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WALMART AND GATEWAY ESTATES II:

A PREDATOR IS POISED TO DESTROY JOBS IN EAST NEW YORK

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In a January 2011 study[1] jointly released with New York City Public Advocate Bill de Blasio, the Hunter College Center for Community Planning and Development compiled overwhelming evidence from researchers across the nation showing that Walmart's entry into new markets generally undercuts local economies and kills more retail jobs than it creates. This is a follow-up study that examines the potential impact of a Walmart superstore in the Gateway Estates II development, in Brooklyn's East New York neighborhood. Our study of local retailing and the residential neighborhoods around Gateway suggests that <u>if a Walmart should locate in the area it would most likely have the same negative impact on the local economy that Walmart has had in other large cities: net job loss, erosion of full-time employment, loss of businesses that rent, threats to credit unions and bank branches and increasing social inequalities.</u>

While Walmart began several years ago to shift its new store development from the saturated suburban markets to central cities, it has not made public a single concrete proposal in New York City though company representatives have repeatedly confirmed their intention of opening stores in the city. There has been widespread talk of the possibility that the retail giant would open a new store at Gateway Estates II, a city urban renewal project in which the land is likely to be conveyed to the Related Company, a major real estate developer.

For this study we examined the 2009 Environmental Impact Statement prepared on

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[1] Hunter College Center for Community Planning & Development and New York City Public Advocate Bill de Blasio, *Walmart's Economic Footprint: A literature review*. January, 2011.

behalf of Related by AKRF, a consulting firm. We also surveyed five local retail shopping areas within two miles of the proposed site as part of a team including the following: Make the Road NY, NY Jobs with Justice, and the Public Advocate's Office. Taken as a whole, the five strips chosen for the survey serve a diverse range of customers in terms of income, race/ethnicity, and levels of auto ownership within the trade area. They include: Rockaway Parkway, Pitkin Avenue, Crossbay Boulevard, the Spring Creek Shopping Center, and Fulton Street. At each strip we surveyed: the number and type of businesses; whether or not the businesses were chain stores; the number of part-time and full-time employees; the number of off-street parking spaces; and whether or not businesses own or rent. We also made observations regarding transit availability, ethnic stores that cater to local populations, and the overall economic vitality of the strips. Surveyors counted the number of vacant lots and vacant/boarded-up buildings, and observed the levels of commercial traffic. These observations were supplemented by demographic information from the *American Community Survey 2009* published by the U.S. Census. As demonstrated below, we found that <u>the EIS failed to disclose the possibility of a net job loss and other negative socioeconomic impacts. Also, it does not reliably project the proportion of population using cars for shopping trips and therefore underestimates both business displacement and traffic impacts.</u>

FINDINGS

1. *NET JOB LOSS*. A Walmart in East New York will result in the net loss of at least 200 jobs in the five retail areas we surveyed, and more in other areas. This finding is based on the rate of job loss that occurred after the opening of a Walmart in

Chicago.[2] Of the 389 stores surveyed, we found a total of 1,499 employees (718 full time, 459 part-time, plus 322 with no information about employment status). The majority of stores surveyed were small format stores (under 10,000 square feet and under 20 employees), and thus more vulnerable to Walmart's predatory strategies because they would have fewer resources to weather an onslaught of predatory pricing. However, since supermarkets are typically vulnerable, we would also have to include among the most vulnerable businesses the Associated Supermarket at the Spring Creek shopping center and the Waldbaum's Supermarket on Crossbay Boulevard, each of which has around 100 employees; closure of these two stores alone would result in the predicted job losses, and have a ripple effect on nearby small businesses. Thus, our estimate of 200 lost jobs appears to be a conservative one. We found that the most vulnerable strips for small businesses are Rockaway Parkway, Pitkin Avenue, and Fulton Street. However, if both of the larger supermarkets, at Spring Creek and Cross Bay Boulevard, were to shut down, this would likely threaten adjacent small retailers and the total number of job losses would be much greater.

As amply demonstrated in numerous studies, Walmart typically enters new markets by using predatory tactics.[3] These include price-cutting and public relations assaults that

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[2] In calculating retail job losses, we assumed a Walmart store with 180,000 square feet, used the job projection set forth in the Gateway II plan, and assumed the rate of job loss (three jobs lost for every two new jobs) found in the following study: Julie Davis, David Merriman, Lucia Samyoa, Brian Flanagan, Ron Baiman, and Joe Persky. "The Impact of an Urban Walmart Store on Area Businesses: An Evaluation of One Chicago Neighborhood's Experience." Center for Urban Research and Learning, Loyola University Chicago. December 2009. http://luc.edu/curl/pdfs/Media/WalmartReport21010_01_11.pdf.

[3] B. Lund. "Predatory Pricing Practices and the Toy Industry," *Global Toy News*. August 27, 2010. http://www.globaltoynews.com/2010/08/Wal-Mart-predatory-pricing-and-the-toy-industry.html ; D. Moberg, "The Wal-Mart Effect: The How's and Whys of Beating the Bentonville Behemoth." June 10, 2004.

have the effect of driving out smaller competitors. Initially low prices at Walmart stores get raised so they are at and above the average once the competition has been destroyed. At the same time, Walmart's anti-labor practices tend to reduce overall wage and benefit levels in the retail sector.[4] In the absence of any evidence to the contrary, we would have to assume that Walmart's entrance at Gateway II would be no different.

2. *EROSION OF FULL-TIME EMPLOYMENT*. <u>Walmart is likely to erode the relatively high proportion of full-time employment in local retail areas, replacing them with precarious part-time jobs.</u> Our survey of local retail strips demonstrates a high percentage of full time employees in the local retail strips surveyed. Out of the 1,499 employees counted, 1,177 (78%) indicated their employment status. Of these, 718 (61%) were full-time employees.

According to various sources, Walmart takes pride in hiring around 75% of its employees full-time.[5] However, there is also evidence that the retail giant has been moving to a larger part-time workforce to further cut labor costs, and it may open stores with

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[4] Martin Boarnet, and Randall Crane, "The Impact of Big Box Grocers on Southern California: Jobs, Wages, and Municipal Finances." Orange County Business Council. September 2009. http://www.coalitiontlc.org/big_box_study.pdf; United Food and Commercial Workers International Union. "Wal-Mart and Sweatshops." http://www.ufcw.org/take_action/Wal-Mart_workers_campaign_info/facts_and_figures/Wal-Martsweatshops.cfm; Arindrajit Dube, and Steve Wertheim, "Wal-Mart and Job Quality – What Do We Know and Why Should We Care?" UC Berkeley Center for Labor Research and Education. October 16, 2005. http://laborcenter.berkeley.edu/retail/Wal-Mart_jobquality.pdf

[5] Charles Fishman, *The Wal-Mart Effect: How the World's Most Powerful Company Really Works--And How It's Transforming The American Economy*. (New York: Penguin, 2006), 232; Anthony Bianco, *Walmart: the Bully of Bentonville*: *How the High Cost of Everyday Low Prices is Hurting America.*(New York: Broadway Business, 2006), 87.

larger fulltime staff then soon after move people to part-time positions.[6] Fulltime employees also face forced overtime, inadequate health insurance, anti-union policies, and low wages.[7]

3. *RENTERS AT RISK.* Most small businesses in the area rent their space and do not own. This makes them more vulnerable to predatory price-cutting. Our survey of five retail areas found that 89.2% of stores were renters. Renters are more vulnerable to displacement by predatory superstores like Walmart.[8] Gateway II received substantial public subsidies that will permit the owners to lease the land at a favorable per-square-foot price. Because of its size and ability to dominate the market, Walmart is in a position to negotiate a favorable lease arrangement with Related, while small retailers have very little leverage with property owners. Both Related and Walmart are large corporate entities able to leverage political influence and public relations muscle to enter local markets at a competitive advantage, though Walmart has previously chosen not to enter the New York City market. Both have accumulated enormous private wealth by leveraging extraordinary public subsidies.[9] We also note that the Gateway II EIS did not consider the high proportion of renters in assessing potential negative impacts.

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[6] Amy Joyce, Critics say Walmart grows part-timers to cut benefits, *Washington Post*. http://www.washingtonpost.com/wp-dyn/content/article/2006/05/25/AR2006052502162.html. Steven Greenhouse and Michael Barbaro, Walmart to add wage caps and part-timers, *New York Times*. http://www.nytimes.com/2006/10/02/business/02walmart.html

[7] Stacy Mitchell, *Big-Box Swindle*. Boston: Beacon Press, 2006.

[8] According to a study by the Pratt Center, independent storeowners identify high rent and rent increases as their primary challenge. Pratt Center for Community Development. "Saving Independent Retail: Policy Measures to Keep Neighborhoods Thriving," (Brooklyn, 2009).

[9] www.Wal-Martsubsidywatch.org/index.html; Good Jobs First. "Wal-Mart Subsidy Watch.

4. ***THREATS TO CREDIT UNIONS AND BANK BRANCHES.*** Walmart may very well introduce retail banking and financial services at Gateway II, potentially threatening local credit unions and bank branches. Walmart's efforts to break into financial services in a major way could have a devastating effect on local credit unions and the many existing banking facilities in East New York, leaving even more vacant storefronts and further threatening the viability of retail strips.[10] There are four credit unions within a two-mile radius of Gateway II. Brooklyn has some 21 credit unions that have 30,000 members in all. While Walmart has so far been rebuffed in its efforts to become licensed as a full-service bank in the United States, it currently uses intermediaries at its U.S. stores to capture a share of local banking services. Walmart already provides full-service banking in other nations.

5. ***INCREASING INEQUALITIES.*** Walmart's entry in East New York could exacerbate existing social and economic inequalities. In the spotlight are Walmart's opposition to unions,[11] notorious discrimination against women that has resulted in the largest class action employment discrimination lawsuit in American history,[12] and its reputation for

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"http://wakeupWal-Mart.com/facts/statebudgetsappendix.html. Alex Frangos, Affordable housing empire fuels developer's upscale aims, *Wall Street Journal*, August 22, 2006, A1.

[10] See Robert Manning, Ph.D. *The Blended Walmart Business Model: MoneyCenters, Banco Walmart de México, and the Formidable Challenge Facing Credit Unions.* Filene Research Institute, 2010.

[11] Marlon Boarnet, Randall Crane, Daniel G. Chatman, and Michael Manville, "Emerging Planning Challenges in Retail: The Case of Wal-Mart." *Journal of the American Planning Association* 71.4 (2005), 433-449; Dicker, John. "Union Blues at Wal-Mart." *The Nation.* June 20, 2002. Retrieved on May 1, 2011. Archived April 17, 2005 at the Wayback Machine.

[12] Steven Greenhouse, "Walmart the Low Wage Colossus," *The Big Squeeze*, (New York: Alfred A. Knopf, 2008), 135-57.

discrimination against new immigrants and people of color.[13] East New York has one of the highest poverty rates in New York City: 25.9% of residents are below the official poverty line; 48.7% receive cash assistance, supplemental security income, or medicaid. Residents would fit the profile of many of the Wal-Mart employees that have protested its labor practices: 33% of the population is foreign-born and 49% are African American.[14]

6. ***DEFECTIVE ENVIRONMENTAL IMPACT STATEMENT.*** <u>The EIS is defective because it failed to consider the possibility of net losses in retail jobs and other negative socioeconomic impacts as the result of a Walmart at Gateway II. Therefore, the EIS should be revised.</u> The Environmental Impact Statement (EIS) prepared for Gateway II did not anticipate the possibility that a Walmart could be located there. Therefore, the EIS did not take into account the strong possibility of net losses in local retail jobs. Our previous research documented the unmistakable pattern in other cities that Wal-Mart has entered: as noted above, for every two new jobs created three are lost;[15] one study found that many small stores near a new Wal-Mart went out of business.[16] Walmart has also had a particularly damaging effect on supermarkets and other food retailers.[17] The siting of a Walmart at Gateway II would have been a worst-case scenario, and EIS guidelines require

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[13] *Ibid.*

[14] Brooklyn Community District 5 Profile, *American Community Survey 2009*, http://www.nyc.gov/html/dcp/pdf/lucds/bk5profile.pdf.

[15] *Ibid.*

[16] *Ibid.*

[17] Kenneth E. Stone, Georgeanne Artz, and Albery Myles. "The Economic Impact of Wal-Mart Supercenters on Existing Businesses in Mississippi," Mississippi University Extension Service. 2002. http://Wal-Mart.3cdn.net/6e5ad841f247a909d7_bcm6b9fdo.pdf; O. Capps, and J.M, Griffin, "Effect of a Mass Merchandiser on Traditional Food Retailers." *Journal of Food Distribution* 29 (February 1998), 1-7.

that the potential impacts of the worst-case scenario be disclosed. The potential negative impact on local retailing was not considered in the EIS, and therefore the EIS is invalid and should be revised.

The EIS is also defective because it grossly underestimates the number of households that would shop at Gateway II and abandon existing local retailers. This is another reason the EIS must be revised. According to the EIS (Ch. 3-42), 52% of households in the primary trade area (1.5 miles from Gateway II) do not own a car. It makes a giant leap of logic by assuming that most households without cars walk to do their shopping and will continue to do so. However, this fails to consider the following:

- In New York City, many households who do not own cars typically use low-cost car services, buses, and informal car pools for shopping trips.
- The Gateway II plan includes establishment of a bus terminus at the mall, which suggests that the developers intend to attract mass transit users.
- Distances between homes and retail strips in East New York are much greater than in more centrally-located Brooklyn neighborhoods because there are many large residential superblocks as well as many lower density areas. Therefore, fewer residents are accustomed to walking to local retail. Evidence of this can be found in the widespread use of on-street and off-street parking in the shopping districts around Gateway II.
- The pattern of car ownership varies considerably within the study area. It includes many census tracts in which the majority are car owners, and many in which most residents use a car to commute work. According to the U.S. Census Bureau's 2009 *American Community Survey*, in the 63 census tracts that roughly fall within a two-mile radius of Gateway II, approximately one-

third of all residents who work commute by car. However, there is enormous variation in this proportion: in 8 census tracts over 60% of residents drive to work; in another 17 tracts, 45% drive to work. These tracts account for 40% of the total population in the area studied.

- This variability in auto-orientation was evident as well in the number of off-street parking spaces we counted at the different shopping areas. Most shopping strips have off-street parking and the others have on-street parking. While shopping strips such as Crossbay Boulevard had 525 off-street parking spaces (an average of 5.7 spaces per store) and the Spring Creek Shopping Center had 395 off-street parking spaces (averaging 12.3 spaces per store), Fulton Street had only ten off-street spaces (an average of .34 per store). Pitkin Avenue and Rockaway Parkway have no off-street parking. The majority of the shopping areas that have off-street parking are likely to suffer from a new Walmart store, which would have ample parking, because those shopping areas clearly serve auto users who could be attracted to Walmart.
- Based on its faulty assumptions about car use, the EIS claims that the majority of Gateway II customers will be East New York residents who currently shop at more distant malls in Long Island and not those who shop at local businesses. The EIS states that residents with car access are likely to drive many miles from home to wholesale clubs and major supermarkets for cheaper prices.[18] However, this fails to take into account that there are

[18] AKRF, "Chapter 3: Socioeconomic Conditions," *Gateway II Estates. Final Environmental Impact Statement*. (New York, 2010), 3-21.

already several large retail competitors nearby, some of them within New York City. These include Kings Plaza in Marine Park (Brooklyn) and Green Acres in Valley Stream (near the border with Queens); these malls no doubt already attract many local shoppers who are auto users. We also note that two other shopping centers recently opened in East New York: Gateway Estates I and Shops at Fountain. Therefore, a new Walmart is not likely to draw many long-distance shoppers since it will probably feature food and people tend not to travel long distances to buy food. In sum, a new Walmart is likely to take customers away from the five retail strips located nearest to Gateway II.

- In a January, 2011 report, Brian Ketcham Engineering claimed that the Gateway II EIS seriously underestimated traffic impacts resulting from the location of a Walmart store.[19] This is yet another indication that the EIS was faulty because it failed to consider the unique and substantial impacts a Walmart would have in the area.

Conclusion

Walmart could have a devastating effect on the local economy of East New York. It could cause job loss, erosion of full-time employment, and renter displacement. It could threaten the viability of local credit unions and bank branches and increase inequalities in the population.

Our study shows that the trade area surrounding Gateway Estates II has a diversity

[19] Brian Ketcham Engineering, PC. *The Impact of Including a Wal-Mart in the Gateway Estates II Project in East New York,* Brooklyn. January, 2011.

of retail strips, all of them vulnerable to Walmart's predatory practices though for different reasons. Although Pitkin Avenue, Rockaway Parkway, and Fulton Street have higher proportions of pedestrian shoppers, which the EIS claims would ensure the loyalty of their clientele, they also have a greater percentage of independent retail and renters, making them most vulnerable to price-gouging by Walmart. Conversely, strips such as Crossbay Boulevard and the Spring Creek shopping center, with a high concentration of chain stores and off-street parking, would cater to the identical demographic as Walmart, and therefore be in direct competition with Walmart. Thus, ultimately, none of the local retail strips in East New York would be immune to the effects of a new Walmart.

Since the Environmental Impact Statement for Gateway II failed to take into account the possibility of a Walmart there, it also failed to outline a "worst-case scenario" as required under the environmental review guidelines. At the very least the EIS should be revised.