



Impact of COVID on Retail

CHARLES COUNTY, MARYLAND



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CLOSE TO THE CAPITAL. FAR FROM ORDINARY.

**Charles County Government
Economic Development Department**

10665 Stanhaven Place, Suite 206
White Plains, Maryland 20695

www.MeetCharlesCounty.com



ACKNOWLEDGEMENTS

Prepared By:

Chudi Obi, Business Development Coordinator



**Charles County Government
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10665 Stanhaven Place, Suite 206
White Plains, Maryland 20695

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PURPOSE

The purpose of this report is to provide the Charles County Board of Commissioners, County Administrator, and residents of the county with information that will help to better understand the impact that the Coronavirus Pandemic had on retail in Charles County as well as discussing steps moving forward.

INTRODUCTION

When the Coronavirus (COVID) pandemic hit the United States in March 2020, the entire country was shut down, heavily affecting the retail industry nationally. Charles County did not escape the negative effects of the shutdowns, which exacerbated the county's overall retail vacancy rate. Prior to the pandemic, the closures of the Modell's Sporting Goods and HH Gregg stores in 2016 and 2017, respectively, reflected a broader national trend of the closure of large retail box stores. Several other major retailers announced imminent store closings at the end of 2016/beginning of 2017, including Macy's (100 stores), JC Penney (140 stores) and Sears Holdings (108 Kmart stores, 42 Sears stores) which went into effect as the pandemic was just starting.

In the past, much of the reason for the closure of brick-and-mortar stores has been attributed to the increased use of online retail, despite it only accounting for 8% to 10% of retail sales nationally. However, as the pandemic continued, we saw that trend increase. In 2020, online buying accounted for almost 15% of retail sales nationally on average and settling around 14% in 2021. While brick and mortar stores have recovered and still account for the majority retail sales, the pandemic has breathed new life into online retail, and it will continue to have a strong and lasting effect into the future.

The following report prepared by the Economic Development Department (EDD) attempts to address how the pandemic affected retail trends in Charles County. The EDD utilized a diverse variety of information sources in the preparation of this report including multiple online and print media outlets; Site to Do Business, an online, fee-based supplier of socioeconomic data.

The report is organized into the following sections: 1. Purpose; 2. Introduction; 3. Retail Definitions, a summary of the various shopping center types; 4. Retail Standard Guidelines, a description of how communities are served by shopping centers; 5. Vacancy Rates and Owner Occupied Property, an overview of the rate of vacancy in the county and which stores own their property; 6. Conclusion, an analysis of what the future may hold for retail in Charles County.



RETAIL DEFINITIONS

The term “retail” generally refers to operations involved in the sale of goods, merchandise, or services from a fixed location, such as a shopping center or freestanding store. Retail can generally be classified into two major categories by building configuration: first, **general retail**, which is typically single tenant freestanding general purpose commercial buildings with parking; and second, **shopping centers**.

The definition of a **shopping center** is standard. As formulated by the former Community Builders Council of the Urban Land Institute (ULI) in the 1950s and reaffirmed over time, a shopping center is a group of commercial establishments planned, developed, owned, and managed as a unit related in location, size, and type of shops to the trade area it serves. It provides on-site parking relating to the types and sizes of its stores.

As the shopping center evolved, five (5) basic types emerged, each distinctive in its own function: the convenience, the neighborhood, the community, the regional, and the super-regional. In all cases, a shopping center’s type and function are determined by its major tenant or tenants and the size of its trade area; they are never based solely on the area of the site or the square footage of the structures.

ULI defines the types of shopping centers that comprise the majority of retail development in the United States. For purposes of understanding terms and characterizations used in this report, the five (5) basic types of retail centers are summarized:

1. **Convenience Center** — Provides for the sale of personal services and convenience goods similar to those in a neighborhood center. It contains a minimum of three stores, with a gross leasable area (GLA) of up to 30,000 square feet. Instead of being anchored by a supermarket, a convenience center is usually anchored by some other type of personal/convenience services such as a minimarket.
2. **Neighborhood Shopping Center** — This type of retail center provides for the sale of convenience goods (foods, drugs, and sundries) and personal services (e.g. laundry and dry cleaning, hair-styling, shoe repair and tailoring) for the day-to-day needs of the residents in the immediate area. It is built around a supermarket as the principal tenant and typically contains a gross leasable area of about 60,000 square feet. In practice, neighborhood centers can range from 30,000 to 150,000 square feet.
3. **Community Shopping Center** — In addition to the convenience goods and personal services offered by the neighborhood center, a community center provides a wider range of soft lines (wearing apparel) and hard lines (hardware and appliances). The community center makes merchandise available in a greater variety of sizes, styles,



colors, and prices. Many centers are built around a junior department store, variety store, super drugstore, or discount department store as the major tenant, in addition to a supermarket.

Although a community center does not have a full-line department store, it may have a strong specialty store or stores. Its typical size is about 150,000 square feet of gross leasable area, but in practice, it may range from 100,000 to 350,000 or more square feet. Centers that fit the general profile of a community center but contain more than 250,000 square feet are classified as super community centers. As a result, the community center is the most difficult to estimate for size and pulling power.

A power center is a type of super community center that contains at least four category-specific, off-price anchors of 20,000 or more square feet. These anchors typically emphasize hard goods such as consumer electronics, sporting goods, office supplies, home furnishings, home improvement goods, bulk foods, health and beauty aids, and personal computer hardware/software.

4. **Regional Shopping Center** — This type of center provides general merchandise, apparel, furniture, and home furnishings in depth and variety, as well as a range of services and recreational facilities. It is built around two or more full-line department stores of generally not less than 50,000 square feet. Its typical size is about 500,000 square feet of gross leasable area, but in practice it may range from 250,000 square feet to more than 800,000 square feet. The regional center provides services typical of a business district yet not as extensive as those of the super-regional center.
5. **Super Regional Shopping Center** — A super-regional center offers an extensive variety in general merchandise, apparel, furniture, and home furnishings, as well as a variety of services and recreational facilities. It is built around three or more full-line department stores generally of not less than 75,000 square feet each. The typical size of a super-regional center is about 1 million square feet of GLA. In practice the size can range from about 500,000 to more than 1.5 million square feet. Super regional centers have been typified by enclosed malls for over the past thirty years but have been trending to open air “town centers” over the past decade or so.



RETAIL STANDARD GUIDELINES

The concept of establishing retail standards for communities and neighborhoods is subjective. What is considered lacking or inconvenient to one person might be inconsequential or otherwise readily available to another, depending on a variety of factors including, but not limited to, mobility, income, personal taste or need, and perception. Consequently, there are certain basic criteria or thresholds that can be established to provide a framework for standards, which in turn can be refined through a process such as local market surveys, targeted supply analysis, etc. This section seeks to define standards for the trade area of a neighborhood's commercial core (activity center) from the perspective of residents, rather than the perspective of a particular type of retail activity.

ULI has established minimum thresholds for market support for retail centers based on population, radius, and drive time. As a demonstration of the subjective nature of this analysis, it should be noted that ULI's criteria and thresholds for GLA and trade area size (and by inference minimum standards) differ slightly from the ESRI approach. Taking them all into account can provide a balanced view of the topic and its implications on policy and planning decisions. The thresholds utilized in this section of the analysis are expressed in the following table.

Table 1
Standard Guidelines - Shopping Center Thresholds

Center Type	Min. Population	Trade Area Radius	Driveshed
Neighborhood	3,000-4,000	3 miles	5-10 minutes
Community	40,000-50,000	3-6 miles	15-20 minutes
Regional	150,000	5-15 miles	20 minutes
Super-Regional	300,000	5-25 miles	30 minutes

Source: ULI; Charles County Economic Development

LOCAL RETAIL ENVIRONMENT

Greater Waldorf, and particularly the U.S. Route 301 corridor that passes through it, is a regional retail hub that serves all of Charles County, as well as parts of Saint Mary's and Calvert Counties in Maryland and King George County in Virginia. Additional significant retail supply resides on the 301 corridor in Brandywine, in Prince George's County just north of the county line, and the Town of La Plata. Charles County's retail inventory totals an estimated 8.9 million square feet of gross leasable area (GLA), with an 8.0% average vacancy rate for 2016. Vacancy is a measure of the total amount of physically vacant space divided by the total amount of existing inventory. Figure 1 shows major shopping centers in the area.

Charles County's three major shopping centers include: St. Charles Towne Center, a 1.1 million-square-foot enclosed mall with Kohls, Macy's, JC Penney and Dick's Sporting Goods as anchors; Waldorf Marketplace, a 475,000-square-foot open format shopping center with



Safeway, TJ Maxx and Office Depot among its anchors, and The Shops at Waldorf Center, a 584,470-square-foot open format shopping center with Ross, LA Fitness and the Christmas Tree Shops among its anchors. By regional standards, the Charles County retail submarket is large. Which is why it remains a targeted industry for the County and is included in the EDD 5-year Strategic Plan.

Figure 1: Major Shopping



Source: Esri Business Services; Charles County Economic Development



STORE OWNED PROPERTIES IN CHARLES COUNTY

Stores that own their properties are generally big box stores of major chains in the country. In Charles County there are several stores that own their properties. In Table 2 below, we have a total of sixteen properties owned by their retailers:

Table 2
Owner-Owned Properties SF

Retail Business	Location	SF	Vacant/Occupied
Macy's	Waldorf	178,412	Occupied
Sears	Waldorf	141,377	Vacant
Walmart	La Plata	140,188	Occupied
Lowes	La Plata	137,862	Occupied
Sam's Club	Waldorf	129,023	Occupied
Target	La Plata	129,001	Occupied
Lowes	Waldorf	119,393	Occupied
Home Depot	Waldorf	114,469	Occupied
Walmart	Waldorf	114,324	Occupied
Shoppers	Waldorf	70,000	Vacant
Food Lion	Bryans Road	38,543	Occupied
Food Lion	Waldorf	36,380	Occupied
Lidl	Waldorf	36,285	Occupied
HH Gregg	Waldorf	31,537	Vacant
Modell's	Waldorf	17,825	Vacant
Chick-fil-a	Waldorf	4,009	Occupied
Total Square Footage		1,438,628	

Source: Co-Star, 2022; Charles County Economic Development

Currently twelve of the sixteen owner-owned properties are occupied, while the remaining are vacant. The stores with the large square footage are owned by Lowes, Home Depot, and Walmart concentrated in Waldorf and La Plata. When it comes to the amount of space that is occupied by the top five properties in square footage, they combine to give a total of approximately 1.4 million square feet. With vacant properties it is important to note that Modell's, HH Gregg, and Sears vacated prior to the pandemic. This has shown a trend of big box stores closing their operations in Charles County. Shoppers Food Warehouse shutdown during the pandemic in April 2020.

As a percentage of square footage of owner-owned space, vacant properties make up approximately 18%. Through this data, we can concur that retail has had its challenges in the county in terms of big box stores leaving which was further exacerbated by the COVID pandemic. What creates an additional difficulty is right now these vacant properties, which summed up is a little over two hundred thousand square feet, have remained vacant for

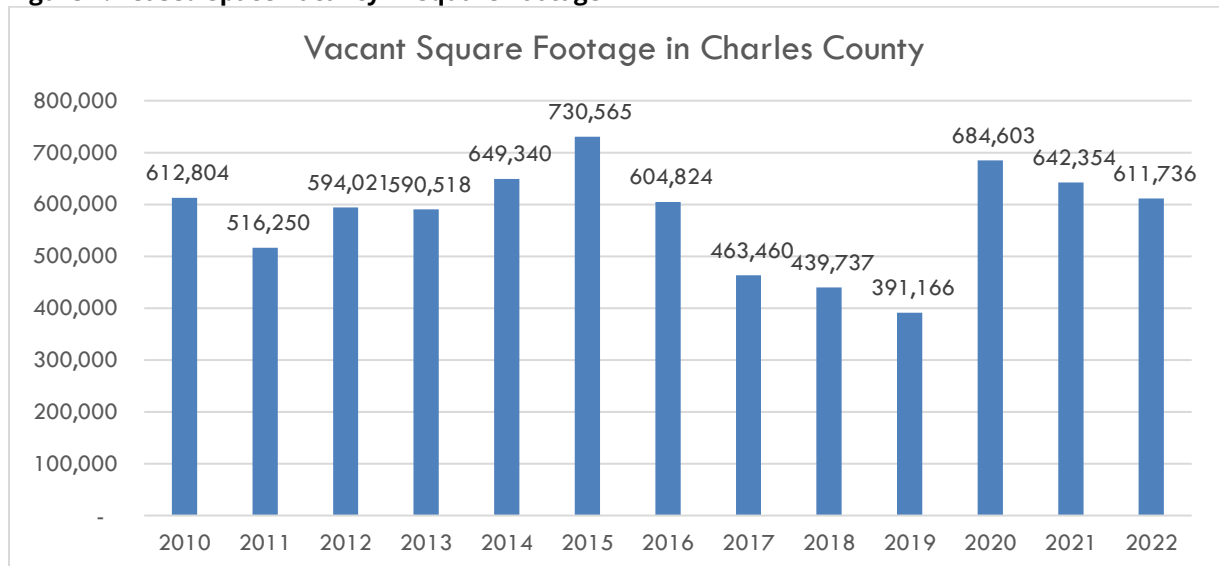


several years. HH Gregg is currently allowing for pop up vendors to use the space on weekends, but that does not create enough use for sustaining growth in the retail sector. It also means jobs that could have been provided if the space was utilized are currently not being provided.

EFFECTS OF COVID ON VACANCY RATES AND WORK FORCE

In figures 2 and 3, we are presented with the amount of vacant retail space in square footage and the vacancy rate respectively. From 2011 to 2015, we saw a steady increase in vacancy in square footage along with vacancy rate percentage the peak occurring during 2015. After that there was a steady decline in vacancy in square footage and percentage from 2016 to 2019. However, in 2020 there was a large increase in vacancy because of the pandemic. The entire country shutting down considerably slowed business, as well as forced the closure of many businesses across the nation, some permanently.

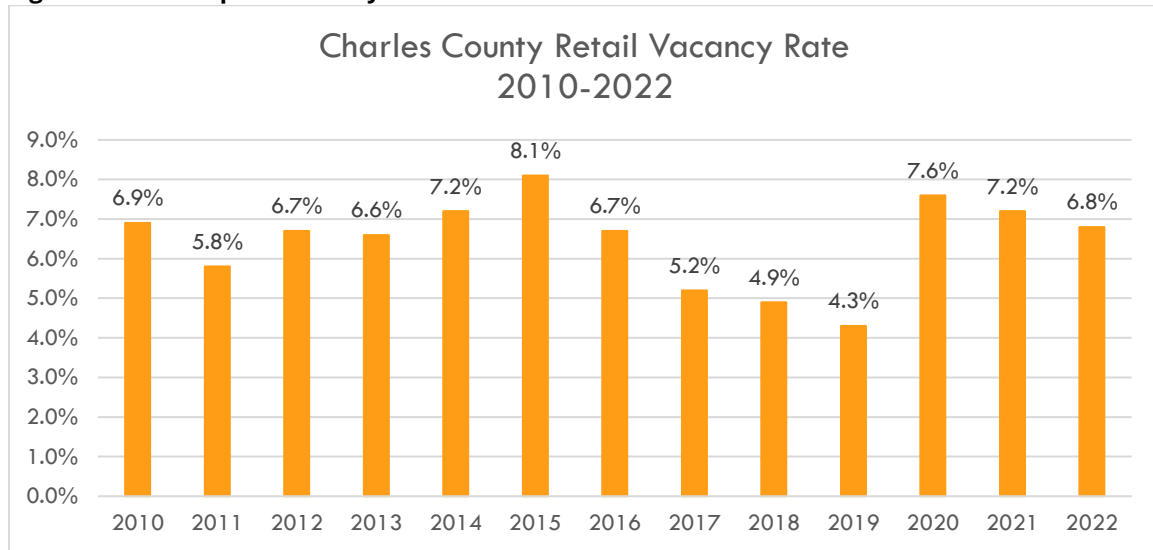
Figure 2: Leased Space Vacancy in Square Footage



Source: CoStar, 2022; Charles County Economic Development Department



Figure 3: Leased Space Vacancy Rate



Source: CoStar, 2022; Charles County Economic Development Department

After peaking in 2020, there has been a steady decline in vacancy in square footage and vacancy rates in the county. While we have seen a drop-in vacancy rate and square footage, it has not yet fallen back to pre-pandemic levels.

Work force participation is another area where the pandemic has had a huge impact on retail in the county. When the pandemic first hit many businesses were shut down and in turn many workers were out of work. This had a particularly negative effect on the retail industry as many big stores and shops along with small businesses were shut down. Throughout 2020 there was a steady return of some workers, but many stayed away from returning to the work force. In 2021 with the advent of vaccines and places reopening, workers began to return but not at the level that was expected. Up to now this has led to a nationwide worker shortage which has also had a negative effect on the retail industry. Many retail businesses, small and large, have been looking for workers to fill positions that are needed adding to logistical problems brought about by a lack of staff.



GRANT PROGRAMS OFFERED DURING COVID

During the pandemic, businesses were facing hard financial headwinds. As a result, many stimulus packages were passed and released throughout the country at the federal, state, and local levels. In the case of Charles County, through federal and state funding, the EDD delivered economic grants to businesses in the county to weather the difficulties of the pandemic. In 2020 the first year of the pandemic, 531 grants were awarded to businesses in the county totaling around \$4 million. In 2021, 216 grants were awarded to businesses in the county totaling around \$2.1 million. From these two years we can see that in the first year with amount of grants disbursed, the affect was greatly positive as the funds allowed businesses to weather the initial hardship of the pandemic, which in turn allowed them to stand firm in 2021 which was evidenced in an over 50% reduction in business getting grants. The grants in 2021 further allowed businesses to address a wide variety of needs such strengthening their online retail presence and teleworking capabilities.

Further on the state level, Charles County businesses received additional funds from the Maryland Small Business COVID-19 Emergency Relief Grant Fund, which distributed money to all small business throughout the state. On the federal level the Paycheck Protection Program (PPP), provided funds across the country, with Maryland receiving around 87,000 loans totaling close to \$10 billion in 2020 and around 110,000 loans totaling close to \$5.1 billion in 2021. The use of these funds has allowed retail in the county to hold off the worst of the economic effect that the pandemic inflicted.

CONCLUSION AND NEXT STEPS

Moving forward retail in Charles County will continue to have to adjust to national retail trends such increase in online shopping and the growing shortage of labor affecting the workforce. In addition, finding ways to increase use of vacant retail space is another trend the retail sector in the county will have to adjust to. Charles County EDD will continue to provide robust support of this target industry sector through organized and deliberate assistance with retail retainment and recruitment efforts that will include, but not be limited to, the following:

- Conduct outreach to and collaborate with shopping center owners and operators;
- Actively participate in retail business organizations and advocacy groups such as the International Council of Shopping Centers and the Urban Land Institute;
- Continue to promote and grow small retail business through programs like the Business Growth Advantage Program (BGAP);
- Cooperate with large retailers who wish to set up operations in Charles County