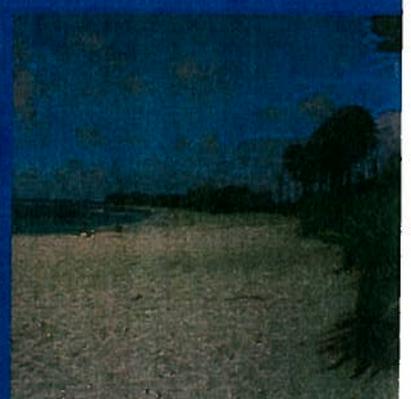
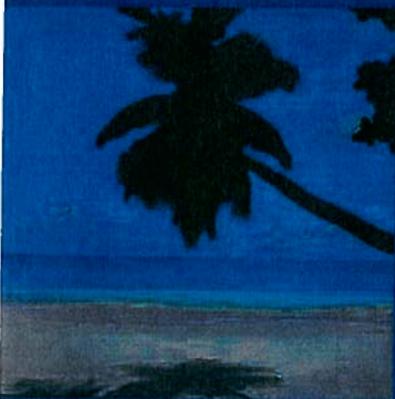


City of Sanibel



Commercial District Market Analysis

December 2007



Real Estate

RESEARCH



CITY OF SANIBEL

COMMERCIAL DISTRICT MARKET ANALYSIS

DECEMBER 2007

(WITH ADDITIONAL MATERIAL REQUESTED BY CITY COUNCIL IN FEBRUARY 2008)

Prepared by:



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1. INTRODUCTION: CHARGE AND OVERVIEW OF DISTRICT MARKET ANALYSIS AND RELATIONSHIP TO OVERALL DISTRICT PLANNING PROGRAM

The overall goal of this phase of market analysis for the Periwinkle Way West District Plan (PWWDP) has been to establish an effective baseline of data for existing economic conditions and market demand for various types of development within the traditional Sanibel Island boundaries, with a clear view of past, current, and future land use trends. The extent that these trends may be related to existing or evolving policies is addressed only as potential concepts of The PWWDP are envisioned by planners, stakeholders, leadership, and citizens in general. The consultant team assembled by Real Estate Research Consultants, Inc. (RERC) has worked closely with WRT and all the above-mentioned parties to insure that the analysis produced will be consistent with the Economic Assumptions of The Sanibel Plan and not violate conservation precepts held dear in the Sanibel Island environmentally sensitive economy.



Periwinkle Way West Commercial District Plan – RERC’s role in this initial phase of work has been to support the efforts of WRT as that firm proceeds with the first two phases of preparing the commercial district plan, including a “preliminary district vision plan” and concepts for specific “focus areas.” Generally, RERC: 1) participated as needed in the workshops and stakeholder interviews required to understand economic, market, and land use issues associated with the district plan; and 2) completed retail and commercial market analysis to provide meaningful parameters to potential redevelopment and land use programs for conceptual vision plans. The most important goal for this phase of work is to create a realistic vision that sustains and enhances the unique environmental and community character of Sanibel and reinforces The Sanibel Plan, especially identifying niches of opportunity for retaining and supporting unique island-serving commercial uses and services.

RERC has examined Sanibel Island's current environmentally based economy through the "eyes" of Sanibel's retailers, restaurateurs, other businesses, and the resident/visitor population. *More than forty primary interviews were completed by RERC's staff among local retailers, business leaders, resort operators, current and former planning commissioners and city council members, major property owners, developers, and representatives of civic organizations. As well, RERC staff reviewed the results of all locally conducted workshops, public meetings, and visioning sessions.* Much of the performance data RERC has collected and generated as a foundation for evaluating Sanibel's long-term retail/restaurant/services needs will also serve as a benchmarks against which to measure progress toward goals and policies that are established as part of The Sanibel Plan.

Retail/restaurant/services components of The PWWDP must take into consideration existing island commercial patterns and must reflect the unique niche opportunities that can be sustained by the Sanibel seasonal and off-season population base. The competitive and complementary aspects of the Periwinkle Way West District must be evaluated as part of the planning process. Specific stabilization or enhancement strategies must address the opportunities and requirements associated with diverse, multi-cultural market segments, such as island workers, primary residents, resort tourists, vacation homeowners, day visitors, and other potential elements. The following report summarizes the market analysis with respect to:

- Profiles of existing commercial conditions;
- Demographics and other market dynamics;
- Prior economic and market studies;
- Opportunities and constraints for redevelopment; and
- Preliminary market strategies.



2. PROFILE: EXISTING CONDITIONS WITHIN THE COMMERCIAL DISTRICT

COMMERCIAL SUPPLY ON SANIBEL ISLAND

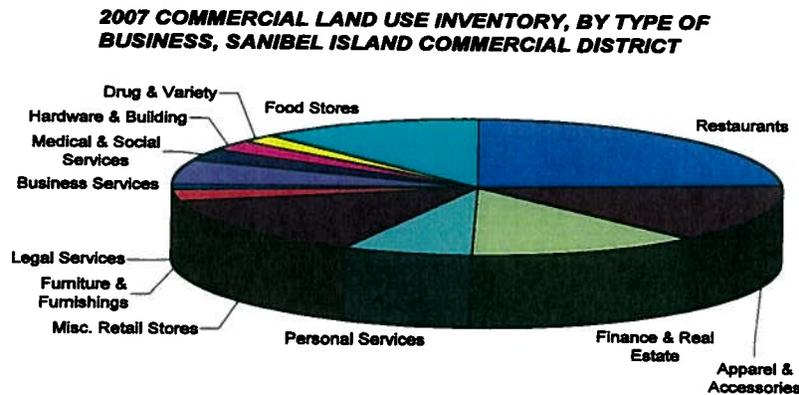
The entire retail and commercial services inventory existing on Sanibel Island totals approximately 600,000 square feet of retail shops, various restaurants, and numerous professional and personal services establishments, based upon building-by-building surveys of the city's planning department maintained over several years. The businesses located within this commercial space address the daily needs of full time and part-time residents, seasonal visitors, resort guests, and day-trippers on a year-round basis.

The most recent comprehensive survey was completed by staff and approved by the City Council in March 2007. There was very little change between this update and the detailed survey completed in March 2006, except for an apparent reduction in the number of vacant commercial units in the General Commercial (GC) District. RERC used the detailed breakdowns of occupied commercial establishments by location and zoning category presented in the 2006 survey to aggregate the commercial inventory into common business groupings that fall into four basic categories:

- "Convenience-goods" retailing (serving immediate and impulse-driven needs);
- "Destination" retailing (drawing shoppers to specific merchandise or appeal);
- Restaurants and food services; and,
- Business, personal, and other services (banks, attorneys, real estate, spas, etc.).

Seventy percent (70%) of this commercial space is comprised of (or intended for) uses that are described as "Retail," including restaurants and stores of all descriptions. The other thirty percent (30%) is intended for uses that are better characterized as "Services," including financial, legal, and other firms serving business and personal needs, as well as medical and other health-related facilities.

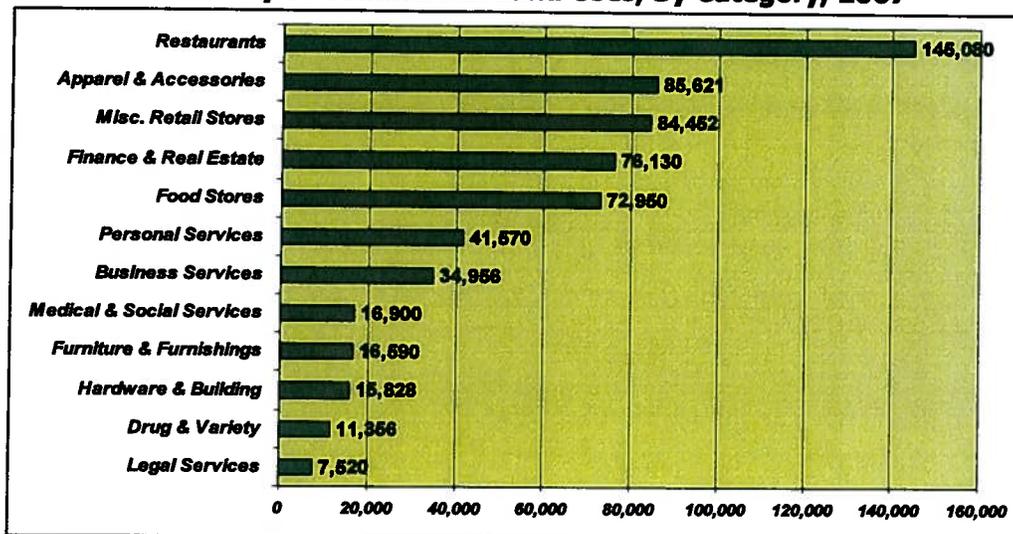
The surveys completed in March 2006 and updated March 2007 indicate that the amount of commercial space that is normally vacant ranges from five percent (5%) to seven percent (7%). The vacant space inventory declined about 40% from 2006 to 2007 to just over 31,000 square feet.



SOURCE: City of Sanibel, Inventory of Commercial Land Uses 2006-2007

The single largest category of commercial space is restaurants, comprising a little more than 145,000 square feet. Apparel and accessories stores make up the second largest category, followed closely by “miscellaneous” retail stores (which would include gifts, novelties, souvenirs, recreational merchandise, etc.), and food stores. The largest services category is comprised of real estate offices (76,130 square feet), followed by personal services (spas, beauty shops, bicycle rentals, child care, decorators, video rentals, and entertainment), and business services (copy centers, travel agents, equipment rental, cleaning and maintenance services, repair shops, professionals, etc.)

Inventory of Commercial Land Uses, By Category, 2007



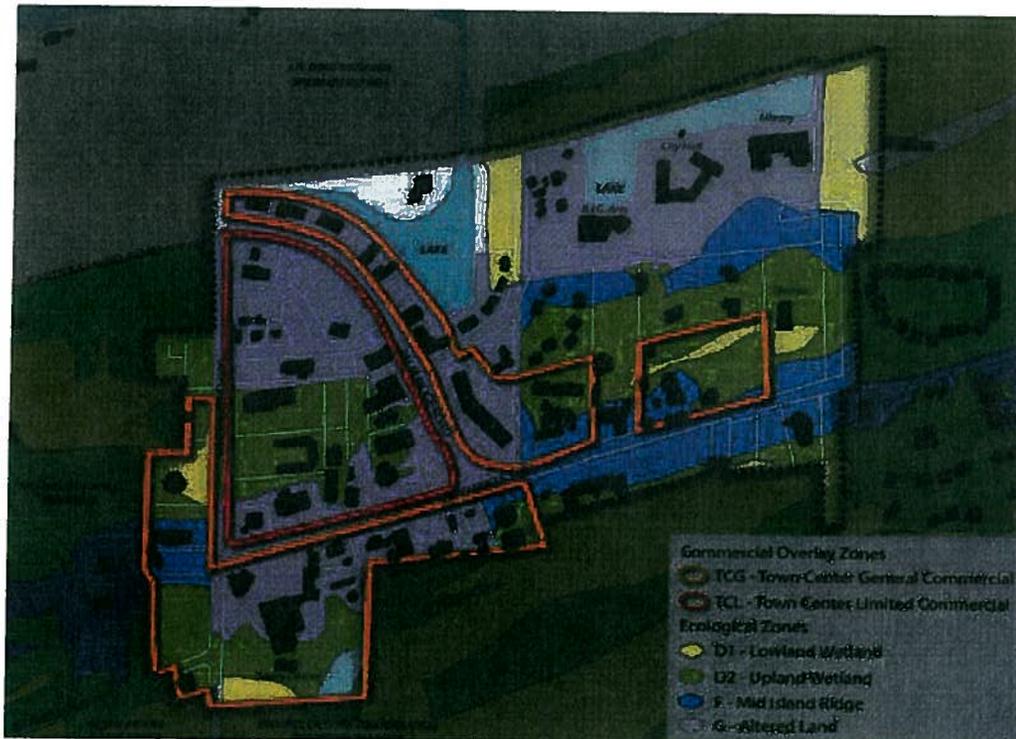
Sanibel Island has four primary commercial districts along Periwinkle Way between Causeway Boulevard and Tarpon Bay Road, complemented by four smaller commercial districts between the Lighthouse and Blind Pass. About 82% of the commercial inventory is located within the “General Commercial (GC),” “Town Center General (TCG),” and “Town Center Limited (TCL)” districts. These three districts contain 85% of retail space, 95% of services, and 28% of miscellaneous commercial not classified as retail or services. Roughly one-third of the restaurant space is found dispersed outside the Periwinkle commercial district(s). About one-fourth of the space dedicated to tourist-oriented stores selling gifts, souvenirs, and novelties are outside the main commercial district.

The General Commercial District (GC) is the largest of the three primary land use categories and it allows all permitted commercial uses for the City of Sanibel and all conditional uses permitted in the city. Maximum floor area ratio is limited to 10%. Buildings must not exceed a height of 45 feet and must set back at least 100 feet from major roads. Side and rear yard setbacks are 25 feet and 20 feet, respectively, and impermeable surface cannot exceed 45%.

The Town Center General Commercial District (TCG) includes about half the area of GC, but is basically identical in terms of permitted uses and regulations. TCG does allow a slightly larger floor area ratio (12%), and includes much of the property fronting on Periwinkle Way, Palm Ridge Road, and Tarpon Bay Road.

The third category is the Town Center Limited Commercial District (TCL), which is the smallest of the three, consisting of 23 acres located in the triangle formed by Periwinkle Way West, Palm Ridge Road, and Tarpon Bay Road. The TCL district is distinguished from TCG only by the exclusion of a select number of retail uses (apparel, children's wear, gifts, and jewelry stores) from the list of permitted uses. It is understood that this exclusion is intended to focus the TCL district more towards retail uses, services, and mixed-use development that serve island residents because of its more central and more accessible location at the juncture of the island's major roads.

Commercial Zoning Districts, Periwinkle Way West



The following statistical table presents a summary of the current commercial inventory within the three primary land use districts as of the surveys completed in 2006 and 2007:

Inventory of Commercial land Uses by Permitted Use Categories, 2006 and 2007

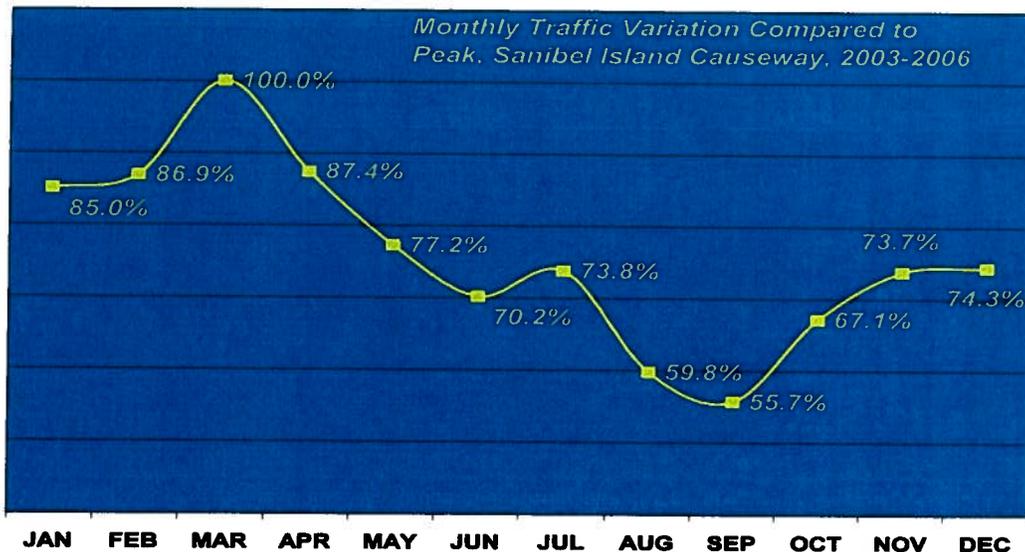
2006 Commercial Inventory	General Commercial	Town Center General	Town Center Limited	Commercial District Totals
<i>Acres of zoned land</i>	77	37	23	137
Number of <i>active</i> business units	159	110	33	302
Square Footage Included	324,579	156,725	69,982	551,286
Number of <i>vacant</i> business units	18	20	2	40
Square Footage Included	21,330	21,556	2,750	45,636
<u>Sub-totals of Potential Supply:</u>				
Potential Business units	177	130	35	342
Square Footage Included	345,909	178,281	72,732	596,922
2007 Commercial Inventory	General Commercial	Town Center General	Town Center Limited	Commercial District Totals
<i>Acres of zoned land</i>	77	37	23	137
Number of <i>active</i> business units	172	107	34	313
Square Footage Included	341,009	152,797	71,982	565,788
Number of <i>vacant</i> business units	5	23	1	29
Square Footage Included	4,900	25,484	750	31,134
<u>Sub-totals of Potential Supply:</u>				
Potential Business units	177	130	35	342
Square Footage Included	345,909	178,281	72,732	596,922

SOURCE: City of Sanibel, Inventory of Commercial Land Uses, 2006-2007

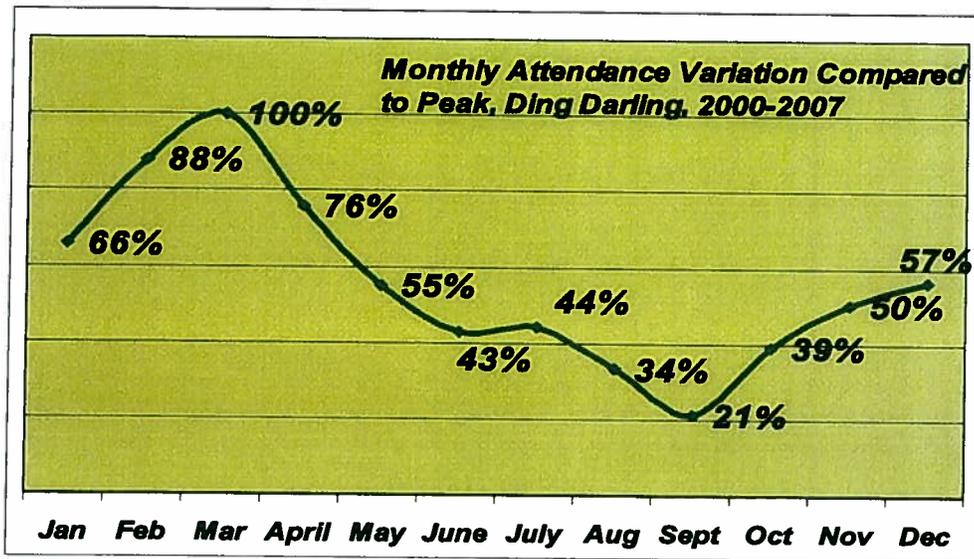
3. DEMOGRAPHICS, INCOMES, AND OTHER CURRENT MARKET CONDITIONS RELEVANT TO THE DISTRICT PLAN

The most reliable and *predictable* sources of demand for commercial goods and services on Sanibel Island are residents – both full-time and part-time. Those who own homes or condominiums on the island and spend anywhere from a few weeks to twelve months living continuously on the island form the bedrock of demand for businesses that serve this “local” need. With the exceptions of restaurants, gift and souvenir shops, selected apparel and accessories stores, and certain resort-oriented services, surveys of local businesses confirm that the full-time and seasonal residents are the basic foundation of sales and revenues.

Surveys of potential shoppers for goods and services on the island (City of Sanibel, Resident Surveys, January 2006) reveal the personal shopping and spending habits of the island “residents” are typically quite similar to those exhibited by most residents when they are active in their “normal” home markets. In other words, these retail and service demands are a function of daily needs and household incomes, as compared to short-term visitors who shop and spend as if they are on vacation, which they are. Visitors’ spending patterns are much more oriented to dining, souvenirs, entertainment, and resort services, and they are highly cyclical. Thus, Sanibel sees a diversified commercial market with disproportionate amounts of restaurants, gift shops, resort apparel, and personal services, which are dependent upon the varying visitor levels dictated by *unpredictable* factors such as weather, environment, national economic fluctuations, tolls and gas prices, global exchange rates, and alternative competitive offerings. The variation in average monthly causeway traffic is one indicator of the consistently and wildly cyclical nature of visitor traffic on Sanibel Island.

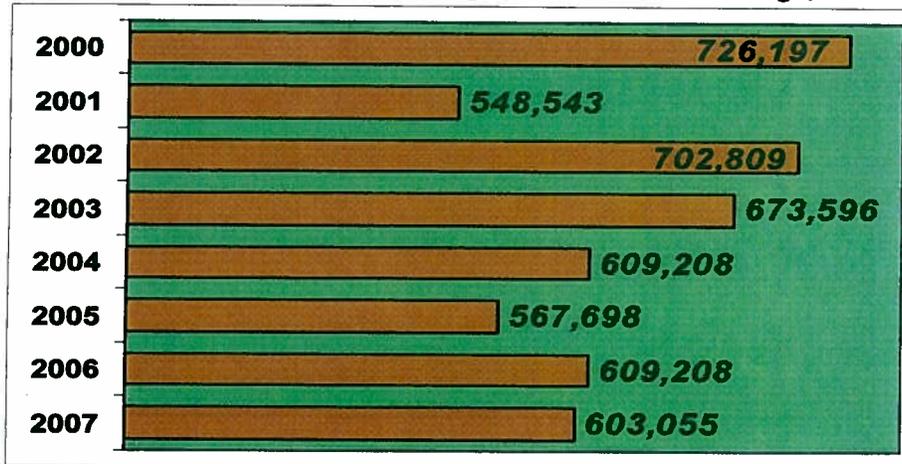


When visitor attendance data for Sanibel’s largest and signature attraction – J.N. “Ding” Darling National Wildlife refuge – is examined on a monthly basis, the same fluctuation in seasonal visitor patterns is obvious.



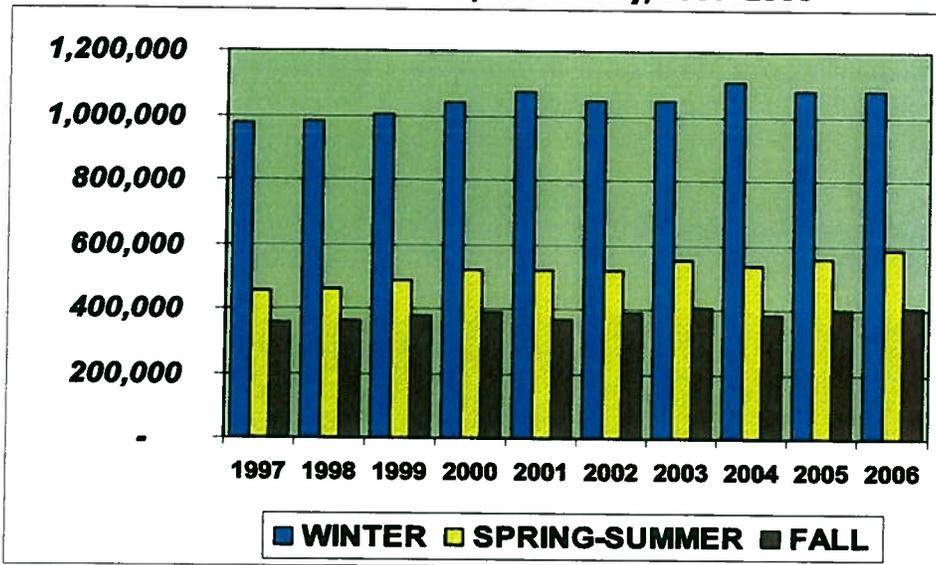
It can also be seen that the Refuge's annual attendance totals have been fluctuating about 30% or more over the past several years.

Annual Attendance, J. N. Ding Darling National Wildlife Refuge, 2000-2007

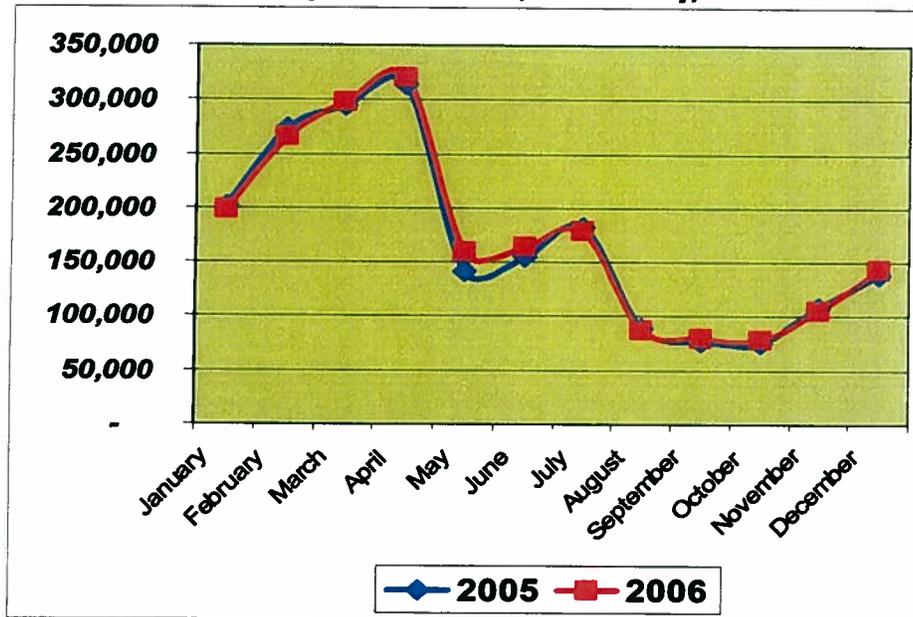


The seasonal variations in visitor traffic that bedevil island-serving businesses on Sanibel are also manifest throughout southwest Florida and Lee County. The two following charts illustrate recent history of visitor traffic throughout Lee County, data collected by the Convention & Visitors Bureau. The annual and seasonal totals for the county have been pretty stable for the past ten years, compared to more rapid growth in the 1970's and 1980's. However, the monthly averages demonstrate the same cyclical variation observed in Sanibel Island Causeway Traffic and Ding Darling attendance.

Seasonal Visitor Traffic, Lee County, 1997-2006



Average Monthly Visitor Traffic, Lee County, 2005-2006

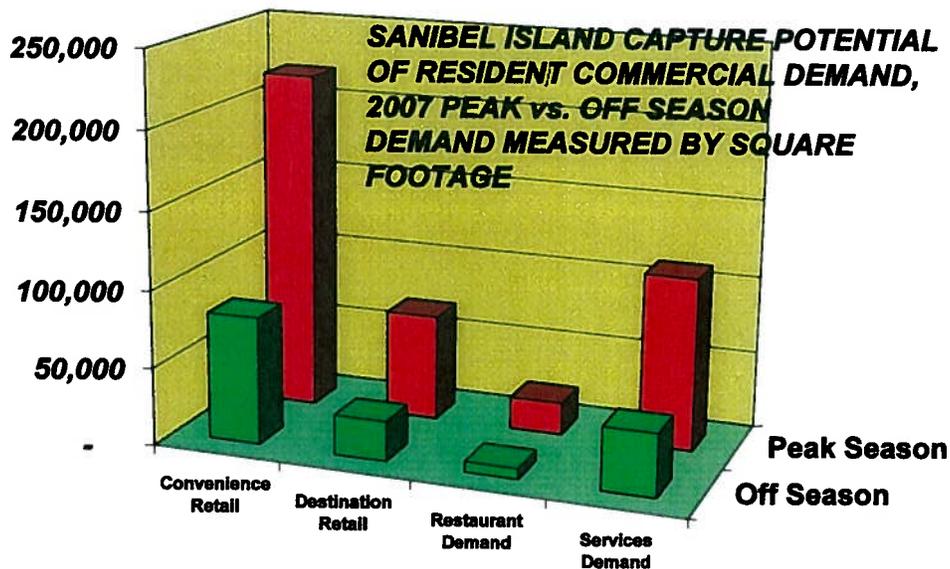


According to visitor surveys compiled for Lee County by Research Data Services, each person visiting Lee County in 2006 spent an average of about \$100 per day during the winter season, \$88 per day during the spring and summer, and \$95 per day during the fall season. After accounting for lodging and transportation costs, RERC estimates that less than \$25 per day remains for spending on food, dining, entertainment, and gifts or souvenirs, somewhere within Lee County. Based upon retail expenditure models presented later in this report, RERC further estimates that a typical resident on Sanibel Island spends \$30 to \$40 everyday for many of the same items on Sanibel Island.

RERC estimates that roughly two-thirds of Sanibel’s commercial space is directly supported by expenditures of full-time and part-time residents – homeowners and visitors who normally reside on the island during the winter months between Christmas and Easter. The population swells from its year-round base of about 6,500 persons in 3,000 households to a peak of 14,000 to 15,000 persons in about 8,000 households (including single family homes, condominiums, timeshares, and hotel rooms). As a result, total resident-based commercial demands for retail, restaurant, and services space grow from 800,000 square feet to more than 2.1 million square feet.

Of this total resident-based demand potential, RERC estimates that Sanibel Island’s commercial offerings are only able to “capture” at most 20%, because the mix of stores and lack of competitive offerings require many expenditures to “leak” outside the local market to major retail centers on the mainland (or to on-line shopping alternatives). As a result, RERC estimates that on-island resident demand “peaks” during prime season at about 420,000 square feet, or two-thirds of the total commercial inventory on the island. The support for the balance of the commercial space must be derived from the short-term visitor traffic, which has been shown to vary daily and monthly depending on season and external influences.

RERC’s retail demand analysis follows later in this report. The following graphic demonstrates the seasonal variation of commercial demands on Sanibel Island, just considering the fluctuation in year-round and seasonal population levels. When the wildly varying short-term guest and day visitor traffic is added to the calculus, it is not hard to understand why Sanibel’s commercial marketplace is difficult to understand, stabilize, and plan for.



To calculate population estimates by season, RERC applied average occupancy rates and household size assumptions to the housing stock identified by the City of Sanibel Planning department (as reported in December 2006). A total of 8,265 units were reported as follows:

<i>Single family homes</i>	<i>3,947</i>
<i>Mobile homes</i>	<i>80</i>
<i>Multi-family units</i>	<i>3,115</i>
<i>Hotel/motel rooms</i>	<i>739</i>
<i>Timeshare units</i>	<i>384</i>

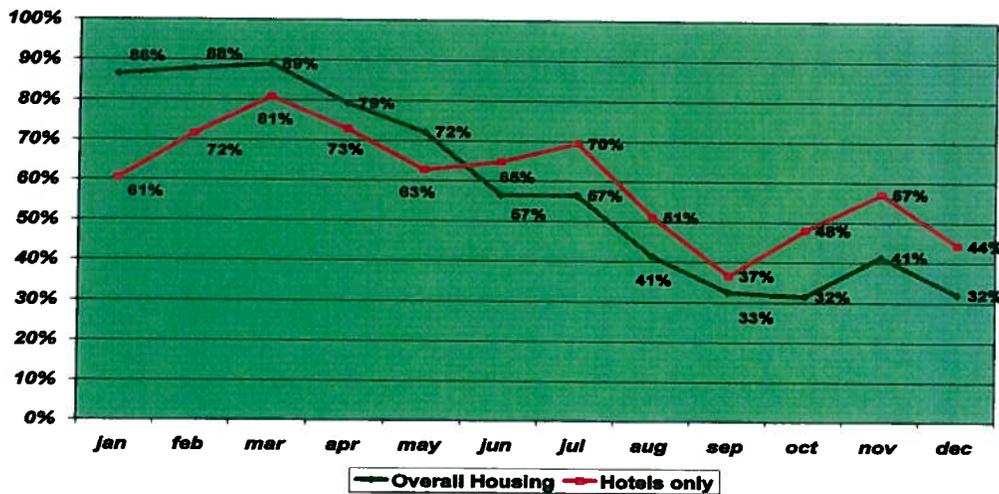
Each of these housing types is assumed to have differing occupancy rates and varying characteristics over the period of a year and in different seasons. Year-round and seasonal residents in homes and condominiums range from virtually 100% occupancy in winter to only 25% to 30% in late summer and fall months. Hotel rooms and most timeshares, on the other hand, are 75% to 80% occupied in the winter, 65% to 70% in the summer, and 45% to 50% in the fall months.

RERC has assumed that year-round and seasonal households average 1.75 persons when occupied, while hotel rooms and timeshare units average 2.5 persons when occupied. As a result of varying occupancy rates and household size characteristics, the population make-up varies by season, as illustrated in the following table:

Population Variation by Season, Sanibel Island

Population Source	Winter Season	Summer Season	Fall Season
Resident/Second Home	47%	40%	45%
Seasonal	36%	36%	25%
Short-term/Resort	17%	24%	30%
Estimated Daily Population	14,000-15,000	8,000-9,000	4,000-5,000
SOURCE: City of Sanibel; RERC; STR			

Monthly Occupancy Trends, Sanibel Island



SOURCE: Smith Travel Research, November 2007 Custom Report, data for 2005-2007

Visitor Trends: Another component of population that impacts demand for retail goods and services on Sanibel Island is the day visitor – typically the “tourist” who does not spend the night on the island but comes to view the unique natural environment, to enjoy the beaches, or to visit a friend or relative who is staying on the island in a home or resort. With rare exception, these day visitors do not come to Sanibel for the purpose of shopping in the commercial district, but they may be compelled to seek a souvenir, a gift, or some form of personal services, such as a spa or automobile service. Their greatest impact, however, occurs in the island’s many restaurants and food service establishments. While no specific tallies of the visitor levels are officially maintained, there are at least two very good indicators of the approximate volume and seasonal fluctuations in visitor traffic: attendance records at the J. N. Ding Darling National Wildlife Refuge and monthly vehicular traffic data recorded for the Sanibel Island Causeway.

Lee County’s Convention and Visitors Bureau conducts surveys of annual visitors to the county and inquires into trip purpose and destinations, among other things. Roughly two million people visit the county over the course of a typical year, and 8 to 10 percent of them indicate the local beaches as a primary attraction, including Sanibel Island and Fort Myers Beach. Data for visitor and traffic trends for all three of these sources were presented earlier in this report.

With causeway traffic averaging 10,000-11,000 vehicles per day in the winter and roughly several thousand per day during the summer and fall months – and the Ding Darling Refuge averaging 2,000-3,000 visitors per day in the winter and 1,000-1,500 per day in the summer months, it is not difficult to believe that Sanibel Island’s daily visitor counts could average 4,000-5,000 persons during the peak season and 2,000-3,000 per day during the summer. As noted earlier in this report, Lee County surveys estimate that “typical” visitors spend about \$25.00 per day on food, dining, entertainment, gifts, and souvenirs, therefore a million or more day visitors would have a substantial impact on Sanibel Island.

Day Visitor Variation by Season, Sanibel Island

	Winter Season	Summer Season	Fall Season
Avg. Daily Visitors	4,000-5,000	2,000-3,000	2,000-3,000
Avg. Monthly Visitors	150,000	90,000-100,000	60,000-90,000
Annual Visitors	1,000,000-1,200,000		
SOURCE: RERC			

4. ADOPTED PLANS AND POLICIES AND PREVIOUS ECONOMIC AND MARKET ANALYSES THAT PERTAIN TO THE DISTRICT

The current assessment is not the first time that the economy and commercial market potentials of Sanibel Island have been evaluated. RERC was introduced to the current effort through a broad selection of research and planning studies reaching back 30 years to the earliest formulation of The Sanibel Plan. Beginning with the Economic Assumptions prepared in 1976 as part of the Sanibel Plan, the fundamental guiding principles of commercial development and redevelopment in light of growth trends and periodic reviews of market conditions have been studied and tested roughly every decade, or so.

All objective and professionally prepared market studies have all concluded with the same basic observation: commercial demand growth on Sanibel is greatly limited by environmental, economic, and accessibility constraints.

In addition to formal market studies commissioned with highly qualified private consultants, through planning initiatives, citizen and business surveys, and locally based business roundtables the City has monitored consumer preferences and business issues on the island. All of the foregoing work is relevant to the current planning for the Commercial District, so findings of prior reports are briefly summarized here.

The Sanibel Plan: Section 1.3. Economic Assumptions of the Plan – The original document that set forth guidelines for commercial development, The Sanibel Plan recognized that the *economic base of Sanibel is the environment*. The most basic of all the economic assumptions for Sanibel's planning is that economic fortunes are directly related to the viability of the island's natural systems. Sanibel must protect the environment as a component of sound economic policy.

Some of the key maxims of the economic assumptions related to the commercial district plan include the following:

1. Growth of on-site resident and visitor markets is ultimately limited by infrastructure and growth management policies.
2. Beyond its natural environmental appeal, Sanibel is not intended to become a typical commercial destination, attracting visitors for shopping, dining, and other entertainment.
3. Commercial demand should be "island-serving," derived primarily from the needs of residents, seasonal visitors, and resort guests.
4. "Surplus" commercial space should be reduced through careful policies and regulations.
5. The City should seek to maintain a balance between the commercial needs of the residential and resort segments of the community.
6. Commercial uses are required to locate in designated commercial districts under strict development regulations.
7. Retail development is discouraged along Periwinkle Way except within the commercial district.
8. Limited amounts of residential development are encouraged within the commercial district.

Commercial District Rezoning Ordinance 06-022 – In February 2007 the City approved amended commercial district land development regulations that are intended to accomplish the following:

1. Limit the maximum size of new commercial buildings, storefronts, and commercial units;
2. Provide new planning, landscaping, and design standards;
3. Establish new regulations that will reduce the likelihood of Formula Retail uses.

1981 Report by Barton-Ashman Associates – In 1981, this Illinois firm was retained by the City of Sanibel to prepare an exhaustive analysis of market, economic, and land use aspects of commercial development on Sanibel. Permanent and seasonal resident, hotel guests, and shoppers were surveyed directly to gather primary research on consumption patterns and demographic data. The consultants also completed traditional market supply-demand analysis to ascertain the outlook for commercial development on Sanibel into the foreseeable future. Key findings from that report are briefly summarized here.

1. Projected future growth in retail and services demand was expected to be minimal due to the Rate of Growth Ordinance adopted in 1978, which limited residential building permits to 180 units per year.
2. The most substantial gains in demand would be for food stores and eating and drinking establishments.
3. The majority of sales estimated to occur in food stores, drugstores, furniture stores, liquor stores, and miscellaneous retail stores were made to permanent and seasonal residents.
4. Tourists in motels, timeshares, and resort properties typically dominated sales in apparel stores, restaurants, and gift shops.
5. Resident surveys indicated that most were satisfied with the existing level of retail development in 1981, with day-to-day needs adequately met. The possible exception was the perceived need for another food store in the future.
6. Visitor surveys revealed limited retail spending patterns, mostly in restaurants, food stores, and gift shops.
7. Shopper surveys revealed that day-visitors spent far less per capita than residents or resort guests. However, they accounted for a disproportionate percentage of shoppers.
8. At that time, the business survey revealed that nearly three-fourths of respondents were establishments owned by year-round Sanibel residents. While business was good, many owners did not primarily rely on that income for their livelihood.
9. Based upon a land use analysis, the consultant concluded that there was a lot more land zoned for commercial development than the demand analysis could ever justify. Some alterations to land use policies were set forth as a recommendation of the report.

Economic Possibilities, Realities, and Assumptions, 1997 – This report was prepared by Dr. James C. Nicholas for the City of Sanibel to reexamine the economic

performance of the island's economy in the 20 years following preparation of The Sanibel Plan in 1976. The consultant reviewed updated data regarding housing, incomes, property values, traffic counts, and tourism to test continuing viability of the island's economic base. Key conclusions of his analysis are briefly summarized here.

1. In 1997, "Sanibel remained an economically attractive and environmentally vital place."
2. However, some issues such as traffic congestion, beach capacity, and causeway limitations were starting to slow the rate of visitor growth.
3. Residents appeared to be leaving the island more frequently to seek commercial facilities or other trip purposes.
4. Limitations inherent in land development regulations were beginning to constrain new investment in non-residential property and slowing gains in real property values.
5. Perceiving the potential for a "waning economy," the consultant suggested consideration of "alternative economic bases" that would lessen stress on natural systems to preserve an eco-tourism theme or face a future with more intensive tourism activities.

Land Use Data Base, Market Analysis, and Recommendations, 1996 -- This report was prepared by a local real estate consultant for the Sanibel/Captiva Chamber of Commerce to profile residential and business real estate trends on Sanibel Island. Key findings related to commercial development are briefly summarized here.

1. Professional office space development is limited by weak demand growth, high rental costs, and evolution of home offices.
2. Retail vacancies and store turnovers portend an eroding market environment and retail centers are converting to services and mixed-purpose business centers.
3. Restaurants are an attractive and vital part of the island's commercial base.

Locally Owned Business Initiative, 2005-2006 – In 2005, the City established a small business initiative for creating on-going dialogue with citizens and businesses regarding issues impacting the local business climate. Findings of the Resident Survey and Local Business Roundtables have yielded useful input and insight on current conditions important to both constituencies. Extensive reporting is available through the City's web site, but some key findings are briefly summarized here.

Resident Survey:

- Sanibel's resident households are typically smaller (86% are two people or less), older, and affluent.
- The peak months of resident occupancy are January through April.
- Off-island trips are usually limited (1 to 3 trips per week).
- Most off-island trips are for shopping (in larger stores, especially groceries) or for medical and personal services not available on the island.
- Supporting and preserving Sanibel's small business environment is "important" or "very important" to everyone.

Local Business Roundtables:

A composite report from business roundtable discussion groups was submitted to the City Council in August 2006. Some key issues related to market trends and planning the commercial district are briefly highlighted here. All of the detailed committee reports are available on the City's web site. The issues mentioned by the most discussion groups related to the following topics:

- The competition for local businesses has increased as other parts of Fort Myers and Lee County have developed more intensely.
- At the same time, demographics and market sources are changing character, getting younger and more sophisticated.
- Commercial redevelopment needs to be carefully implemented to sustain an attractive and viable business environment.

Other related issues mentioned frequently by discussion groups include the following:

- There is inadequate promotion of island businesses and a lack of coordinated retail marketing.
- It is not clear if the priority market should be residents or resort tourists or day visitors.
- Setbacks, signage, and landscaping regulations hamper business visibility and appeal to potential customers, especially those on foot.
- Rising lease costs and seasonal market variations are exaggerating business difficulties.
- Increased floor area allowances and other incentives are needed for redevelopment.
- Mixed-use development and a Town Center would be positives for businesses.

5. MARKET AND ECONOMIC TRENDS: OPPORTUNITIES AND CONSTRAINTS IMPACTING REDEVELOPMENT

In some respects, the location, demographics, and popularity of Sanibel Island would appear to offer a broad range of opportunities for new development and commercial land uses. Whatever these opportunities may *appear* to be, the *most appropriate use* for specific sites or general development districts is carefully and explicitly limited by zoning and growth management regulations imposed by the will of the island's residents and The Sanibel Plan and Land Development Code. The Sanibel Plan has prevented the island from being overrun by careless commercial or residential development that does not fit into the natural environment which sets Sanibel apart from all other barrier island resort communities.

Sanibel Island's new development or redevelopment potential within the commercial district during the next twenty years is likely to depend on a combination of limited retail establishments, offices for services, or low-density residential uses. Most likely, the Sanibel Plan's regulatory guidelines and the island's limited commercial role within the greater southwest Florida coastal region will continue to limit the scale and nature of any development which might be strategically pursued by the City and key stakeholders.

Such issues and ideas focus the research and analytical effort involved in this assignment, which consists of an investigation of the economic forces impacting the island's future; an indication of the local market's ability to support various commercial and residential land uses; a time frame in which strategic redevelopment might occur; conceptual visions of town center-building approaches, if any, that might be applicable; possible private redevelopment interests; and cost-benefit implications of alternative policy directions. All findings and conclusions of the market analysis have to be balanced and reconciled within the over-riding goals, objectives, and restrictions of The Sanibel Plan.

RERC has brought together top staff with expertise and wide-ranging perspective in the fields of economics, retail and services, hospitality, commercial real estate, and housing for the purposes of conducting a comprehensive and meaningful market assessment for the Periwinkle Way West Commercial District Plan. In the following pages, our work program, study approach, and conclusions are laid out in a documented summary that answers the important questions about market dynamics, relationships of supply and demand, and practical economic opportunities. *The product of expert research and analysis has been specifically tailored to the Sanibel Island experience in order to yield appropriate development opportunities and conceptual visions worthy of further study and implementation. This economic planning assignment is not intended to yield only the most productive use of scarce land resources, but rather to define appropriate enhancement of the island's most precious resource – its historical harmony between the extraordinary natural environment and the human-serving built environment.*

ANALYSIS OF RETAIL AND SERVICES DEMAND

The most important goal for the retail goods and services work program is to create a realistic development vision that enhances the role of Sanibel Island in the lives of a diverse cross-section of community residents and visitors to the region. However, to remain true to The Sanibel Plan, the island must not evolve from a relaxed resort and residential community and occasional destination for day visitors into a destination designed for attracting a broad variety of discretionary trip purposes. RERC has carefully reviewed prior island market studies, plans, and growth regulations and considered existing activity generators when crafting a retail/services vision for the future. Some of the recommendations that ultimately stem from this assignment may address connectivity issues and ways to enhance existing retail districts, as well as generating visions or concepts of appropriate “new” venues and developments. RERC has evaluated current commercial uses on Sanibel Island and conducted a comprehensive market analysis to identify niches of opportunity for enhancing the role of the commercial district for meeting needs of residents and visitors for a variety of retail goods and services. We have examined Sanibel Island’s redevelopment potential through the “eyes” of retailers, restaurateurs, and the resident/visitor population in order to understand those assumptions and goals that are established as part of The Sanibel Plan.

The work program has embraced several goals:

- ❑ To clarify Sanibel Island’s niche within the competitive retail, dining, and services markets.
- ❑ To generate a demographic profile to serve as a basis for understanding the potential for current and potential businesses.
- ❑ To generate factual data to be used to evaluate objectively public and private redevelopment initiatives.
- ❑ To establish baseline data to be used by the City of Sanibel Island to measure on-going performance toward planning goals.

RETAIL AND SERVICES DEMAND CALCULATION

RERC used its own proprietary retail and services demand models to calculate potential resident-based commercial space demand on Sanibel Island. The summary of the results of these calculations are outlined below.

Retail Demand Model: Results of the retail model are divided into categories within “Convenience Retail” and “Destination Retail”. Convenience retail facilities include: food stores and groceries; beer, wine, and liquor stores; drug stores, and pharmacies; convenience stores and gasoline; and cosmetic, health and beauty stores. Shopper retail facilities include department stores; discount stores; furniture and home furnishings stores; appliances, electronics, and computer stores; building materials, hardware and garden supplies; apparel and accessory stores; and miscellaneous retail stores. A separate model is used to calculate demand for restaurants of all types and other dining and drinking establishments.

The retail demand model calculates the estimated total potential retail demand supported by the resident population. It does not calculate where the population will most likely do their shopping. In reality, some demand may “leak” from the area to other neighboring retail centers if they are nearby and convenient.

Services Demand Model: Based on our experience and observed market trends, personal services, business services, and most office space demand are typically generated by resident population and other nearby businesses in a manner not unlike retail demand. Population is the underlying factor which creates the estimated demand for most personal service components. The primary components of office and miscellaneous commercial demand are included in the employment categories of finance, insurance, and real estate (FIRE); medical services; legal services; and business services. The compilations of these data for counties come from *County Business Patterns*. The data presented for each business category is compared to overall county population figures to determine the per capita demand factors, which are also expressed in terms of square feet of demand.

Like the retail demand model described in the previous section, the services demand model does not address where the commercial establishment is located within the market. Similar to retail space, some office tenants prefer to be located together in multi-tenant buildings, while others prefer freestanding locations. Some office development has a much localized, neighborhood orientation, while some is concentrated in office parks with access to regional roadway systems.

In the RERC models, population, household, and personal discretionary income estimates are used to determine the retail, restaurant, and services demand generated by a specific population group, such as the Sanibel Island resident and seasonal population. For the purposes of this analysis, we utilized two sets of 2007 population estimates for Sanibel – one for the average “peak” season levels and one for the average “low” season levels – in order to demonstrate the wide variation in seasonal demands for commercial goods and services. The low season estimate indicates the needs of the year-round permanent population, while the peak estimate takes into account the spending impacts of seasonal winter residents and visitors who stay longer than just a week or two. The average household discretionary income estimate was taken from CLARITAS, a third-party demographic vendor often utilized by retail market analysts when testing site location alternatives.

Sanibel Island Population and Income Estimates, 2007

<i>Seasonal Variations:</i>	<i>Demographic Indicator:</i>
2007 Peak Population	15,000 persons
2007 Peak Number of Households	8,000 units
2007 Low Population	6,500 persons
2007 Low Number of Households	3,000 units
2007 Average Household Income	\$112,000 per year
SOURCE: CLARITAS; RERC	

With the number of short-term visitors staying on Sanibel in motels, cottages, timeshares, and short-term rentals contributing between 17% and 30% of on-island population over the course of a typical year, it is clear that total retail and services demands will swell during certain seasons beyond that required only by year-round residents. Add to that the occasional purchases by "day-trippers," and the demand estimates presented here are considered by RERC to be fairly conservative.

The results of the retail and services demand models indicate the peak winter population of 15,000 residents could support about **310,000 square feet of retail and restaurant space** and approximately **110,000 square feet of office/services space** within the on-island commercial environment. These demand estimates are allocated to the various types of residents based upon the amount of population represented by each group over the course of a typical year.

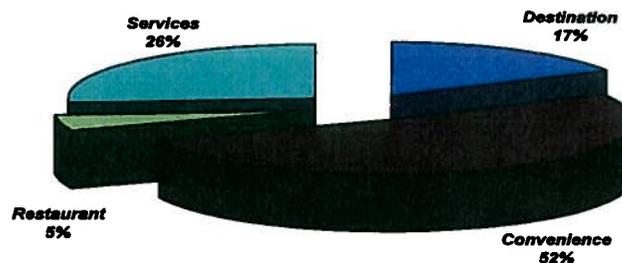
Summary of Resident Based Commercial Demand (SF), 2007 Peak Season

Type of Commercial Demand:	Year-Round Resident	Seasonal Resident	Short-Term Resort Resident	Total Square Feet:
Destination Retail	32,246	25,080	14,331	71,657
Convenience retail	98,476	76,592	43,767	218,835
Restaurants	9,222	7,172	4,099	20,493
Subtotal Retail	139,944	108,844	62,197	310,985
Business and Personal Services	50,078	38,950	22,257	111,285
Total Commercial	190,022	147,794	84,454	422,270
Percent of Total	45%	35%	20%	100%

SOURCE: Real Estate Research Consultants

The following pie chart and table present a quantitative summary of the projected square foot total demand for retail, restaurant, and services space on Sanibel Island based upon the RERC models, which calculates space demand based upon market area population, income, and spending patterns. This data separates the demand figures into types of goods – Destination Retail; Convenience Retail; Restaurants; and Services.

2007 COMMERCIAL SPACE DEMAND BY TYPE, SANIBEL ISLAND RESIDENT DEMAND ALLOCATION

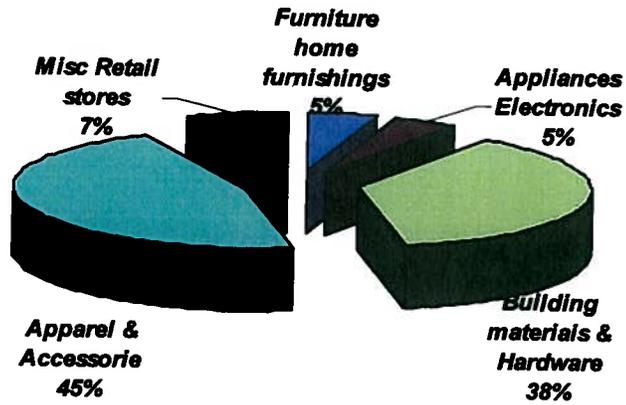


Total Peak Season Resident Retail Demand, 2007

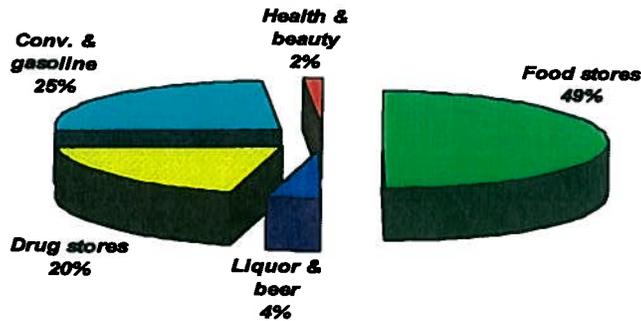
<u>Destination Retail:</u>	<u>Square Feet:</u>
Department stores	0
Discount stores	0
Furniture & home furnishings	3,378
Appliances, Electronics	3,226
Building materials & Hardware	26,889
Apparel & Accessories	32,909
Misc Retail stores	5,254
Subtotal	71,657
<u>Convenience Retail:</u>	
Food stores & supermarkets	108,642
Beer, wine & liquor	8,417
Drug stores & pharmacies	43,752
Convenience stores & gasoline	54,717
Cosmetic, Health & Beauty	3,306
Subtotal	218,835
<u>Restaurants:</u>	
Full service	12,340
Limited service	6,850
Specialty Food	489
Drinking places	813
Subtotal	20,493
 Total Retail	 310,985
<u>Services:</u>	
Finance, Insurance & Real Estate	30,478
Personal services	16,666
Medical services	12,470
Legal services	6,584
Social services	9,201
Professional & business services	35,886
Total Services	111,285
 Total Retail & Services	 422,270
 SOURCE: RERC Demand models	

Additional pie-charts illustrate graphically how the resident commercial demand is allocated by merchandise category, based upon RERC's models:

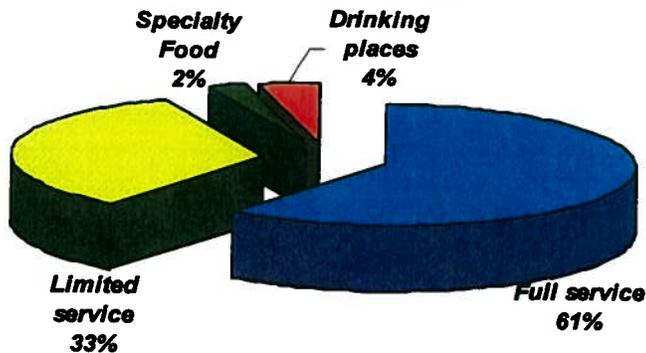
2007 DESTINATION RETAIL DEMAND BY TYPE, SANIBEL ISLAND RESIDENT DEMAND ALLOCATION



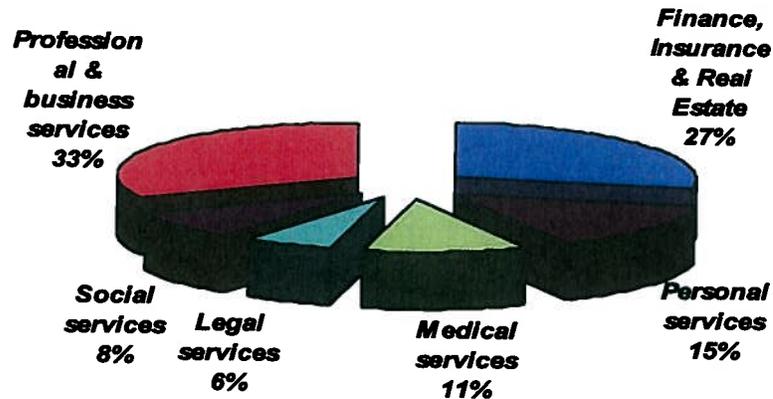
2007 CONVENIENCE RETAIL DEMAND BY TYPE, SANIBEL ISLAND RESIDENT DEMAND ALLOCATION



2007 RESTAURANT DEMAND BY TYPE, SANIBEL ISLAND RESIDENT DEMAND ALLOCATION



**2007 SERVICES DEMAND BY TYPE, SANIBEL ISLAND
RESIDENT DEMAND ALLOCATION**



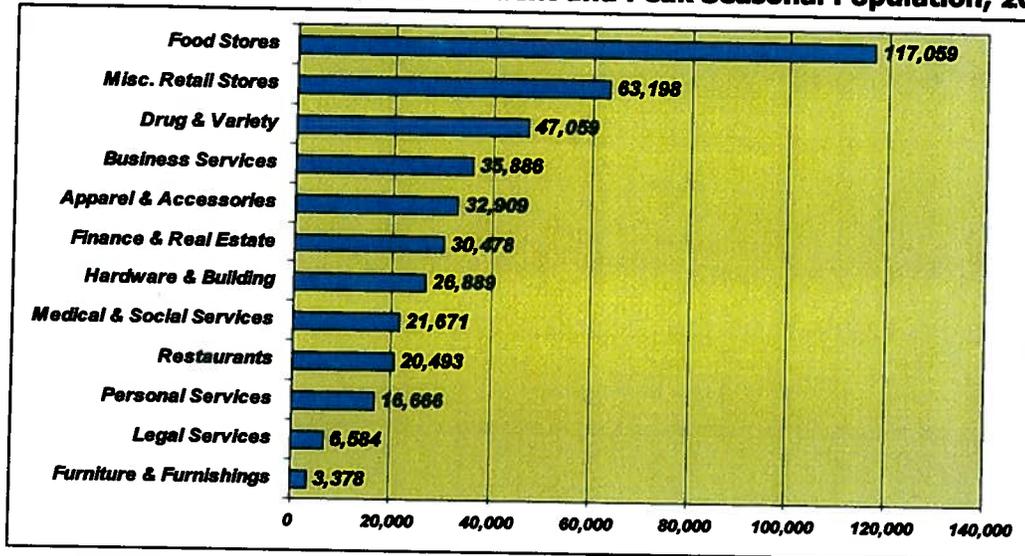
COMPARISON OF SANIBEL ISLAND DEMAND AND SUPPLY

Not unlike the conclusions of the 1981 analysis of commercial market demands by the firm Barton-Aschman Associates, in 2007 there appears to be more than enough retail, services, and restaurant space on Sanibel Island to meet the *practical needs* of full-time and part-time residents, as well as short-term visitors. That is not to say that *all demands* are satisfied on the island. Many of the residents' expenditures will continue to "leak" off-island as a result of competitive retail patterns and limitations on the character of local-serving businesses on the island.

RERC has created proprietary retail and services demand models over many years that can reliably describe the spending habits of resident populations using locally reported income and sales data. These models provide estimates of potential expenditures and supportable square footage for detailed categories of destination and convenience retail, restaurants, and services establishments. For this analysis, RERC has prepared these estimates of resident demand by category and compared them to the corresponding amounts of commercial space present on Sanibel Island. These demand estimates are only derived from peak season levels of full-time and part-time residents as discussed above, and they do not include the impacts of short-term visitors or island employees. For this analysis, RERC assumes that visitors and employees are providing much of the market support that may be indicated by "surplus" commercial space.

The following chart illustrates the peak season demand of residents arrayed in a different fashion – strongest merchandise categories to smallest. Again, it can be seen that those items needed for day-to-day existence are in greatest demand (food stores, drug stores, business services, etc.), while "destination" retail demand is less likely to be "captured" on Sanibel Island due largely to more extensive offerings at off-island competitive locations.

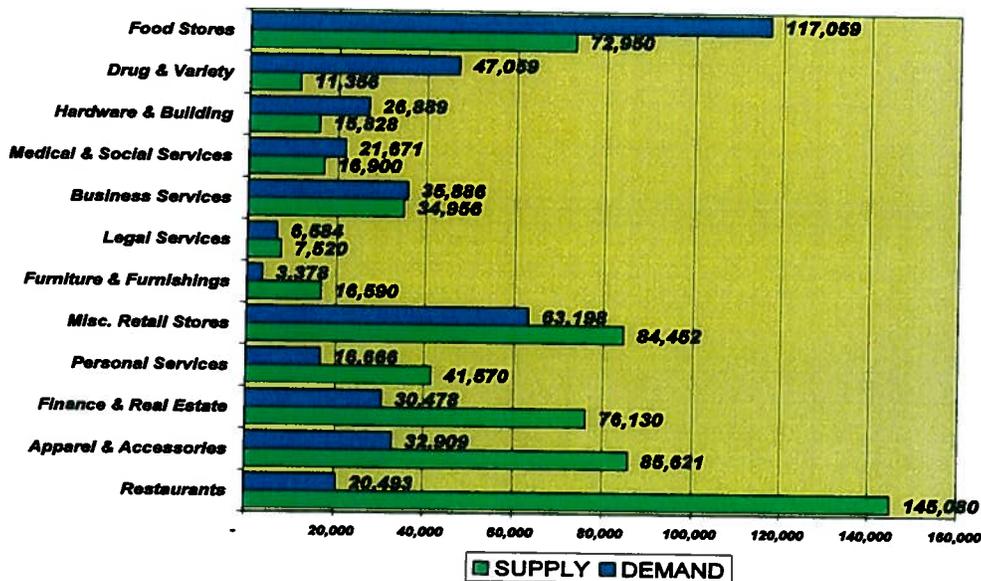
Retail and Services Demands of Resident and Peak Seasonal Population, 2007



SOURCE: RERC

Based upon the results of RERC’s demand analysis and the findings of the resident survey undertaken as part of the Locally Owned Business Initiative in 2006, it is clear that the most under-served retail categories – based only on resident demand -- are groceries, variety stores, and home improvement/hardware stores. A number of retail store categories not likely to be found on the island also draw many residents to the mainland to shop. In addition to retail voids, medical care and automotive services also appear to be under-served on Sanibel Island.

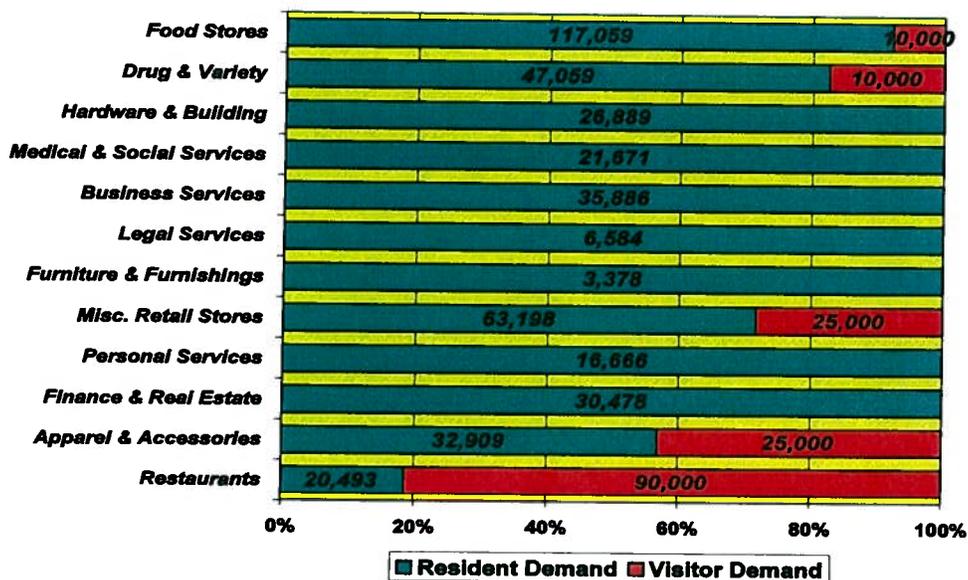
Comparison of Peak Resident Demand with Existing Commercial Inventory, 2007



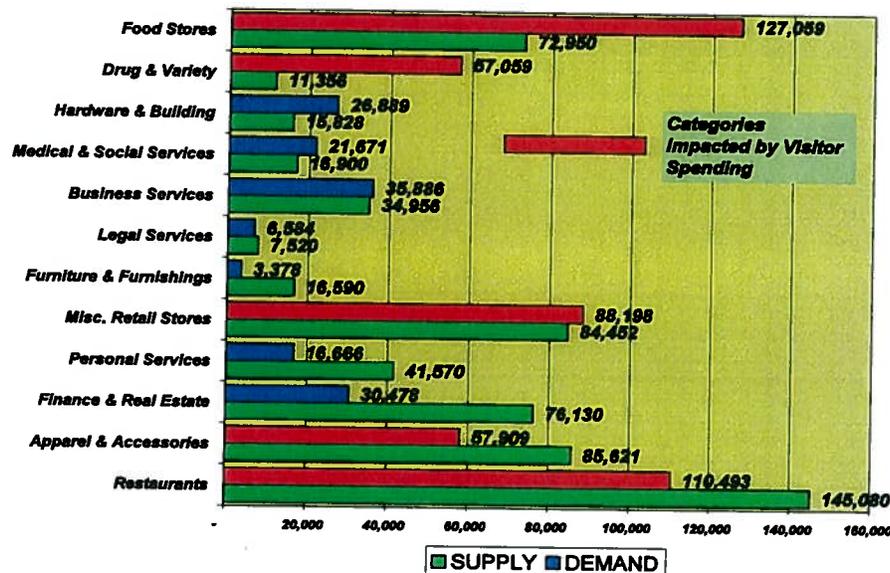
At the other end of the spectrum, there is clearly an over-supply of restaurants, resort clothing and accessories stores, specialty gifts, souvenirs, and home décor shops – compared solely to resident demands. However, most of these businesses are supported by the visitors who come to Sanibel during the year but most frequently during the peak winter season. Similarly, there is a disproportionate amount of commercial space dedicated to financial institutions, property management and real estate agencies, and personal resort services (spas, salons, bike rentals, entertainment, recreation, etc.).

Visitor Retail Demand: RERC has attempted to estimate the potential impact of visitor spending based upon the survey findings and day visitor estimates presented earlier in this report. Based upon the assumptions that between 1,000,000 and 1,200,000 day visitors come to Sanibel Island in a typical year and that these visitors spend no more than \$25.00 per person while on the island, this component of demand could equal as much as \$30,000,000 annually. RERC has used key assumptions from its retail demand model to convert sales to supportable square footage demand at rates of \$150.00 to \$300.00 per square foot depending upon merchandise category. With visitor sales impacts largely limited to dining, entertainment, food, gifts and souvenirs, only about five major categories of retail goods and services would be significantly affected. Adding this **potential demand for approximately 160,000 additional square feet** to the resident-based demand metrics previously discussed would narrow or eliminate the apparent over-supply of retail space in certain categories, most notably restaurants, apparel, and miscellaneous stores. Visitor demand could equal 25% of the total. The unmet demand for food stores and drug/variety stores would be even more pronounced, as illustrated in the following graphic. While this analysis is based upon reasonable assumptions, it is impossible to completely validate these conclusions. However, this additional visitor impact and its inherent seasonality help explain why some retail inventory appears to be severely over-built, especially in slower seasons.

Comparison of Resident and Visitor Commercial Demand, Sanibel Island 2007



Comparison of Combined Peak Resident and Visitor Demand with Existing Commercial Inventory, Sanibel Island 2007



Resort Market Demands: For the purposes of this market analysis, the so-called "resort" market segment is treated as a sub-set of the short-term resident market. The resort visitors spend less time on the island, but it is assumed their shopping behavior and retail needs are more like residents than day visitors. Resort "households" are assumed to be slightly larger (2.5 persons) than permanent or seasonal "residents." The residents primarily occupy single family homes and condominiums on the island, while resort visitors are typically spending a week or two in one of the island's hotels or timeshare projects. The resort units account for 15% of the island's total housing, but resort visitors account for about 20% of the resident population's retail and services impact over a typical year.

The retail and services demands of resort guests are assumed to be incorporated into the previously discussed resident-based demands (20% of the total). However, from a practical standpoint, it is reasonable to assume that resort visitor expenditures would be somewhat varied from those of year-round residents. Like day visitors, resort guests probably spend disproportionately for restaurants, entertainment services, personal care, and miscellaneous gift and accessories stores. At the same time, they might spend more on specialty food items, drugs and sundries, and real estate services. Once again, this fairly limited impact may explain how some retail categories on Sanibel might have been overbuilt as a result of cyclical and unpredictable levels of resort visitor and day visitor spending over a period of time.

The following exhibit summarizes RERC's estimates of relative visitor levels on Sanibel Island by month. It can be seen that the year-round and seasonal populations comprise the largest sub-markets, but the resort and day visitors account for almost 40% of the population market available. Noted earlier, differences in spending patterns produce differing relationships between these population groups, with residents producing the largest retail and services demands.

Comparison of Monthly Visitor-Days by Source, Sanibel Island, 2007

	Resident/2nd	Seasonal	Resort Visitor	Day Visitor
January	211,400	163,500	74,400	150,000
February	211,400	163,500	74,400	150,000
March	211,400	163,500	74,400	150,000
April	211,400	163,500	74,400	120,000
May	159,600	122,650	65,900	90,000
June	107,800	98,100	65,900	90,000
July	97,400	98,100	59,000	90,000
August	66,400	81,800	53,400	60,000
September	66,400	49,000	42,100	60,000
October	66,400	41,000	42,100	60,000
November	66,400	32,700	33,700	90,000
December	56,000	41,000	22,500	90,000
Total	1,532,000	1,218,350	682,200	1,200,000
SOURCE: RERC				

Employee Market Demands: The final component of demand for goods and services on Sanibel Island is derived from the number of non-residents who commute onto the island on a daily or weekly basis to perform their jobs: whether laborers, delivery personnel, stork clerks, waiters, bank employees, real estate salespersons, property managers, or tour guides, etc. The exact number of such employees is not documented, but it is certain to average in the thousands each day. CHR surveys in 2006 indicated more than 4,100 people employed on the island; if 50% to 75% were non-resident consumers, then at least 2,000 to 3,000 could contribute to additional sales. Each of these people is a potential consumer, and their expenditures most likely affect the retail categories included in food stores and restaurants.

For purposes of illustrating the potential scale of this impact, RERC has constructed an illustration using reasonable assumptions drawn from experience in other markets:

<i>Average daily workforce</i>	<i>2,000 to 3,000 workers</i>
<i>Retail expenditures per day</i>	<i>\$5.00 to \$10.00 per day</i>
<i>Total daily sales impact</i>	<i>\$10,000 to \$30,000 per day</i>
<i>Total yearly sales impact</i>	<i>\$3,650,000 to \$10,950,000 per year</i>
<i>Square footage supported</i>	<i>12,000 to 36,500 square feet</i>

If even remotely accurate, this illustration would indicate that the daily non-resident workforce contributes something between 4% and 6% of Sanibel Island's total demand for commercial goods and services.

SUMMARY OF FINDINGS AND CONCLUSIONS

The dramatic variation in the levels of residents and visitors between peak season and off season will continue to present a challenging and difficult market for many retail

shops, restaurants, and services. It appears from this analysis that the amount and the character of Sanibel Island's commercial base has traditionally been responsive to the demands generated during the busiest season, leaving many establishments to languish over the late summer and autumn months, although many businesses have learned to adapt to seasonal fluctuations which are expected to continue. This market dynamic -- combined with legislated limits on future additions to the housing or resort lodging stock -- makes it very difficult to justify any additional commercial development on Sanibel Island. In fact, without the prospect for significant additional visitor traffic on the island, a case can be made for allowing attrition to gradually reduce the supply of commercial space in some categories to enhance the economic viability of the overall island's more critical commercial base and to support property values among stable enterprises.

That said, there are some limited categories of retail demand that could support additional development (or will need to be replaced over time), as well as specific personal and medical services that enhance the quality of life overall for residents and seasonal visitors. As in the past, the commercial marketplace on Sanibel Island will continue to see tenant turnover, periodic vacancies, deteriorating structures, and evolving needs for re-investment.

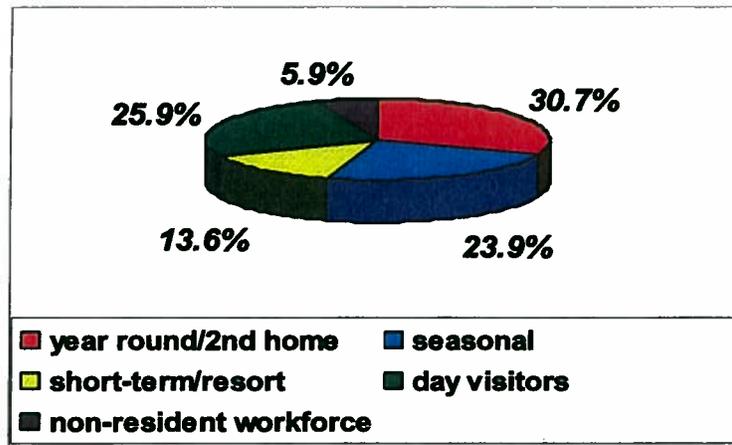
Based on this report's analysis, the following observations are presented. It should be noted that many of the conclusions reinforce the current economic assumptions of the Sanibel Plan (See Page 13) and key findings from many of the previous economic analyses (See Pages 14 – 16) completed for Sanibel.

1. Additional new commercial development will be significantly limited and difficult to justify economically based on: seasonal characteristics of market demand; number of housing and resort units currently and at build-out; seasonal and off-seasonal visitor levels and estimated daily expenditures; and the proximity and diversity of completed and planned off-island commercial development.
2. Attrition and conversion of existing commercial space in some categories will occur, both reducing overall supply of commercial space and reinforcing the economic viability of the island's more stable commercial establishments and centers.
3. Tenant turnover will continue based on a number of factors including rising rents resulting from reinvestment and improvements to aging and deteriorating commercial structures and centers.
4. Limited commercial space expansion and demand for specific categories, particularly for medical and other personal services, could be supported that enhance the quality of life for both residents and visitors.
5. Future variations in the levels of daily and seasonal resident and visitor expenditures will continue have the greatest impact on Sanibel's commercial base given adopted land use policies and regulations that constrain residential growth and the number of visitors at sustainable levels.

6. The retention of local island serving businesses will continue to be a priority for Sanibel given the above conclusions, particularly the potential for rising commercial rents resulting from reinvestment and improvements to commercial structures and centers and resident and visitor expenditure leakage resulting from off-island commercial growth and diversity.
7. Maintaining and enhancing the casual, non-intrusive and unique physical character, scale and quality of Sanibel's commercial buildings, centers and districts must continue to be a priority.
8. Local businesses and the City should continue efforts to improve the organization, management and functionality of supporting commercial district facilities and infrastructure including: shared use path maintenance and improvements; off-street parking; quality, location and connectivity of both private and public open spaces; and the grouping and mixture of synergistic public and private uses.

These findings and observations should not be construed to diminish the viability and importance of the Periwinkle Way West district planning effort. The casual and non-intrusive character of the island's commercial development will continue to be an important element of its success and of the island's charm. However, better organization of key elements such as: parking, traffic management, public spaces, redevelopment, grouping of synergistic uses, and building maintenance can and should shape policies and opportunities over the next ten to twenty years. There is room to enhance and shape the "community" character for island residents, while limiting some of the more unstable "destination" uses driven by fluctuating short-term visitor levels.

Sources of Retail Demand, Sanibel Island, 2007



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