 percent of local business enterprise sales in categories shown to have "average" sales (recent data show that Wal-Mart stores in Virginia have above average sales). This would mean that local merchants would lose a majority of sales to Wal-Mart. The actual percentages vary from 18 to 60 assuming a 30 percent recapture rate, higher assuming a 25 percent recapture rate.

#### **BENEFITS OF WAL-MART**

Although Wal-Mart is likely to have various direct adverse effects on local businesses and shopping areas, there are some benefits. The major plus is that local residents now driving to other Wal-Marts to shop will save on time and gas.<sup>3</sup> Also, Wal-Mart may carry some products not in the market at present. However, a review of local stores indicates that most product Wal-Mart carries- but not necessarily the same brands- are available. Finally, consumers could find lower prices on some items. However, in the absence of competition, according to studies and Wal-Mart pricing policies, Wal-Mart prices are higher in small towns than in competitive suburban markets.

As this report shows, these benefits are outweighed by costs to the community. A smaller (about 30,000-sq. ft.) general merchandise store addition to the community would benefit some households currently shopping elsewhere for products without the magnitude of negative impact Wal-Mart would create.

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markets for specialized goods or because prices are lower elsewhere.

▪ Wal-Mart knows exactly how much Lancaster County residents spend at nearby Wal-Mart. Therefore, local elected officials should be able to obtain this information if Wal-Mart were to file an application.

Table 4

ESTIMATED SOURCE OF WAL-MART SALES BY CATEGORY  
In Millions \$

<u>Category</u> <u>(defined by W-M)</u>	<u>% W/M *</u> <u>sales</u>	<u>Excl</u> <u>Grocery</u>	<u>Total W/M</u> <u>Food Sales</u>	<u>Non From Local</u> <u>Businesses</u>	<u>Recapture</u> <u>25%</u>	<u>Local</u> <u>Sales</u>	<u>Shift to</u> <u>Wal-Mart</u>	<u>Recapture</u> <u>30%</u>	<u>From Local</u> <u>Businesses</u>	<u>Shift to</u> <u>Wal-Mart</u>
Hardgoods**	23.00%	26.75%	6.15	3.8	2.35	5.5	69.09%	2.82	3.40	61.91%
Softgoods***	21.00%	24.42%	5.62	3.5	2.12	5.5	63.64%	2.54	3.14	57.02%
Groceries	14.00%	-----	0.00	0	0.00			0.00	0.00	
Pharmaceuticals	9.00%	10.47%	2.41	2.2	0.21	3.8	57.89%	0.25	1.97	51.87%
Beauty aids, health	7.00%	8.14%	1.87	1.2	0.67	2.5	48.00%	0.81	1.08	43.01%
Electronics, record:	9.00%	10.47%	2.41	1.4	1.01	2.3	60.87%	1.21	1.25	54.54%
Sporting, toys	8.00%	9.30%	2.14	1.2	0.94	1.8	66.67%	1.13	1.08	59.73%
Stationary	5.00%	5.82%	1.34	0.7	0.64	1.8	38.89%	0.76	0.63	34.84%
Shoes	2.00%	2.33%	0.53	0.3	0.23	1	30.00%	0.28	0.27	26.88%
Jewelry	2.00%	2.33%	0.53	0.2	0.33	1	20.00%	0.40	0.18	17.92%
	100.00%	100.02%	23.00	14.5	8.50	25.2	57.54%	10.20	12.99	51.56%

\* from Wal-Mart K-10 1998 report

\*\*Includes auto parts, hardware and electrical, paint, appliances (other than electronic), gift items, garden supplies

\*\*\* Includes apparel, home and kitchen furnishings (towels, sheets etc.)

## **IMPACT OF WAL-MART ON PROPERTY VALUES AND JOBS**

### Real Commercial Property Values

In addition to a shift in sales, Wal-Mart would have a specific impact on the downtown area of Kilmarnock and the two shopping centers outside downtown. As a result of a shift in sales, some existing businesses would experience severe problems (if the shopping center had other stores, the shift would be even greater). This, in turn, would reduce commercial property values in the downtown area and, perhaps most dramatically, at the two shopping centers. This pattern can be observed in Warsaw and Tappahannock with the closure of supermarkets, drug stores and other stores after Wal-Mart arrived and later expanded to become a SuperCenter. The expanded Wal-Mart, in addition to a supermarket, has a donut factory, bank, hair salon, video sub-store, vision center, pharmacy, pet sub-store and sells guns, bikes, flowers, and plants in addition to "traditional" merchandise. Although this is a larger market area compared to Lancaster County, the impact on other shopping areas is evident. In Warsaw (in Richmond County, about seven miles from Tappahannock) and Tappahannock, several pre-Wal-Mart shopping centers are mostly vacant. In the Warsaw Valley center a large supermarket (A to Z Foods) and a very large drug store (Warsaw Drugs) are out of business. The Warsaw Supermarket just closed, but the store signs remain as of November 1998. The Essex Square shopping center seems deserted, with numerous stores closed. None of this should be surprising, as sales at the Wal-Mart are probably well in excess of \$40 million. Total Essex County sales in 1996 were not much above those in Lancaster County. Even with the addition of Richmond County, the market could not absorb an enlarged Wal-Mart. The result- closed stores that are an eyesore and reduced value as commercial property. The significance of this shift in retail activity is obvious - Wal-Mart pays property taxes, but the gain, in the absence of rapid market expansion, is offset - and could be more than offset - by reductions in other locations. Recall that Wal-Mart sales per square foot exceed other stores, but initial property assessments are typically based on construction costs plus land value, not sales. In later years, property values are based on the market value of property. These values, in turn, are based on such factors as rent per square foot and values of similar property. These rents are based on demand, and with empty stores assessed values decline - which feeds back into assessments.

Retail space previously a supermarket but now empty has little market value. If a secondary use such as storage is found for the space, its value also declines compared to the use the space was built for. This is evidenced by the vacant strip across Route 17 from the Tappahannock Wal-Mart. This property was assessed at \$3.6 million in 1990, but adjusted downward to \$2.5 million in

1997. It is now for sale for \$1.5 million (a pending lawsuit against the County asserts the value is now less than \$1 million). The \$1.5 million asking price represents a \$2.1 million or a 58 percent decline in value in one vulnerable location.

A study of real property values in several small Iowa cities (about 6000 to 12,000 population) and their counties (about 18,000 to 25,000 population, including the cities) in the mid-1990's illustrates this same pattern. An examination of property values based on sales before and after Wal-Mart opened shows the adverse effect on values of down-town property following the opening of Wal-Mart.<sup>4</sup> The primary cause for stagnating commercial property values was the decline in the number of retail stores and the decline in sales in stores other than Wal-Mart within and outside the cities (in small towns) within a few years following the opening of Wal-Mart.

The assessed value of the (potential) Kilmarnock Wal-Mart store (other than land that already pays taxes) should be about \$3.5 million. The assessed value of commercial retail property in businesses likely to compete with Wal-Mart within Kilmarnock is about \$8-10 million. Were these property values to decline by 45 percent over time compared to what they would be in the absence of Wal-Mart, the decline would exceed the property gain from Wal-Mart. Reductions in sales from current estimated levels among existing businesses (grocery and other competitive goods) are about 45 percent. Given that property values decline in proportion to reductions in retail sales, the reductions in property values would be \$3.6 - 4.5 million. The precise net property value impact (which would take place over several years) would depend on such factors as the County assessor and the future business climate. The estimated assessed value of Wal-Mart was based on Iowa data, but construction costs should not be lower than in rural Virginia. These data show that offsets from existing property can eliminate gains in property values from new construction if there is no market for existing structures.

Often, local officials consider only property values based on new construction, and do not consider the effects of new commercial space on already present property values. In retail trade when there are small increments of new space based on a rise in demand, this is reasonable. However, the addition of a superstore such as Wal-Mart requires that the adverse effects on existing property values be considered carefully. Based on the Iowa data and observations in Essex and Richmond counties, this should be a significant issue locally.

### Employment Effects

Although Wal-Mart would employ a substantial number of mostly 20-34 hrs per week employees, this gain would be offset by reduced employment in existing businesses. An Iowa study indicates that there were few, if any long-term job gains from Wal-Mart. There were gains for a one-year period after opening, but after other competitive stores reduced their jobs, little net gain after the first year. Other studies in New York indicate significant net job losses as a real possibility. This should not be surprising because Wal-Mart sales per employee are substantially higher than for the typical store. Therefore, fewer employees are required to sell the same quantity of merchandise.

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□ *What Happened When Wal-Mart Came To Town?* Thomas Muller and Beth Humstone, The National Trust for Historic Preservation May 1996



Sales per retail trade employee in Virginia are estimated at about \$111,000. However, Wal-Mart sales are about \$146,000 per employee. This means that if local stores employ 133 persons to sell \$14.8 million in merchandise, Wal-Mart would need only 100 to sell the same amount. The sales at Wal-Mart are estimated at \$36 million. This would mean 246 mostly part-time (less than 36 hr. per week) jobs. At the same time, local market merchants would lose \$27.5 million in sales. Given \$111,000 in sales per employee, this can mean a loss of 248 jobs. Thus the gains from Wal-Mart are wiped out by losses from existing merchants.

Unlike manufacturing, new retail creates no jobs at the regional level: they shift jobs. If sales recapture rates are lower than shown; the potential job loss would be greater. If recapture rates were as high as 30 percent, there would be again of about a dozen jobs. This job impact analysis calculation explains why in Iowa, retail employment in towns with Wal-Mart showed no net gains compared to statewide trends. We would expect a similar pattern locally. There would be an initial rise in total retail employment, followed by a decline. The Iowa study shows that retail activity in small towns close to but outside the jurisdiction where Wal-Mart is located tends to fall substantially. Thus, some job losses take place in these communities.

## **OTHER ISSUES**

### Lowe's

As stated earlier it is unlikely, but by no means impossible, that a Lowe's would locate here. Were this to happen, the Lowe's market area would be larger than Wal-Mart for some of their products currently unavailable in Lancaster County. Because the nearest stores are in Fredricksburg and Newport News, some persons could be willing to drive an hour or more for certain "large ticket" items.

Were the store to open, the \$8 million current Lancaster County sales in building material as well as sales of major appliances would be extremely vulnerable. However, total market sales would account for only a small share of sales needed to keep a large Lowe's profitable. There would be an overlap in merchandise with Wal-Mart of perhaps 10 to 20 percent. The combination of Wal-Mart and Lowe's would totally alter the location of most retail business in the County. Combined sales of the two giant stores would be in the \$70 million category, or close to *all* retail sales in the County.

### Aspects of Wal-Mart and Lowe's Presence Unique to the Lancaster County Area

Although every market is somewhat different, The Northern Neck has several unique characteristics. First, demographics- about a third of the population is retired- could impact the volume of Wal-Mart sales significantly. This population spends more on travel and health than

younger groups. Second, parts of the population are more affluent than the average in the State and nation. Because this population lives in the area *by choice*, the quality of life in general and the preference to live in a semi-rural environment in particular are more important to community well being and growth than in a typical American community. Usually, we live in a community because jobs are there or because we grew up in the area and therefore find employment locally. In this instance, many households have relocated to The Northern Neck area simply because it is a nice place to live. Therefore, disruption in the pattern of traditional local trade, additional traffic, crime and other problems associated with huge commercial centers would have a more adverse impact on the image of the community than, for example, would be the situation in a typical suburban community. The Wal-Mart off Route 66 in a commercial area of Fairfax County (one of only two in the largest Virginia county because, given the competition, Wal-Mart would have to charge lower prices than in smaller Virginia markets-hence less profit) is located near four other superstores. Therefore, it has little impact on the local quality of life. But Fairfax is very different from the Northern Neck. Lancaster County has The Tides Inn, a highly rated resort that is favored because of its attractive rural, peaceful location as well as several large high quality retirement communities whose residents are attracted to the area by the location. These enterprises, it should be noted form the backbone of local service employment and could be left very vulnerable if 'quality of life' were degraded.

It is almost impossible to quantify without extensive surveys this quality of life impact, but it is nonetheless present and anecdotal evidence indicates it is a significant factor. Combined with other, more quantifiable effects discussed in this report, it should be given considerable weight in evaluating the impact of the proposed center on local communities.

### Secondary Effects

The type of changes in retail activity induced by Wal-Mart could have secondary effects on businesses and activities other than retail trade now located in the small downtown area. This pattern has been observed in other small cities as activity shifts to a new commercial center. Over time, the Wal-Mart commercial area would expand, with additional commercial activity moving from existing areas to the new location.

Secondary effects beyond the scope of this paper include crime, traffic congestion, fire protection, environmental degradation and other issues that should not be ignored.

## ***Appendix 1***

### ***Retail Stores in Market Potentially Impacted By a Wal-Mart Center\****

#### ***White Stone***

Bay Flooring  
White Stone Pharmacy  
Lamberth Building Materials  
Garden Center

#### ***Irvington***

Garden Center  
Auto Repair Store  
Specialty Shops

#### ***Kilmarnock***

Main Street  
Planing Mill  
Jewelry Stores (upper end)  
Hospitality Carpet Store  
Mens and Womens stores (mid to upper end)  
Main Street Gift Company Store (small)  
Kids clothing store  
Furniture/furnishing  
TV, appliances  
Gifts (small)  
Jewelry (lower end)  
Kilmarnock Pharmacy/drug store  
Home furnishing/ appliances  
Womens apparel (upper end) (2)  
Apparel (lower end)

Appliances  
Furniture/furnishing (lower end)  
Auto parts (large)  
Auto store (smaller)  
Eubanks Hardware  
Shoe store (low-middle)  
Restaurants

**Other Lancaster County**

**Lancaster Square Shopping Center**

B&D Video  
Cards and Gifts  
Record Shop  
Radio Shack  
JT Harris (moderate clothing)  
CVS Pharmacy  
Dollar Store  
Food Lion

**Chesapeake Common Shopping Center**

Sears appliances, electronics  
Capri Jewelers (lower end)  
Gift Store  
Cato Jr. (lower end clothing)  
Dollar General  
One our Photo  
Winn Dixie w/ Pharmacy

**Other Kilmarnock**

Urbanna Lumber  
Electrical and plumbing

**Lively VA**

Hardware store (small)  
Drug store (small)  
Market (small)

**Heathsville (Northumberland)**

Hardware Store  
Garden Supply  
Family Dollar  
Food Lion

**Burgess, Va (Northumberland County)**

Building Supplies  
Video (small)  
Market (small)

**Reedville, Va (Northumberland)**

Market (small)