THE ECONOMIC IMPACT OF NEW GROCERY STORE DEVELOPMENT

STUDYING THE EFFECTS OF NEW GROCERY STORE DEVELOPMENT IN UNDERSERVED COMMUNITIES

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Abstract

This report measures and explains the way that new grocery store development in underserved neighborhoods impact economic development. This study evaluates a new grocery store’s economic impact in six critical areas:

1) Job Creation
2) Income Creation
3) Tax Revenue Creation
4) Impact on Surrounding Residential Real Estate
5) Impact on Surrounding Commercial Real Estate
6) Lower Food Costs

The research shows that when these six effects areas are considered together, the potential economic impact of a new grocery store in a food desert is immense. The most important of these topics is the new stores ability to create jobs, local income, and it effect upon the surrounding real estate. National data shows that a new grocery store can have an employment multiplier of nearly 20, meaning that for every directly created job, 20 more are either created or supported elsewhere in the economy. Furthermore, between 50 and 75 percent of directly created jobs are filled locally, helping to pump income into the local community. Thirdly, the opening of a new grocery store has an immediate and significant effect upon commercial and residential real estate. Data from the Pennsylvania Fresh Food Financing Initiative indicates that the opening of a new store instantly boosts home values by between four and seven percent and reverses negatively trending home values. While the effect on commercial real estate is less measurable, it is no less significant. The new store acts as an anchor retailer, attracting smaller retailers to the area and helping to
reduce community vacancy rates and spur economic development. Lastly, the new store will reduce the cost of food to the local community by providing food at cheaper prices than local convenience stores and by removing many of the unnecessary transportation costs that food desert residents frequently encounter.

Illustrating these potential impacts, the proposed development of a new Jack and Jakes Grocery Store on O.C. Haley Boulevard in the Central City neighborhood of New Orleans is a perfect case study. As defined by the USDA, Central City is a low-income food desert. For years it has suffered serious economic decay that has seen its main commercial corridor, O.C. Haley Boulevard, become completely defunct. However, in applying national data and several widely accepted economic theories, this report concludes that the development of a new grocery store in this area is ideal. The new store will help to make community attractive to economic investment and redevelopment once again. By providing jobs and income to the surrounding community, retail demand in the area will be increased. This in turn will make the commercial corridor more attractive to businesses. Furthermore, as an anchor retailer, the new grocery store will further promote economic development by helping to apply downward pressure on community vacancy rates, both residential and commercial.
Client Overview

Alembic Community Development is a community minded development firm based out of New York. It is the result of a merger between Warnke Community Consulting and Alembic Development Company. By merging, the single integrated firm has been able to combine Warnke’s experience as community development designers and Alembic Development Company’s experience building community housing and space.

As Alembic Community Development, the firm has taken on a number of challenging projects in the Greater New York City Area as well as along the Gulf Coast in the post-Hurricane Katrina era. Major projects include the Rebuild Chinatown Initiative in the wake of 9/11 and a major role in the creation of Hope Community Development Agency, a community-based non-profit relief and development organization created to help rebuild and revitalize Biloxi, Mississippi after Hurricane Katrina.

Most recently, Alembic Community Development has opened an office in New Orleans, seeking to play a role in the city’s historic, post-Katrina revitalization. Currently, this office is working to building a new 22,800 square foot Jack and Jakes Grocery Store on O.C. Haley Boulevard in the Central City neighborhood in New Orleans. To aid in this effort, Jon Leit and Mike Grotte, who head the New Orleans Office, have asked for a report detailing the potential economic impact of the proposed development to the surrounding community. This report will seek to satisfy that demand.


Introduction

In the United States, food deserts—particularly in urban low-income neighborhoods—are a major problem. The United States Government defined food deserts in The Food, Conservation, and Energy Act of 2008 as, “an area in the United States with limited access to affordable and nutritious food, particularly such an area composed of predominantly lower-income neighborhoods and communities.”¹ A 2009 USDA Report to Congress, commissioned by The Food, Conservation and Energy Act, reveals some disturbing statistics regarding the amount of American citizens who do not have adequate access to grocery stores. According to the report, 23.5 million people live in low-income areas² that are more than 1 mile from a supermarket or large grocery store.³ More specifically, of that amount, 11.5 million – or 4.1% of the total United States population – qualify as actually being low-income residents.⁴

In a general sense, food deserts are areas where access to fresh groceries at an economically reasonable rate is significantly deprived.⁵ However, how those groceries are deprived varies greatly. In some cases, a food desert can be defined simply by not having a supermarket within a specific distance, typically one mile or less. In this case, the simple absence of the supermarket can create a food desert. In other cases, particularly in urban

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² The Federal Government considers an area to be “Low-income” if 40% or more of an area’s residents have income that is at or below 200% of Federal Poverty Thresholds.
settings where car ownership among residents may be considerably lower than suburban and middle to upper income communities, forcing them to rely on taxis or public transportation to get to grocery stores can create a similar effect. The 2009 USDA Report to Congress found that 2.2% of all American households, or approximately 2.3 million people, live more than a mile from a grocery store and do not have access to a vehicle.\footnote{Report to Congress: Access to Affordable and Nutritious Food; Measuring and Understanding Food Deserts and Their Consequences. U.S. Department of Agriculture, Economic Research Service. June, 2009} Due to the extra expense of paying for a taxi, bus, or subway ride, the cost of food becomes economically unreasonable, effecting the amount and quality of food that a neighborhood ultimately has access to. As more is spent on transportation, less is left to be spent on groceries.

The consequences of inadequate food access can be dire for many of these communities which often exhibit higher rates of obesity, lower than expected household income and sometimes widespread economic decay as neighborhoods fail to attract reinvestment and economic development. While the effect on public health due to this problem has been heavily studied and championed in recent years by private academics such as Dr. Diego Rose of Tulane University’s School of Tropical Medicine, Federal and State agencies such as the USDA, and politicians such as Michele Obama, the economic consequences of food deserts have been far less studied.

This report will seek to determine those consequences and explain how development of grocery stores in food deserts can be catalysts to economic development in
their respective neighborhoods. This report shows how new grocery store development in food deserts, particularly in urban low-income food deserts, advance community economic development in several ways. 1) New grocery stores are typically large employers. To understand the impact of these jobs, the employment multiplier effect and the three levels of job creation – direct, indirect, and induced labor – is discussed. 2) The wages earned by locally sourced employees have a large effect. The income multiplier explains how every dollar pumped into the local economy ultimately gets recycled several times, providing a distinct economic boost. 3) As a high sales location, new grocery store development can provide a major boost to the city and parish sales tax base. 4) New grocery store developments provide a major boost to residential and commercial real estate. 5) New grocery stores in food deserts help to lower the cost of food to residents, allowing more dollars to be saved or spent in the local economy. In order to illustrate these effects, the proposed development of a new Jack and Jakes Grocery in the Central City/O.C. Haley Boulevard neighborhood, one of the poorest food deserts in New Orleans, will be used as a case study.

**Part One: The Economic Impact of New Grocery Store Development**

In order to understand the full economic impact of a new grocery store, two major economic concepts – the employment multiplier and the income multiplier – need to be explained. Each of these concepts explains a vital way in which the introduction of a new economic actor, such as a grocery store, effects the local, regional, and national economies
in which it participates. Together they explain how the business practices of a local economic actor, such as a grocery store, create jobs and wealth and how they can act to keep that wealth within the local area as much as possible.

**Job Creation and the Employment Multiplier Effect**

The employment multiplier effect is an economic term that refers to an asset’s ability to create employment opportunities in the economy beyond the direct or primary level. In fact, economic actors, such as grocery stores, can experience three levels of job creation: direct, indirect, and induced. Direct jobs are those jobs that are produced directly at the store. So, for example, a cashier or floor supervisors are examples of jobs created directly at the store. Indirect and induced jobs are jobs created outside the primary economic actor, but are attributable to spending activities of that primary actor. Josh Bivens, in a 2003 report from the Economic Policy Institute entitled *Updated Employment Multipliers for the U.S. Economy* explains how these indirect and induced jobs are created.

The indirect employment (or, *employment multipliers*) associated with jobs in any given industry results from three effects: *supplier* effects, *responding* effects, and *government employment* effects. *Supplier* effects are impacts that job-creation or destruction in an industry has on supplier industries... *Responding* effects are the impacts that job creation or destruction in an industry has on those sectors where workers spend their paychecks... *Government employment* effects refers to the taxes that support jobs in federal, state, and local government.7

Therefore, in the case of a grocery store, a truck driver whose job it is to transport produce from a distributor or farm to the grocery store would be an example of indirect

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employment. The last type, induced jobs, are jobs that are created as direct and indirect employees spend their earning in the larger regional or national economy, thereby creating jobs in other sectors. While a grocery store’s direct employment may have a specific impact in a local community; it’s true impact upon the regional and national economy is much larger.

In order to understand how an economic actor such as a grocery store creates these jobs, consider a fictional supermarket (“the Store”) which sells a fictional product, widgets (to be referred to as “W”). At this Store, 100 people are employed to work as stockers, managers, cashiers, and so forth. However, this store merely sells a final product; it does not create it. In order to create a W, it has to be grown at a farm. To satisfy the Store’s demand for W, several farms are required to grow Ws. Therefore, the Store spends money to purchase Ws from five regionally located farms. At each of these Farms, 20 people are employed. Furthermore, a trucking company is hired to transport Ws from the farms to the Store. The trucking company employees 50 people to do this. While perhaps that truck driver services more than one grocery store, the fact is that because the grocery store needs product to sell, it spends money to buy the product and pays for it to be transported to the store. This spending creates the need for the truck driver. Therefore, while the Plant has created 100 direct jobs it has also indirectly created and supported another 150 jobs elsewhere for a total direct and indirect employment of 250 people.

| Direct Jobs Created at Store: | 100 |
| Indirect Jobs Supported at Farms: | 100 |
| Indirect Jobs Supported at Trucking Co.: | 50 |
Total Direct and Indirect Jobs Supported: 250

Then, as these employees spend their income on goods and services in the larger economy they will help to create even more jobs. For example, consider the truck driver who makes an income of $30,000. If he spends one third of his income on housing, as is the typical national average, then jobs in the real estate fields are supported as $10,000 is spent on rent. In turn, the landlord who collects this rent uses this money in turn to operate the property by employing the services of a manager, maintenance workers, accountants, etc. These third tier jobs – the banker or property manager – are examples of induced labor.

When all of the direct, indirect, and induced jobs are added up a metric known as the employment multiplier is created. The multiplier allows economists to compare how different economic actors, in different sectors, are able to create jobs throughout the economy. This multiplier is expressed as number that describes the amount of indirect and induced jobs that are produced per created direct job. Therefore, if the fictional grocery store produced 150 indirect and induced jobs for the 100 direct jobs it created, its employment multiplier would be 1.50. This metric is extremely important to understanding how the creation – or destruction – of a major job center will impact different market areas.  

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Creation of Direct Jobs

As stated above in the employment multiplier section, one of the most important products of new grocery store development is the creation of stable, permanent jobs. In general, grocery store employment is a major part of the United States economy. According to the U.S. Bureau of Labor Statistics expenditures at “Food and beverage stores” supported 3.0 million jobs in 2009.\(^9\) Full service grocery stores often require employees nearly around the clock. Employers require some labor full-time during business hours to service customers and then, during off-business hours, need shifts to restock the store and receive shipments overnight. However, the majority of grocery store jobs, approximately 84% on average, are part-time.\(^{10}\) While these jobs are most-often entry level positions at minimum wage, they can have a great economic impact upon the surrounding community. According to a 2008 Study of the Pennsylvania Fresh Food Financing Initiative (PFFFI), 75% of jobs created by new grocery stores and supermarkets in underserved areas were filled by local residents who lived within 3 miles of the store.\(^{11}\) This is important as new grocery jobs in a neighborhood can instantly help to reverse economic grocery retail leakage.\(^{12}\)

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\(^{12}\) Leakage refers to money that should be spent in a local economy but instead is spent outside the local area, often as a result of a lack of a specific service. In the case of Central City, the lack of a grocery store forces consumers to have to travel outside of the local area, often to stores in other neighborhoods many miles away, in order to purchase food goods. The result is that instead of spending their money at a local store – who then in turn spends a lot of that money locally, particularly on locally sourced labor – they end up shopping somewhere else, giving the benefit of that spending to a completely different community. There will always be some leakage in any economy. However, they key is to identify the sectors and industries that experience the most amount of leakage and stop it. Bernie Ward and Julie Lewis of the New Economics Foundation in England compare a local economy to a bucket. In a perfectly functioning economy, all of the holes are plugged and the bucket fills up with money. However, in reality, this bucket has numerous holes in the sides and bottom which allows money to escape. Therefore, in order to
According to a 1999 study entitled *New Markets: The Untapped Retail Buying Power in America’s Inner Cities*, as a result of being significantly underserved, inner city neighborhoods leak approximately $8.7 billion to surrounding grocery destinations.\(^{13}\) Most often, inner city grocery dollars leak to grocery stores and supermarkets outside of their city boundaries, particularly to the suburbs. A 1997 study entitled *Abandonment and revitalization of central city retailing* found that when comparing ‘existing sales to expected to demand in 28 metropolitan areas over a 35-year period, many central cities experienced ratios of less than one (i.e., sales were lower than expected demand), whereas surrounding suburbs frequently had rates higher than one.”\(^{14}\) According to the U.S. Bureau of Census, “Supermarket and other grocery stores” represented 14.28% of all retail spending in the United States in 1999.\(^{15}\) Therefore, the $8.7 billion grocery retail gap in inner cities, while significant, does not begin to cover the total retail gap in these areas. Nonetheless, when a new grocery store opens in an underserved neighborhood, dollars that had previously leaked to other neighborhoods and stores are suddenly kept locally. Of course some of that money goes to the grocer and the food distributors, but a lot of that money is also distributed to its employees. As grocery stores typically find between 50% and 75% of its


employees locally, this means that a percentage of grocery store revenue, which varies from store to store, is returned locally.\textsuperscript{16}

The effect of a single store cannot be overstated. A single store can affect the average annual income by instantly raising the income level of a community’s labor force. An influx of 62 minimum wage jobs at a single store means that previously unemployed or underemployed, unskilled, local residents will be able to work between 20 and 40 hours a week, depending whether the job is full time or part time. Currently, according to the U.S. Department of Labor, the State of Louisiana does not have a set minimum wage.\textsuperscript{17} However, base wages for unskilled grocery store workers is typically between $7.25 and $8.00 per hour. At $7.25 per hour, that can mean minimum additional annual earnings of between $7,540 and $15,080. However, this is not truly representative of the direct earnings impact of the grocery store. First, many grocery stores offer base minimum wages that are above the required minimum wage. Skilled employees at grocery stores such as store managers, department managers, or employees trained to handle specific products such as butchers are often paid significantly more. Moreover, many of the part-time minimum wage jobs, which account for approximately 84\% of all grocery jobs, such as cashiers, baggers, and stockers are filled by high-school students and other similar demographic types who would otherwise be either unemployed or underemployed.\textsuperscript{18}


These are people who might not ordinarily be part of the workforce. Introducing $7,500-$15,000 per year into a household in such a way can have a positive impact upon a family’s standard of living as earning pressure is lifted from the household’s primary breadwinner.

Evidence from studies of the Pennsylvania Fresh Food Financing Initiative, a highly successful financing initiative intended to support development of grocery stores in food deserts, supports these claims. According to The Reinvestment Fund, a national leader in neighborhood revitalization financing, as of September 2009, 78 new inner-city grocery stores ranging in size from 1,000 square feet to 69,000 square feet and totaling nearly 1.5 million square feet, have created 4,860 jobs across the state of Pennsylvania.\(^\text{19}\) Evenly divided, that means that each store created approximately 62 jobs. Grocery stores created one job for every 308.6 square feet of space that was developed. Based on these numbers, a small inner-city grocery store of 20,000 square feet will create an estimated 64 jobs. If the previously stated metric that 75% of these jobs will be filled from within the local community holds true, this means that a new grocery store averages approximately 48 local jobs.

Aside from helping to raise average income levels in a community, the influx of extra income can have dramatic effects upon revitalizing a community’s retail economy. Using the local jobs estimates from above, 48 employees working only 20 minimum wage hours per week will inject a total of approximately $361,920 annually into the community. This is

a significant amount of money in a neighborhood and it is likely that this estimate is conservative as not all of the 48 jobs will be minimum wage level jobs. The result is that, while some large percentage of those earnings will ultimately be used for basic needs such as housing and groceries, many of those earnings will return to the local economy as non-essential retail spending. In other words, individuals will have a larger amount of expendable income to use at local retail locations. As such, the creation of these jobs helps stimulate new demand for nearby retail services. A 1999 study by HUD showed that inner-city residents typically spend a larger percentage of their income on retail items such as food and apparel. Therefore, the creation of additional expendable income in inner cities has an even higher impact than suburban or other low density neighborhoods.

Lastly, job creation at grocery stores, over time, can have a large effect upon the quality of a local economy’s unskilled labor force. Grocery stores will typically give their employees basic minimum training. In some cases, employees may be trained for specific, skilled jobs such as department management positions or how to use different types of machinery. In conjunction with this, employment turnover at grocery stores tends to be high as part-time workers come and go. The result is that as workers move through the grocery store and then ultimately on to other jobs, basic training can be afforded to an increasing percentage of a neighborhood’s unskilled work force. This will positively affect other stores and businesses in the area who hire former employees of the grocery store.

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This is not to say that grocery stores are creating high numbers of “skilled labor”, just that employees do receive some basic workforce skills that they previously would not have had. As more and more “basic trained” workers filter out into the general local economy, the expected wage should begin to rise. While this process is slow, over time its effect can be significant.

**Creation of Indirect and Induced Employment**

However, this calculation only estimates the direct impact of a single store and does not include the jobs that are created via the employment multiplier effect as described above. Grocery stores and supermarkets, like hospitals and car factories, are an industry type that is generally known to have a “high multiplier”. That is, while only 50-100 jobs may be created at the actual grocery store, many other businesses and services are required externally from the store itself. The new store creates new demand for food products. Some of those products, such as produce are created directly on a farm. Other types, such as processed food and dry goods require a factory. Furthermore, once those products are produced, they have to be transported from their source, through a distribution facility, and then finally to the store where they can be bought. Throughout that process and at multiple levels, some new jobs are created. More commonly, however, operations at the new store go a long way in supporting the sustainability already existing jobs at farms and distribution centers. Through this multiplier effect, a 75,000 square foot grocery store,
while only creating 250 onsite jobs, could actually create and support a total of 660 jobs directly and indirectly.\textsuperscript{22}

**Community Income Creation and the Income Multiplier**

The income multiplier is similar in many ways to the employment multiplier but instead of measuring an economic actor’s ability to use expenditures to create demand for labor elsewhere in the economy, the income multiplier measures the total economic benefit of dollars spent in a local economy. It helps to describe how a single dollar spent at store is actually worth significantly more to the local economy. Denise DiPasquale and William Wheaton in their text book *Urban Economics and Real Estate Markets* summarize this process:

A dollar that enters the region through [investment and export sales] gets recycled many times. It first goes to pay for local factors of production in the form of wages or structure rents. When received, the dollar becomes income for factor owners. This income is then spent, partially on imported goods (the exports of other regions), but also on goods and services produced for local consumption only (e.g. dry cleaning, restaurants, utilities, etc.). Expenditures on imported goods leak out of the region, while expenditures on locally-produced goods and services form the income of other local factor owners. When they, in turn, spent it, some portion again escapes out of the region, while some is retained. In the end, a dollar of export sales or transfers generates some amount of local production (or income) that significantly exceeds the original dollar.\textsuperscript{23}

In other words, every store or business takes in some amount of money as revenue. They then have expenditures such as paying their workers (wages) and buying goods (imports) to


sell. As stated above, some of those expenditures, especially when buying goods, will leak out of the local economy. However, some portion of those expenditures, particularly labor, stays within the local economy.\textsuperscript{24} Local workers then spend their wages on food, housing, and goods. Not all of their personal expenditures are spent locally – there will be some leakage at every level – but again, some portion does get spent at local businesses. Then the cycle starts again with that business paying for labor and product. In order to measure this effect, economists typically use the following equation:

\[
Y = \frac{(X + I + G + y + \pi)}{(1 - b(1 - m))}
\]

This equation can be used to solve for the total generated income of any actor or region (\(Y\)). The first half of the equation describes the direct income of the particular actor in question – that is, exports sold, investment made, or transfers received (\(X, I, G, y\)).\textsuperscript{25} The second half of the equation is the multiplier where \(b\) is a constant fraction of income that is consumed, or the marginal propensity to consume, and \(m\) is the fraction of consumption that is imported. Therefore, \(1 - b\) is the fraction of income that is saved and \(1 - m\) is the fraction of income that is exported. As such, to determine a true multiplier that will describe how

\textsuperscript{24} The local economy is a loose term that refers to a definably market area where there is a distinct concentration of residential and commercial forces interacting together. In some cases a local economy may encompass an entire city. In other cases the local economy may refer to an area small as a single street where there a distinct and identifiable concentration of economic activity.

many dollars are eventually generated for every dollar earned by a particular actor, the following equation is created:\textsuperscript{26}

\[
Income Multiplier = 1/(1 - b(1 - m))
\]

Therefore, in a completely hypothetical situation, assume that the marginal propensity to consume is 0.8 and that the fraction of income that is imported is 0.6. Plugging these values into the equation you get:

\[
Income Multiplier = 1/(1 - 0.8(1 - 0.6))
\]

\[
Income Multiplier = 1.47
\]

This means that for every $1.00 received by a firm, $1.47 is ultimately created within the local economy or region.

One of the problems with this kind of analysis is that the definition of “local economy” varies widely. In some cases, the local economy can refer to the economy of an entire city or town. In other cases it may refer to an entire region encompassing many cities and towns. Or, as it applies to this report, the local economy could be an area with three miles of a particular place, such as a grocery store. This is important because the values for \(b\) and \(m\) for one definition of a “local economy” could be completely different from another. A whole city may have values of 0.8 and 0.6 for \(b\) and \(m\) even though a particular neighborhood of the city has values of 0.7 and 0.5. The actual effect of an

economic actor can vary widely depending on the specific group of people that are being studied. This is of particular importance for this report as it tries to isolate the economic impact of grocery stores within geographically constrained areas. Unfortunately, the data necessary to determine these values at the neighborhood level is relatively unavailable. This limits the measurement of an economic actor’s income multiplier to the city, region, or census tract level where data is more available.

Nonetheless, the lack of neighborhood specific consumption data should not inhibit the understanding of a single grocery store’s potential impact upon its local community. As mentioned before, labor is one of the primary ways that an economic actor can recycle money back into the local economy. Of all of the possible expenditures of a firm, money spent on labor is the most likely to remain locally. This is especially true of supermarkets and grocery stores. While some stores are doing a much better job of buying local goods and services from the region, most of these goods and services are still not found within the immediate community – that is, within three miles or so. However, as mentioned previously, grocery stores do find between 50 and 75% of their employees from the local community and typically employ a high number of people per location. As such, grocery stores serve as a highly productive source of local income.

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Tax Revenue Creation

One of the most beneficial consequences of new grocery store development in urban low-income communities is the creation of significant amounts of tax revenue for the state and local municipalities. Grocery stores and supermarkets, as an industry type, are high producers of revenue. Nationally, grocery stores are highly productive sources of revenue. According to a 2005 report by marketing research firm First Research, the retail grocery industry produced over $400 billion in revenue with average revenue per employee of $150,000. More specifically, according to the Food Marketing Institute, in 2010, grocery stores and supermarkets averaged sales per square foot of $612.56, meaning that a small urban grocer with 20,000 square feet of floor spaced produced sales of $12,251,200. In fact, the only industry types that experienced higher average sales per square feet were Jewelry stores and mall food-court restaurants and kiosks. The obvious different is that those two industry types do not use nearly the same amount of square footage at grocery stores, meaning that their total sales are much lower. Simply put, as an industry type grocery stores and supermarkets are among the most economically productive use of space.

Unsurprisingly then, grocery stores and supermarkets are among the largest contributors to municipal and state sales tax bases in the country. Of course determining

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sale tax production averages for the national industry is impossible as states set their own independent sales tax rates and some states do not even charge sales tax on groceries. However, as this report uses a New Orleans site as a case study, the Louisiana and New Orleans sales tax rates will be used. In New Orleans all sales are subject to two levels of sales tax. First, there is a 4.00% Louisiana State sales tax. Second, there is an Orleans Parish sales tax of 4.50% on Food and Drugs. Thus, the aggregate sales tax on groceries in New Orleans is 8.50%. Therefore, if that same 20,000 square foot grocery store was located in New Orleans and produced $24.84 million in annual sales, it would have created a total of $1,041,352 in sales tax, $490,048 for the State and $551,304 for the Parish. These are substantial amounts of tax revenue for any municipality.

New development of grocery stores in low-income and/or depressed communities can be particularly impactful upon municipal tax bases. The reason for this is that in many low-income communities, such as Central City/O.C. Haley Boulevard, years of economic decay have taken place. Many buildings in these low-income neighborhoods are either vacant, unusable, or both. In either case, the result is that these buildings, and the businesses that should be operating in them, contribute little to nothing to the government tax bases. The redevelopment of urban vacant land into large grocery stores or supermarkets can have an immediate impact. Firstly, using the numbers from above, replacing a vacant parcel of land with a new grocery store can instantly return significant amounts of sales tax revenue to the state and city governments that previously did not

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exist. Secondly, because of the improved productivity of that space, the value of the land is instantly improved allowing the local municipality to collect a substantial gain in property taxes. In middle and upper income areas, communities typically exhibit healthier retail markets and thus find that land is more productively used on the whole. That is, they experience lower vacancy rates and have less unproductive land use at their community core. Therefore, in some cases the development of a new grocery store may require the replacement of buildings and businesses that were already contributing to the municipal tax bases. As a result the aggregate tax base increase for new grocery stores in these areas can be less than in low-income areas where previously unproductive is being redeveloped.

**Impact on Surrounding Residential Real Estate**

The opening of a new supermarket in an underserved community has a tremendous impact upon surrounding residential real estate. Underserved communities that have shown a sustained period of downward trending or depressed home values experience an immediate boost in property value and change in home value trends following the opening of a grocery store.\(^{33}\) Because of increased neighborhood income as a result of increased local jobs, decreased food and transportation costs, as well as a more attractive investment environment, home values are boosted. Furthermore, the convenience of having a grocery store within 1 mile of a household also improves home value.

Communities with particularly weak housing markets are the most affected. Homes around grocery stores that were developed through the Pennsylvania Fresh Food Financing Initiative experienced immediate home value increases of four to seven percent.\(^\text{34}\) As shown graphically in Figure 1 and Figure 2, the opening of a supermarket in a previously underserved neighborhood has a positive impact. Figure 1 shows the hypothetical affect, using the average home price adjustment in the Pennsylvania Fresh Food Financing Initiative, of a $50,000 dollar home. While the immediate home value increase and resulting positive appreciation trend is clear, the most important part of this graph is the blue line, representing the home value trend if there were no supermarket opening. What it shows is that the longer a neighborhood goes without a supermarket, the further down that line the boost goes, meaning that the overall effect is dampened. A seven percent home value increase on a $50,000 dollar home at quarter one (Q1) would see an immediate jump of $3,500. However, if the supermarket does not open until Q17, when the home value has dropped to approximately then the benefit is reduced is reduced.

Figure 2 shows this trend change at various distances from a new supermarket opening. Although these home values are based on data from the Pennsylvania Fresh Food Financing Initiative, the graph shows that even up to 1.5 miles from a new store opening, the positive home value effects are felt. The common belief is that supermarkets only have these effects upon real estate immediately surrounding the new store, approximately 1 mile or less. This is not so. While the effect is certainly more pronounced at close distances – the post-opening trend lines are noticeably reversed – houses up to 1.5 miles away still experience the immediate 4-7% increase.\(^{36}\)

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One of the main reasons for this home value boost is that quite simply, people want to live close to grocery stores. It is both a function of convenience and transportation costs. The closer a household is to grocery store or supermarket, the less that household spends in both time and money getting to the store. According to a 2009 USDA report on food deserts, people in underserved areas, particularly low-income areas, spend approximately 4.5 more minutes traveling to a supermarket that the national average. While this might not seem like a lot, it is. The average household makes about three to four trips per week to the grocery store. Extrapolated over the course of a 52 week year, this means that

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people in low-income underserved neighborhoods spend between 11.7 and 15.6 extra hours per year traveling to the store.\(^4\) The 4-7\% boost in home values when a new grocery store opens nearby reflects the premium that people are willing to pay to save that amount of time.

The effect of these home value changes, particularly the long-term trend reversals are vital to the revitalization of underserved neighborhoods that are in need of reinvestment. It seems obvious to say that no developer or investor would want to invest in an asset with a negative value trend. The introduction of a supermarket and the trend reversal it can help to bring about is integral to making the neighborhood attractive to investment.

**Impact on Surrounding Commercial Real Estate**

It is not just residential real estate that is considerably affected by the development of a new grocery store or supermarket. Grocery stores and supermarkets are what real estate economists call *anchor stores*. Hideo Konishi and Michael Sandfort define an anchor store as “a store that increases, through its name’s reputation [or distinct industry type], the traffic of shoppers at or near its location.”\(^4\) That is, they do a particularly good job of drawing significant amounts of people to their location on a daily basis. The reason for this, they contend, is that anchors, such as supermarkets and department stores, provide a high

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level of consistency in both the variety of goods offered as well as prices. Regardless of which supermarket a consumer goes to, that person knows more or less what is available to them and for roughly how much. This is very powerful as it removes volatility from the consumer’s purchasing decisions.\(^{42}\) Moreover, in the case of supermarket anchors, the anchor draws people to their location every day because it sells goods and services, such as food, that people need every day.

By creating a place that has high pedestrian traffic, the surrounding real estate becomes much more attractive to more specialized retailers. These smaller, specialized retailers, known as *parasite retailers* or *inline retailers*, locate their firms in areas where they have the opportunity to experience the highest possible customer traffic – that is, they want to be in a place where lots of people will be every day. They want to be as close as possible to the anchor retailers. They depend on high volumes of shoppers going to the anchor store to buy their groceries and then, since they are already there, stopping into their store to purchase a new pair of shoes or rent a video, for example. Economics has shown that consumers want to satisfy their demand for various products in as few trips as possible.\(^{43}\) These specialized stores that cluster around the anchor fill the retail gaps that the supermarket or department stores do not cover. They satisfy the demand for the good and services that the anchors do not, or cannot, provide. Parasite stores offer the

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consumer the opportunity to not only buy their groceries, but also get the specialty goods they need, at the same time.

The result of this effect is that the introduction of a new grocery store can instantly create demand for retail space in the surrounding area. Previously vacant space around the grocery store suddenly has a heightened economic value as parasite retailers will want to capitalize on the daily volumes of potential customers that will start to visit the area. Because people need to eat every day, a typical person will travel to the grocery store as much as four times per week. By positioning themselves close to the anchor location, parasite stores can put themselves in the best possible situation to capture sales from these people. The resulting increase in demand for retail space can be a catalyst for economic development. As more and more stores situate themselves around the anchor, and as people become aware of the wide variety of goods and services that can be found at this central location, pedestrian traffic will continue to grow. People may even begin to make specific trips to parasite stores rather than solely going to them when they are at the grocery store. This in turn drives more demand for retail space as more and more firms with will want to expose themselves to this kind of pedestrian traffic. The end result is that the introduction of a major anchor retail site can completely transform the economic vibrancy of a commercial retail district. It can, in many cases, transform a downward trending community into one with positive financial trends instead. The resulting increase

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in retail demand will cause the neighborhood commercial vacancy rate to drop, ultimately causing upward pressure on rents. By increasing the potential rent, or revenue, of the surrounding properties, land values will also rise.

**Lowering the Cost of Food**

Additionally, introducing a new large-scale grocery store into a previously underserved community can have an economic impact simply by lowering the cost of food for local residents. In low-income, underserved communities, residents typically pay much higher prices and induce unnecessary additional costs, such as transportation and bad food habits. A 1997 USDA report entitled *Do the Poor Pay More for Food?* argues that low-income residents pay higher prices for three reasons:

1. on average, low-income households may spend less in supermarkets—which typically offer the lowest prices and greatest range of brands, package sizes, and quality choices; 2. low-income households are less likely to live in suburban locations where food prices are typically lower; and 3. supermarkets in low-income neighborhoods may charge higher prices than those in nearby higher income neighborhoods.

The consequences of this are numerous and highly toxic to the health of a community. Lack of access to a grocery store within one mile of a household is a problem that affects more than 23.5 million people according to a 2009 USDA study. Individuals who have a grocery store within one mile of their household are, on average, much healthier and have diets

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45 Attracting Supermarkets to Inner-City Neighborhoods: Economic Development Outside the Box, Page 1.
that contain larger quantities of fresh produce. In fact, a 2008 New Orleans study found that “for each additional meter of shelf space devoted to fresh vegetables, residents eat an additional .35 servings per day.” Even more telling is a study that shows that for every additional grocery store in a census tract, produce consumption in African American households increases by 32%. Ultimately, lack of access to a grocery within one mile of an individual’s residence can lead to unhealthy eating habits. This has been shown to be directly linked to higher rates of obesity and diabetes in low-income, urban populations.

As damaging as this problem is to the physical health of a community, it can be equally damaging to the economic health of a neighborhood. As residents are forced to either shop for food at nearby convenience stores, where prices are higher, or expend additional economic resources to travel to a grocery store outside of their community, low-income, urban residents are forced to pay a unnecessarily high cost for groceries. A Consumer Expenditure Survey conducted by the U.S. Bureau of Labor Statistics found that, “the typical U.S. household spent $3,753 on groceries and $2,619 on food away from home in 2009.” The impact of this is that economic growth in a community can be hampered and slows economic progress. As a neighborhood seeks to jump start economic

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development on the commercial corridor, it needs every dollar of expendable income that
the neighborhood can afford to spend. What is not clear is whether individuals or families
actually save this money or simply buy more groceries with it. That is, if they save $10.00
on a given shopping trip, do they actually put that $10.00 back into their wallet or do they
simply buy more groceries?

Though it may seem similar, this is not the “Wal-Mart argument”. The Wal-Mart
argument is that Wal-Mart stores are good for communities because, using their extreme
purchasing power, the big box retailer is able to drastically reduce the cost of goods to the
local community. Opponents of Wal-Mart have often criticized the retailer for lowering the
costs of goods to such a point that it destroys local businesses. This is not what happens
when a grocery store opens. Wal-Marts are detrimental to surrounding businesses because
they sell everything, not just groceries. They compete directly with every small business in
the community. When a grocery-specific store opens in a community the only stores it
competes only with are other food retailers, leaving all other businesses alone.

Part Two: The Jack and Jakes Grocery/O.C. Haley Blvd. Case Study

In this section, the principles and theories described in the sections above will be
applied to the proposed development of a new Jack and Jakes Grocery which is to be
located in the former Myrtle Banks School site on Oretha Castle Haley Boulevard. The end
result will be to show that the addition of this grocery store will act as an economic catalyst for the redevelopment of the O.C. Haley commercial corridor. It is the opinion of this report that in consideration of all of the available options for catalytic economic development in the O.C. Haley/Central City neighborhood, the introduction of a grocery store into the O.C. Haley economy could not be more important.

Before proceeding to assess the current economic condition of the O.C. Haley Community or analyzing the economic impact of the proposed Jack and Jakes Grocery, the specific market area to be studied must be defined. Market areas are defined in two ways: 1) By using geographic, cultural, socioeconomic, and artificial boundaries, the Cultural Market Area is determined, and 2) From the center of the cultural market area, areas within one, three, and five mile radii determine the Demographic Market Areas. In the case of this report, the Primary Market Area (or the “PMA”) is defined by the cultural boundaries that are described as the O.C. Haley Boulevard neighborhood. This is an area from St. Charles Avenue to Simon Bolivar Avenue and Philip Street to the Pontchartrain Expressway (See Map 1: O.C. Haley Community Cultural Market Area, page 34). For the purposes of demographic studies, this also includes the area within a zero to one mile radius from the center of the PMA. The Secondary and Tertiary Markets, in this case, are defined by A) the radius distance from the center of the PMA. The secondary market is the area within one to three mile radius from the center of the PMA. The tertiary market is the area with in a three to five mile radius from the center of the PMA. (See Map 2: O.C. Haley Community

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Secondary and Tertiary Market Areas, page 35) B) The secondary and tertiary markets are further defined by community and city barriers. The Pontchartrain expressway serves as boundary between the O.C. Haley markets and the warehouse/CBD markets. Socioeconomic differences between the O.C. Haley/Central City communities and Lower Garden District communities surrounding St. Charles Avenue also create a market boundary.

Map 1: O.C. Haley Community Cultural Market Area

In its current state, the O.C. Haley community is a food desert. Although the USDA does not classify a majority of O.C. Haley Boulevard as a food desert, almost all of the Central City neighborhood is (see Map 3: USDA - Central City Food Desert, Page 36). Furthermore, while new grocery stores have opened recently within that one mile threshold – a new Fresh Market is planned to open at the corner of St. Charles Avenue and

Louisiana Avenue as well as a new *Rouses Supermarket* in the nearby warehouse district – neighborhood and socio-economic boundaries have continued to isolate this community from the rest of the city. This community looks to the O.C. Haley Boulevard commercial corridor to be its main retail center, as it has historically been. In its currently defunct state, the corridor, where there were once multiple supermarkets, is unable to provide the necessary retail services. However, help is on the way. Alembic Community Development, a community development corporation based out of New York City, won a Request for Proposal (RFP) to develop the former Myrtle Banks School, into a Supermarket. The Myrtle

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Banks site is a grand old building, located directly on O.C. Haley Boulevard, which had previously been used as a school. However, in the post-Katrina era, the building became abandoned and sustained a massive fire that rendered the building unusable in its current state. Teaming up with local foods wholesaler Jack and Jake’s, Alembic Development has proposed the development of a 32,000 square foot complex which will include up to 22,800 square feet of supermarket space (the project may be scaled back to 15,300 square feet due to budget constraints). The goal of both Alembic Development and Jack and Jake’s Grocery is that this new grocery store will alleviate the food desert problem in Central City as well act as a retail catalyst for the commercial corridor.

**O.C Haley Boulevard Overview**

The Central City neighborhood surrounding O.C. Haley is an example of an urban, generally low-income, underserved community. While the community’s struggles over the last several decades are certainly not solely attributable to the absence of a supermarket, the area nonetheless experiences most, if not all, of the negative consequences of not being within one mile of a supermarket. Without a doubt, Central City and O.C. Haley Boulevard also suffers from a major public perception problem which has made reinvestment and economic development hard to achieve. The neighborhood also suffers, in general, from a major lack of retail. As a result, significant economic leakage occurs to other parts of the city as residents are forced to travel outside of their community in order to buy basic services and goods.
However, this current state of being is not how the area always was and there is a strong belief among community members that it can once again return being a bustling commercial district. Since before the turn of the twentieth century, the neighborhood has been predominantly African American. Segregation kept blacks confined to specific sections of the city. Beginning in the late 1910’s and 1920’s as the World War I, the Great Depression, and the human consequences of the Communist Revolution took hold of Europe and Russia, the area experienced a period of significant growth as Russian Jews, German Jews, and Italians immigrated to New Orleans. However, in this pre-civil rights era, these Jews and other immigrants still found that they faced significant anti-Semitism and xenophobia. As a result, they were forced to move into African American communities. Neighborhoods such as Central City became immensely diverse areas where immigrant and black businesses thrived and mixed well. From the 1930’s through the 1950’s O.C. Haley Boulevard was one of the most prolific economic corridors in the city of New Orleans with over 200 establishments located there. However, beginning in the 1960’s as the country transitioned into the Civil Rights era, Central City began to experience a sharp decline. Blacks and Jews found that without segregation they were free to move and live in any part of the city that they wished and they began to leave the neighborhood. Furthermore, other commercial corridors sprouted in the city drawing visitors away from O.C. Haley businesses. By the end of the 1980’s, Central City and the O.C. Haley Commercial Corridor had become a ghostly shell of its former self. Its population had dwindled and its stores had either

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moved to other parts of the city or closed their doors. Beginning in 1990’s an effort was made to revitalize the boulevard by the city government and several non-profits such as the Ashe Cultural Arts Center moved to the street.

Although that revitalization effort is regaining steam as development projects, such as the relocation of the New Orleans Redevelopment Authority (NORA) headquarters to O.C. Haley, take shape, Central City and the commercial corridor still remains largely vacant with a depressed population.\(^{57}\) Surface statistics indicate that the neighborhood is experiencing major problems. According to a 2010 Market Study of Central City/O.C. Haley Boulevard by NORA, only 9.2% of homes are of residents owned their home, 51.3% of households are renters, and 39.5% of all housing units are vacant.\(^{58}\) A significant portion of the existing central city population is low-income senior citizens.\(^{59}\) Furthermore, between 2000 and 2009, the O.C. Haley neighborhood experienced some population decline, losing 1.54% percent of their population over that period.\(^{60}\)

Despite its relatively dismal surface data, Central City has a number of extremely favorable factors going its way. As a result of completed and planned housing developments, such as the Muses Apartment Complex, which was developed in 2010, population growth from 2009 to 2014 is projected to be 3.12%, significantly higher than the


overall city population growth projection of 2.32%.\(^6\) This growth, particularly as a result of high density population growth, is expected to reinvigorate retail and office demand in the area. NORA’s market study determined that by 2020 the area will have a cumulative retail demand of 876,959 square feet compared to current demand excess demand of 12,034 square feet.\(^6\) Household and population growth is expected to fuel future demand. In fact, the study determined that 847,592 square feet, or 96.65% of this projected demand is the result of expected household growth by 2020.\(^6\) Additionally NORA expects that household growth over this period will also create demand for 324,802 square feet of commercial office space.\(^6\)

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The NORA study also found that the neighborhood experiences substantial economic retail leakage of $6,896,623 per year.\textsuperscript{66} The market study argues that between 2009 and 2019 demand due to household growth will create the potential for a total of $721,565,448 worth of sales in the local economy.\textsuperscript{67} This is significant. As discussed above, stopping this leakage and retaining those earnings in the local economy can have an immense and immediate impact. When the Income Multiplier Effect is applied to this projected, the possible benefit to the local economy if all $721,565,448 is captured is actually well over $1 billion.

\textbf{Jack and Jakes, Inc. Overview}

Jack and Jakes is a southeastern Louisiana company that predominantly focuses on the wholesale distribution of locally sourced products – that is, goods produced within 65 miles of the Greater New Orleans area. A community minded corporation, Jack and Jakes has had tremendous success creating an extensive network of local farms and fisheries. The proposed store at the Myrtle Banks school site is Jack and Jakes’ first full push to enter the retail market.

Stemming from their roots as a wholesaler of local Louisiana produce, Jack and Jakes has created a business model for their store that is quite different from the traditional


\textsuperscript{67} \textit{Oretha Castle Haley Boulevard Redevelopment Opportunity Study}. Produced by Red Rock Global Real Estate Services Company and Huntley Partners for the New Orleans Redevelopment Authority. 2010.
store. The company has a goal to use its store to promote better eating habits as well as Louisiana food culture. To accomplish this, the company plans to use its wholesaler advantage to keep prices on produce and local goods as low as possible. In this way it hopes to influence people to purchase and use more fresh vegetables and produce in their diet. Jack and Jakes estimates that 45% of their planned floor space will be used for the presentation of fresh foods and produce. Furthermore, they plan to have a significant prepared foods section. Working with two local firms, the Cochon Butcher and The St. James Cheese Factory, Jack and Jakes goal is also to promote excellent eating through its high-quality prepared foods. This section is expected to also use 45% of their proposed floor space. Only 10% of floor space is expected to be used for dry goods. This atypical model is important to understanding the overall economic impact of the store on the O.C. Haley/Central City community.

Case Study: Job and Income Creation

According to estimates from Jack and Jakes, Inc., the proposed store will be a major job center, creating 39 full time employees (FTE) direct at the site (see the Employment Table, Page 43). At the proposed 22,800 square foot site this means it will create one (1) job per 584 square feet. Recently, the size of the store has been scaled back to 15,300 square feet meaning that the new store will create one job per 392 square feet.
However, this is not the full extent of the new store’s ability to create and support jobs. While the 39 FTEs at the store are the directly created labor, projections by Jack and Jakes indicate that the site will support and create many indirect and induced jobs. Specifically, Jack and Jakes projects that in addition to supporting 600 existing jobs at local farms and fisheries (or “producers”), the new grocery store will produce new demand for ½FTE per producer. This is expected to create total demand of approximately 100 additional FTEs. Furthermore, operations at the new store will also support 77 other FTEs.

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working in distribution.\textsuperscript{70} Jack and Jakes projects that 16 warehouse workers, 50 transportation and trucking workers, and 1-2 Service and Manufacturing jobs will also be supported by the new store.\textsuperscript{71} The new store, in addition to the direct creation of 39 jobs at the store, is projected to support 777 jobs at the indirect and induced levels. This produces a store Employment Multiplier of 19.92 — that is, for every directly created job, 19.92 indirect and induced jobs are either created or supported.\textsuperscript{72}

Ultimately, the creation of jobs in the PMA, and the resulting local income that they generate, is perhaps the most important factor in assessing the new store’s local economic impact. As seen in the Employment Table, these 39 FTE are expected to produce $872,000 in employee income per year. If the metrics from the sections above are applied and between 50 and 75 percent of these employees are sourced locally (within 3 miles), between $436,100 and $654,000 of income could be directly injected into the area. From this, the Labor Income Multiplier (or “LIM”) can be extrapolated. To be conservative, assume that 50% of the store’s labor is sourced locally, producing $436,100 of community income. According to the U.S. Treasury Department, Americans save 9.1% of their annual income.\textsuperscript{73} When this is factored in, $396,851 is left to be consumed. Next, in order to determine the final amount of money that will be recycled into the PMA, several assumptions have to be made: A) 30% of annual income is spent on housing, B) 30% of

annual income is spent on food and other necessities, C) 10% of annual income is used as disposable income to be spent locally, and D) all remaining income is spent outside of the PMA. The first two assumptions are widely considered as standard metric by most economists. The third assumption, however, is not. More or less, it is a guess. This number will change as the PMA offers more or less of the services and goods required by the local residents. Nonetheless, if these assumptions are used, $436,100 of community income produces extra local spending of $277,795. Therefore, the LIM for the proposed Jack and Jakes Grocery Store is 1.3185 – that is, for every dollar of income that is injected into the PMA, $1.31 is ultimately produced. This effect is improved dramatically as the percentage of locally sourced labor increases. If 75% of labor was locally sourced, $416,236 of additional local spending would be produced, increasing the store’s LIM to 1.4772. An increase in percentage of annual income used as disposable income to be spent locally, likely to spurred by growth in local retail services, will also push the LIM higher. The result of this increased spending power by the neighborhood residents is that demand for retail will be increased, helping to improve the desirability of local real estate for commercial redevelopment.

**Case Study: Tax Revenue Creation**

Projecting the potential sales tax from this new grocery store has been difficult. Jack and Jakes, Inc. has provided the following the sale projections for their new store:
**Jack and Jakes Projected Annual Sales**

<table>
<thead>
<tr>
<th>Category</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared Foods</td>
<td>$16.9 Million</td>
</tr>
<tr>
<td>Fresh Foods</td>
<td>$11.3 Million</td>
</tr>
<tr>
<td>Grocery</td>
<td>$3.6 Million</td>
</tr>
<tr>
<td>Health &amp; Wellness</td>
<td>$1.0 Million</td>
</tr>
<tr>
<td><strong>Total Projected Annual Sales</strong></td>
<td><strong>$32.8 Million</strong></td>
</tr>
</tbody>
</table>

These are the projections for their new store, which has been scaled back from an originally proposed 22,800 square feet to a smaller store of 15,300 square feet. At this smaller size, Jack and Jakes is projecting that they will earn $2143.79 per square foot of space. This seems to be extremely aggressive compared to national average of $612 per square foot.\(^74\) Even at the original 22,800 square foot floor plan this is a very high projection. According to John Burns, CEO of Jack and Jakes, these projections are accurate because, “Most of the low price low margin grocery items (e.g., tooth picks and marshmallows) are not what we carry. We provide fresh local foods at an affordable price with a very large percentage of our floor space dedicated to prepared foods at a great margin. There should be high volume sales for both areas of the business model. Think restaurant margins and the average number of visitors to a grocery at the national level.”\(^75\) While the emphasis on prepared foods may account for a higher than average sales per square foot, it seems very unlikely that this will propel them to beat the national average by more than $1500 per square foot. Therefore, while the corporate projections from Jack and Jakes must be taken into account when making sales tax projections, a similar analysis of projected sales tax

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based on national averages must also be included. Therefore, consider the following sale projections for the proposed store:

<table>
<thead>
<tr>
<th>Projected Annual Sales</th>
<th>JJ Projected Sales</th>
<th>Natl. Avg ($612/SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,300 Square Feet</td>
<td>$32.80 Million</td>
<td>$9.36 Million</td>
</tr>
<tr>
<td>22,300 Square Feet</td>
<td>$47.80 Million</td>
<td>$13.65 Million</td>
</tr>
</tbody>
</table>

The difference between the Jack and Jakes projections and the projections based on the national average is quite large. While it seems unlikely that they achieve sales of $2000+/SF, it is also unlikely that they are at or below the national average. It is more likely that the store achieves results that fall somewhere between, perhaps closer to $800-$900/SF. Nonetheless, these two calculations represent the high and low extremes for sales projections for the store and should be useful as a means to project the possible range of sales tax created for the State and City. Therefore, using the Louisiana State and Orleans Parish sales tax rates, the following projections can be made for the 15,300 square foot store:

<table>
<thead>
<tr>
<th>Projected Sales Tax Revenue</th>
<th>JJ Projected Sales</th>
<th>Natl. Avg Proj. Sales ($612/SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LA State (4.0%)</td>
<td>$1.31 Million</td>
<td>$374,544</td>
</tr>
<tr>
<td>Orleans Parish (4.5%)</td>
<td>$1.48 Million</td>
<td>$421,362</td>
</tr>
<tr>
<td>Total (8.5%)</td>
<td>$2.79 Million</td>
<td>$795,906</td>
</tr>
</tbody>
</table>

Even at the low end of the sales tax revenue range there is a substantial gain to both the parish and state. This single location is set to add, at minimum, almost $800,000 to the parish and state tax bases. As mentioned before, it is likely that the Jack and Jakes model helps them to beat the national sales average. It seems likely that the sales tax produced from this site will be approximately $1.0 million.
**Case Study: Impact on Surrounding Real Estate**

The addition of a Jack and Jakes grocery store to O.C. Haley Boulevard will have an impact upon the surrounding real estate. The most measurable impact is upon residential real estate. The following table from the NORA Market Study of the O.C. Haley Boulevard community shows the current and projected home values:

<table>
<thead>
<tr>
<th>Year</th>
<th>OC Haley</th>
<th>1-mile</th>
<th>1-3 miles</th>
<th>3-5 miles</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$134,229</td>
<td>$199,551</td>
<td>$151,236</td>
<td>$118,562</td>
<td>$130,003</td>
</tr>
<tr>
<td>2009</td>
<td>$208,821</td>
<td>$290,820</td>
<td>$212,837</td>
<td>$176,889</td>
<td>$191,090</td>
</tr>
<tr>
<td>2014</td>
<td>$218,221</td>
<td>$300,369</td>
<td>$245,394</td>
<td>$202,901</td>
<td>$216,861</td>
</tr>
<tr>
<td>2019</td>
<td>$227,993</td>
<td>$310,259</td>
<td>$282,963</td>
<td>$232,717</td>
<td>$246,077</td>
</tr>
</tbody>
</table>

As the table shows, the current average home value in the community is approximately $208,821. Using the previous findings on the impact of a new grocery store upon residential real estate, an immediate 4-7% increase in home value would instantly increase local home values by between $8,353 and $14,617. While this immediate boost is good, it is still relatively small. The largest impact that the new store will have is on the long-term appreciation trends of the surrounding real estate. By being closer than ever to a grocery store, surrounding residential vacancy rates should decline as people choose to live as close to the new store as possible. In conjunction with this, as community vacancy decreases, landlords will be able to gradually increase rent for their units. The result is that the economic productivity of the surrounding residential rental market will be increased.

Furthermore, different from many low-income neighborhoods and food deserts, the O.C. Haley community, despite its depressed local economy, is still expected to see positive home value growth over the next 10 years. In light of the findings of the Pennsylvania Fresh Financing Initiative which showed that negative or stagnant home value trends in these neighborhoods were reversed or stabilized, the currently positive appreciation trend in the O.C. Haley neighborhood should be increased. Homes in the surrounding area, particularly within one mile of the new store, should experience a higher than average rate of appreciation.

The potential impact upon the neighborhood’s commercial real estate is much more theoretical and speculative than its impact on residential real estate. As an anchor type retailer, and in conjunction with other major development projects such as the relocation of the New Orleans Redevelopment Authority’s headquarters to the boulevard, the surrounding area should see vacant space begin to be redeveloped. Smaller retailers should begin to surround the new store in order to take advantage of the increased number of shoppers in the area. An informal survey, conducted solely for this report, of the vacant retail space for lease on O.C. Haley Boulevard found that current market rate rent is between $11.00 and $12.00 per square foot per annum.77 Healthier commercial corridors such as Magazine Street, Oak Street, Maple Street, and Freret Street, in comparison,

experience higher retail rental rates between $18.00 and $22.00 per square foot. Initially, these rental rates should remain stable, yet low, as the plethora of vacant retail space on the street is slowly absorbed. Once the area begins to experience more normal vacancy rates – in the area of 10% - market rate rent should begin to rise. If this occurs, and the new anchor retailer is able to draw smaller retailers to absorb the vacant space, over time – perhaps 10 to 15 years – commercial landlords could see their Gross Potential Revenue nearly double as rent could potential rise by $7.00 to $10.00 per square foot. While investment in commercial real estate in the area should still be considered “risky”, the potential reward, or upside, is significantly improved by the addition of the new grocery store. Investment and redevelopment of commercial real estate on O.C. Haley is more financially feasible and attractive post-grocery store opening.

**Case Study: Lower the Cost of Food**

The proposed Jack and Jakes grocery at the former Myrtle Banks School site would immediately reduce the cost of groceries in the PMA. The new store will do this primarily in two ways, A) by supplanting convenience stores and other smaller food stores, where per item costs are higher, as the primary neighborhood grocery source, and B) by using its unique corporate model to significantly lower the cost of the fresh produce to local residents. Firstly, residents of the PMA are forced to shop for groceries either by going to

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local convenience stores or by traveling unreasonably far distances to a larger grocery store, primarily the Wal-Mart on Tchoupitoulas Street. In both cases, either higher item costs or higher transportation costs cause residents to pay a larger amount of money per item on food than they should. Secondly, Jack and Jakes unique corporate structure, in which they act as their own produce distributor, allows them to sell fresh produce at a significantly lower cost. Moreover, it is the intention of Jack and Jakes to keep produce prices as low as possible in order to promote healthier eating habits. Unfortunately, Jack and Jakes would not release their pricing and profit-margin data, keeping a true measurement of the community savings unattainable at this time. Nonetheless, the new Jack and Jakes store should significantly reduce the cost of food, particularly fresh produce, for residents in the PMA and the larger Central City food desert.

Conclusion

In conclusion, this report finds that in low-income, underserved neighborhoods – or food deserts – the development of a new grocery store has a tremendous economic impact as it serves as a catalyst for economic development. The new store helps spur reinvestment by providing a significant economic boost to the surrounding real estate and by creating local jobs. Furthermore, a new grocery store will help to address the many needs of food deserts by increasing access to and lowers the cost of groceries. Economic theories such as the Employment Multiplier, the Income Multiplier, and Anchor Retailing explain how a new
grocery store delivers these effects. They show how grocery stores do a very good job of promoting economic activity beyond the actual store.

The proposed Jack and Jakes Grocery store at the former Myrtle Banks School site is an ideal addition to the O.C. Haley neighborhood. This report shows that the new store will have a significant impact upon the resurrection of the O.C. Haley Commercial Corridor. One of the primary needs of this market is the redevelopment of vacant retail space. The addition of the Jack and Jakes should help to solve this problem. First, the significant addition of local income to the community, and the additional spending that accompanies it should help to further drive demand for retail on the corridor. Second, the boost to residential real estate should help spark reinvestment in this area, promoting population growth and thus, more demand for retail. Thirdly, as an anchor retailer, the new store should influence smaller retailers to locate near the high volume of shoppers that the grocery store attracts. When these three effects are combined, vacant retail space on the boulevard should begin to be absorbed and redeveloped, putting upward pressure on rents and commercial land value. While the new store likely will not be able to serve as a the sole instrument of economic development, it is the opinion of this report that the addition of the Jack and Jakes Grocery Store to the O.C. Haley Community should be considered integral to any plan intended to promote the long-term economic growth and prosperity of the area.