

TABLE 5 APPAREL AND HOME & HEARTH NICHE SALES JAN. TO APRIL 2007 AND 2008					
CLOTHING & CLOTHING ACCESSORIES STORES: sales in \$millions					
Yr	Jan	Feb	Mar	Apr	YDT
2007	18752	18579	19008	18458	74797
2008	18913	18752	18892	19020	75577
% delta	0.9%	0.9%	-0.6%	3.0%	1.0%
FURNITURE & HOME FURNISHING STORES: sales in \$millions					
Yr	Jan	Feb	Mar	Apr	YDT
2007	10024	10012	10037	10019	40092
2008	9515	9476	9494	9505	37990
% delta	-5.3%	-5.7%	-5.7%	-5.4%	-5.5%
ELECTRONICS & APPLIANCE STORES: sales in \$millions					
Yr	Jan	Feb	Mar	Apr	YDT
2007	9277	9199	9161	9142	36779
2008	9333	9372	9377	9511	37593
% delta	0.6%	1.8%	2.3%	3.9%	2.2%
SOME SPECIALTY APPAREL AND GENERAL MERCHANDISE CHAINS					
Name	Total Sales \$YTD 2008	Total Sales \$ YTD 2007	Total Sales % Delta	YTD 2008 Comp % Delta	
Aeropostale	\$336.30	\$276.0 M	22.0%	10.0%	
American Eagle Outfitters	\$640.3 M	\$612.4 M	4.4%	-6.0%	
Pacific Sunwear	\$266.8 M	\$267.9 M	-0.4%	-1.0%	
The Limited	\$1.925 B	\$2.311 B	-10.6%	-8.0%	
Chico's FAS	\$409.6 M	\$453.1 M	-10.6%	-17.5%	
Talbots	\$542 M	\$574 M	-5.9%	9.8%	
The Gap	\$3.38 B	\$3.55 B	-5.0%	-11.0%	
The Children's Place	\$400.2 M	\$356.0 M	11.0%	5.0%	
Ross Stores	\$1.556 B	\$1.411 B	9.3%	3.0%	
Saks Inc.	\$853.4 M	\$786.0 M	7.9%	8.4%	
Bon Ton	\$700.2 M	\$737.6 M	-5.3%	-4.6%	
Gottschalks	\$125.1 M	\$141.8 M	-13.3%	-10.3%	
Stein Mart	\$352.1 M	\$376.1 M	-6.8%	-9.3%	
Kohl's	\$3.62 B	\$3.57 B	1.4%	-6.7%	
Target	\$14.3 B	\$13.6 B	4.9%	-0.7%	
TJX Cos.	\$4.4 B	\$4.2 B	4.5%	N/A	
BJ's	\$2.26 B	\$2.01 B	11.1%	9.6%	
Costco	\$46.88 B	\$41.90 B	10.6%	8.0%	
Family Dollar	\$4.67 B	\$4.68 B	-0.2%	-0.7%	
Wal-Mart	\$59.736 B	\$56.559 B	5.3%	1.8%	
Sources: PR Newswire's Monthly Retail Sales Comparison, U.S. Bureau of the Census, Business Wire Retail Report On April 2008 Retail Sales Figures					

F. APPAREL AND HOME & HEARTH NICHES: the growing importance of independent operators.

These are two important downtown niches, though for quite divergent reasons. Both are now facing challenges, with many chains going out of business (e.g., Domain, Sharper Image, Bombay, Levitt's, etc.) and others closing many stores (Ann Taylor, Talbots, etc.) Nevertheless, looking to the future, there are reasons -- and opportunities -- that should motivate downtown organizations to look into strengthening these niches in their districts.

One trait they share is that their future well-being and growth will be increasingly dependent on having successful independent operators.

1. Apparel. Females are our most important and powerful shoppers. Quite often, they judge a downtown by the quality and variety of the shops that sell clothing, shoes and accessories for themselves and their children. Furthermore, in a heavily time-pressured society, having such shops nearby in one's downtown is a convenience, an amenity, an addition to the community's quality of life. Certainly, apparel shops also add diversity and stimulate interest in strolling and window shopping.

In our consulting assignments, DANTH almost invariably is asked how a specific apparel shop or two can be attracted to the client's downtown – often by elected officials. Recurrently, there is a demand for apparel shops based not only on the desire for merchandise, but also on the hoped for pride and psychological satisfaction generated by having one of "those" stores in the downtown. They are seen literally as trophy retailers.

The problem is that, for some time, apparel has been a very tough and competitive industry – and the recent economic downturn has made it even tougher for downtown apparel niches.

The Current Slump. Looking at Table 5, comparing the total sales of clothing and accessories retail chains during the first four months of 2008 to the same time period in 2007 surprisingly seems to indicate slightly stronger sales in this "recession" year. But, looking further down the table to the sales revenues of some key clothing and general merchandise store chains shows a more complicated situation that is consistent with these observations:

- Most of the specialty middle market women's apparel chains with some record for placing stores in medium- sized and large downtowns -- e.g., Chico's, Talbots, and The Gap –have lower sales in 2008 than in 2007 (see Total Sales % Delta column). Looking at the comparable year to date sales for stores opened in 2007 and 2008 (in the YTD column), shows even more substantial sales declines for Chico's and The Gap; the figure for Talbot's is only positive because they closed a lot of

unproductive shops. Ann Taylor's LOFT stores reported same store sales for the first quarter of +0.7%, while the regular Ann Taylor stores had a "comp" decline of 11.5%.

- Even mall-loving clothing chains – e.g., The Limited, Pacific Sunwear, and the "hot" American Eagle Outfitters – had decreased same store sales revenues.
- Middle market weakness extends to non-discounter, department store chains that sell a lot of apparel – e.g., see Bon-Ton and Gottschalks in Table 5. Macy's also reported a 2.5% same store sales decline for their first quarter of 2008.⁴⁸
- The consumer drawing power of design has diminished, but not disappeared. "Cheap Chic" general merchandise chains – e.g., Stein Mart, Kohl's and Target experienced comparable store sales declines in 2008. However, other reports indicate that J.Crew, which offers a more upscale design + affordable price formula, and Urban Outfitters, which has a very unique line of clothing and distinctively designed stores, are both doing well during the current downturn
- Big box discounters –e.g., Wal-Mart, Costco and BJ's – had increased same store sales. Ross Stores, a discount women's apparel chain that sometimes locates in large downtowns, also had increased same store sales
- Saks, an upscale department store chain featuring many designers, had increased same store sales.
- Aeropostale had a 10% increase in same store sales, in marked contrast to their competitors in the teen market, American Eagle Outfitters and Pacific Sunwear
- The Children's Place, a moderately priced children's apparel chain that frequently locates in downtowns, had increased same store sales. Gymboree, on the other hand, reported a 17% reduction in first quarter sales compared to last year, but managed a 30% increase in earnings per share.⁴⁹

Summing up, in the current economic doldrums:

- Some apparel retailers are doing okay while others are taking substantial hits
- Those that offer something strongly unique – such as low prices, very distinctive and desirable design, an outstanding shopping environment, etc. – appear to be coping with the economic headwinds
- As are the retailers focused on upscale shoppers
- Those currently being pushed back by the economic headwinds are the middle- and upper-middle market specialty retail chains. These, among apparel chains, have been the most willing to open in downtown locations
- It is very reasonable to anticipate that chains such as Chico's, Ann Taylor, Talbot's, etc., will be opening far fewer new stores and making much tougher assessments of potential new store locations

- It consequently will be a lot more difficult for downtowns to recruit these apparel chains.

TABLE 6										
Annual Growth GAFO '96-'05 Compared to Apparel, Home Furnishings and Electronics										
Year		1996	1997	1998	1999	2000	2001	2002	2003	2005
GAFO	annual growth	106%	105%	104%	108%	107%	103%	103%	105%	108%
Clothing	annual growth	104%	103%	106%	107%	105%	100%	103%	104%	106%
	GAFO diff	-1.9%	-1.9%	2.0%	-0.6%	-2.3%	-2.9%	0.2%	-1.2%	-1.3%
Wmn Clothing	annual growth	98%	99%	102%	104%	106%	100%	99%	104%	107%
	GAFO diff	-7.5%	-6.1%	-2.5%	-3.4%	-0.8%	-2.7%	-3.5%	-0.8%	-0.9%
Furniture/ home furnishing	annual growth	107%	107%	106%	109%	108%	100%	103%	103%	108%
	GAFO diff	0.8%	2.7%	2.1%	1.2%	0.9%	-2.4%	0.4%	-1.7%	0.3%
Electronics store	annual growth	106%	102%	106%	106%	104%	98%	104%	104%	109%
	GAFO diff	-0.3%	-2.2%	2.1%	-1.7%	-3.2%	-5.1%	1.5%	-1.1%	1.4%
Sources: DANTH calculations based on Bureau of the Census data.										

A Longer View. The apparel industry has not been a high growth industry for some time. Between 1996 and 2005, nationally, the sales of clothing stores grew each year, but in 8 of these 10 years the growth was below that of all the stores that sell the kinds of merchandise that a department store might offer (GAFO). Looking at women's clothing, the shops in this group had no growth in 3 of the 10 years and lagged behind the GAFO sales every year.

These data suggest that even if the economy rebounds, most small and medium-sized downtowns still will be challenged when trying to recruit well-known women's apparel chain stores.

Another factor that diminishes the ability of most small and medium-sized downtowns to attract quality apparel chains is the growth of rival commercial centers – not only the nearby malls and power centers, but, also successfully revitalized downtowns with robust retail offerings. Using northern New Jersey towns as examples, the proximity of the Short Hills Mall limits what can be recruited to downtown Millburn and downtown Summit. Teaneck's ability to attract strong national retailers is constrained by the success of downtown Englewood, as is Cranford by the *de facto* lifestyle mall that has emerged in downtown Westfield.

The Opportunities. While the apparel chains are unlikely tenant prospects for most small and medium-sized downtowns, there may be some opportunities for small, independent apparel retailers. However, these opportunities will not be easy to realize.

DANTH's recent field work has discovered several instances where there is more than sufficient unmet demand for apparel within a five-minute drive shed to support a new store with \$300,000 to \$400,000 in annual sales. Such revenues may be too low for a large national chain, but very adequate for an independent operator.

However, to succeed, the new merchant will need an affordable commercial space. Typically, that will translate into total space costs being about 10% of sales -- and not exceeding 15% of sales. In turn, this would mean that the new apparel operation probably would occupy less than 2,000 sf of retail space. Moreover, this space is unlikely to be a "vanilla box" condition or in a new building, but more likely in an older building that is in "good enough" condition.

DANTH's recent projects also suggest that the following types of apparel operations warrant investigation to see if they are viable in a particular downtown:

- Children's clothing shops aimed at a specific and significant local consumer niche group, with owners from that group.
 - El Bambi in WNY (NJ)
 - Groovy on Grand in Croton- on-Hudson (NY)
- Women's clothing, if:
 - The downtown already has important traffic generators
 - The operator can source quality merchandise appropriate to the local market
 - The operator is a local mommy and/or a local who is a member of a large ethnic group within the community
- Women's apparel shops aimed at the very high-end shopper, featuring important designers, and having an exceptionally high level of pampering customer service as a key element of their operational plan
- High quality consignment shops. The regional Milk Money chain is one example of such shops.

Sourcing is critical because the whole nature of the fashion industry in the United States has changed. In years past, the Garment District in Manhattan was a world class center for small companies that designed, manufactured and distributed apparel. Many of the owners and managers of these companies lived in suburban communities like Englewood, NJ and Forest Hills and Great Neck in NY. Their wives often were able to open interesting and successful apparel boutiques in their home towns because they had worked in the business and their family connections gave them a network for sourcing very fashionable merchandise. However, over the last 20 years, manufacturing has gone almost completely offshore. As a result, fewer new independent apparel retailers are being generated with roots in the garment district.

It is highly likely that these small, independent apparel shops will be started by "newbie's" to the retail business.

As noted above, several downtowns in NJ have reported mothers opening apparel shops. DANTH believes that apparel shops opened by newbie local women -- especially if they are mothers -- are more likely to succeed than a shop opened by outside merchants because of their involvement in local social networks, greater knowledge about local tastes, and a relatively rich professional background.

In recent years, DANTH has observed, among a declining number of new independent apparel retailers, many immigrants trying to transfer their retail experiences in their home countries to American locations. They often have a good deal of success when there are many shoppers nearby who share their ethnic background. These immigrant merchants also benefit from the networking provided by their local ethnic group.

In many instances, the opportunities to open small independent apparel will not be either recognized or realized without the proactive intervention of a downtown organization. Among the tasks that the district organization might undertake are:

- Having market research done that can identify the opportunities
- Identifying and cultivating possible entrepreneurs
- Helping -- directly or indirectly -- the entrepreneurs form a viable business plan, find appropriate affordable space, find loans or investors, etc.

This heavy business development role is predicated on the anticipated need to find and nurture newbie retailers.

2. Home And Hearth Niches. For decades, revitalization advocates have searched for a type of retailing that can thrive in downtown locations despite the presence of nearby malls and big box discount retailers. In field visits to scores of downtowns across the nation, DANTH has found that home and hearth niches are very often the answer.

Home and hearth niches are groups of shops that feature goods and services that enable shoppers to make their homes more comfortable, more entertaining and more beautiful. It can include retail establishments selling furniture, carpets, antiques, table top goods, window treatments, hardware, electronics, art works, picture frames, tiles, appliances, kitchen and bathroom equipment, plumbing supplies, telephones, gardening equipment, etc. it also can include architects, plumbers, carpenters, contractors and service firms that deal with lawns and septic tanks.

Usually, the firms in this niche are overwhelmingly independent operators or parts of small regional chains. In the niche, they are able to penetrate large trade

areas. Many are quite content in smaller spaces that are in decent, but not vanilla box condition.

Some of the downtowns that have strong home and hearth niches are Englewood (NJ), Red Bank (NJ), West Hollywood (CA), Forest Hills (NY), and Meredith (NH), which vary considerably in size.⁵⁰ The West Hollywood niche is huge and acts as an extremely strong destination shopping center that draws from Los Angeles, Orange County and beyond. Englewood's niche has long brought affluent shoppers downtown who live or work within a 15 minute drive shed. The Red Bank niche is very strong downtown, where such national chains as Restoration Hardware, Duxiana and California Closets anchor it. But, this niche is further strengthened by a large cluster of antiques shops within easy walking distance. The Forest Hills niche has become stronger after a Home Depot opened within a few hundred feet.

The Current Doldrums. The home and hearth niche is very dependent on the housing market and the niche's current economic woes has traced the decline in home values. A number of well-known chains in this niche recently have gone belly-up, and others are contracting. In number of instances, closing the business was due more to poor management than the recent housing meltdown.

DANTH believes that demand for this niche's products and services soon will begin to grow as consumers start to put more money and attention into fixing up their current homes instead of buying new ones. Home Depot and Lowe's have already pivoted their marketing campaigns in that direction.

Economic conditions have also sent Americans into more "cocooning" in their homes which is leading to continued sales of flat screen TVs and other home theater accoutrements.

Longer View. Furniture and home furnishings averaged an annual increase in sales of 5.8% between 1996 and 2005 and this category's sales were higher than GAFO sales in 8 out of 10 of those years. The figures for electronics are more problematical and often dependent on the next big electronics product..

DANTH expects that as the current housing crisis is resolved and household formation again rises, sales in home and hearth stores will follow suit.

Opportunities. DANTH believes that most small and medium-sized downtowns have a better chance of recruiting independent operators in the home and hearth niche than similar firms selling apparel. Time and again, the independent operators in this niche have demonstrated that they like to cluster together in downtown locations.

Class B retail spaces often meet their space requirements and budgets.

Now is a good time for downtown organizations to try to reposition their retail array by strengthening their home and hearth niches.

DANTH believes that relatively few of the tenant prospects in the home and hearth niche will be "newbie's." The role of the downtown organization in growing this niche will involve an effective recruitment effort, but not the business development actions that the apparel shops require.