

Date: December 14, 2004

To: Business and Economic Development Commission (BEDC)

From: Covell Village Subcommittee; Dennis Lindsay and Sheryl Patterson

**RE: COVELL VILLAGE REPORT**

**I. Committee Charge**

According to the City Planning staff's Covell Village Application Issue Review Assignments (dated 8/17/04 and 8/31/04), the BEDC was tasked to analyze the Covell Village project in regards to the following issues:

Non-residential components for impacts on the City's economy, in particular:

- Allowable Non-residential uses
- Interrelation with ConAgra uses

The BEDC's role in reviewing projects is generally to identify constraints to new commercial projects. However, the Commission's charge for this project was to evaluate impacts to other existing and future commercial projects. Since we did not have the Covell Village EIR or the economic feasibility study that is to be prepared to analyze the ConAgra project, we had to rely on the City's existing studies and input from staff and the Covell Village applicant to develop our recommendations for consideration by the full Commission.

**II. Covell Village Application**

The developer proposes the following non-residential project components:

Retail	57,672 sq. ft. (Community vs. neighborhood retail not broken out; the site plan could accommodate two 12-15,000 SF tenants)
Office	39,450 sq. ft.
Live/Work Business	29,150 sq. ft.
Live/Work Office	26,400 sq. ft. (20 units)
Hotel	38,655 sq. ft. (58 rooms; "extended stay" is intent)
Restaurant	6,000 sq. ft. (No info on number or type of establishments)
Health Club	30,000 sq. ft.
Church	9,700 sq. ft.
Gas Station	3,600 sq. ft.

### **III. Subcommittee Recommendation**

Based on our review of the available data and applicant input, we recommend approval of the non-residential components of this project. We offer the following comments and the attached background information which the Commission may wish to consider as part of its review of this project:

1. Community and Neighborhood Serving Retail. Davis is fortunate to have a number of new retail projects proposed for future development. In addition to the retail component at Covell Village (58,000 sq. ft.), new retail projects are also proposed at Second Street (Target plus two 15,000 sq. ft. pads), ConAgra (250,000 sq. ft.), Mace and Alhambra (62,700 sq. ft), the possibility of some additional retail in South Davis, as well as infill redevelopment at Davis Manor and in Downtown.

We are concerned as to whether the City can accommodate all of the proposed community and neighborhood serving retail without impacting its existing retail establishments. However, not all of the proposed or conceptual projects may proceed to file an application.

The economic feasibility study that will be prepared for the ConAgra project should help the City develop its retail strategy regarding the type, size and location of new community and neighborhood serving retail. The type of retail proposed at ConAgra is expected to be sufficiently different from the Covell Village project, so that these two retail developments will be complementary rather than conflicting. Also, the size and type of tenants envisioned in all of the other proposed retail projects may change.

A retail center needs at least one community serving retail as an anchor. If the City's priority is to attract a Trader Joes, then we need to retain flexibility to allow that retailer to decide whether to locate at the Mace and Alhambra center or at Covell Village.

The live/work/business component of this project will provide a new (and unique) opportunity for small businesses to own their own building, and perhaps reside above their retail establishment. Therefore, for all of the foregoing reasons, we do not believe at this time that this Commission should constrain the type, size, or timing of the retail proposed at Covell Village.

2. Hotel. Additional hotel rooms supposedly are not needed any sooner than after 2010 per the ERA September 2004 study, due primarily to the additional rooms to be included in the pending UC Davis conference center project. Also, hotels typically should be located within the Downtown to take advantage of the multiple restaurants and shopping and entertainment venues. However, the "extended stay" type of hotel proposed at Covell Village may be different enough to accommodate a new type of hotel demand, so as not to impact the existing Downtown hotels.

The Covell Village applicant has indicated that there is an existing need for an extended stay hotel for families of relatives at the Sutter Davis hospital and the University Retirement Center; as well as to serve the proposed assisted living (e.g. Eskaton) and hospice facilities, and the senior housing proposed as part of Covell Village project.

An extended stay hotel may also meet the needs of other types of patrons, such as visiting professors or business travelers. As long as the hotel is designed as a “residence inn” (with a separate kitchen and living room), then a hotel at Covell Village should compliment (rather than compete) with the existing types of hotels (and motels) currently available in Davis.

3. Restaurants. Restaurants are compatible with the “village” concept and would serve the East Davis neighborhood and surrounding community. Oak Tree Plaza does not have any sit-down restaurants, Davis Manor only has Symposium which may soon relocate, and there is a need for additional family style restaurants to serve East Davis. One such restaurant is proposed for the Mace and Alhambra Retail Center.

Restaurants help to define and enhance a neighborhood, and they can generate significant sales tax revenues. It is anticipated that Covell Village would only accommodate one sit-down family type restaurant, and that any additional restaurants would be with smaller “take-out” type of eateries.

4. Health Club. Health clubs generate a high parking demand that can create problems for adjacent residents and businesses. The existing Davis Athletic Club (DAC) in Green Meadows is one example of such conflicts. East Davis also has two other health clubs – 24 Hour Fitness and Peak Performance. However, health clubs within walking or biking distance of residential neighborhoods are desirable to serve the needs of the adjacent residents and to reduce traffic and parking demands.

The Covell Village applicant has indicated that DAC (as well as other health club operators) have indicated an interest in relocating or establishing a new facility as part of their project. A new recreational facility so close to DAC could potentially impact its viability if it does not relocate its existing facility to Covell Village. However, the additional housing units at Covell Village and ConAgra, combined with the office employees at both projects, would probably create enough demand for another health club, and the village would be a convenient location for such patrons.

5. Gas Station. Gas stations serve the surrounding neighborhood and the larger community. They can generate a significant amount of vehicular traffic that is not necessarily related to patronage at nearby retail centers, but they also generate significant sales tax revenues.

The existing gas stations on Mace Blvd. (Arco), Covell Blvd (Shell, Chevron, Union 76) and 5<sup>th</sup> Street (Exxon and Union 76), and the additional gas stations in South Davis at the Mace Blvd interchange may be adequate to meet the needs of existing and future East Davis residents.

While it was our first impression that a gas station does not seem to fit within the “village” concept, the applicant has demonstrated that a gas station helps to anchor the convenience retail, reduce traffic by meeting internal needs, and such use is compatible with the other retail and office uses in the village. It should also be noted that if the ConAgra site is developed as proposed, the gas station at Covell Village will also help serve the residents, office employees, and retail patrons in that adjacent neighborhood.

6. Offices. There has been a sluggish demand for office development in the past, and there are competing office projects along Second Street, in South Davis, at ConAgra, and within the Downtown. It is expected that the office uses at Covell Village will be smaller “service office” type tenants, versus the larger type of office/R&D/business park users to be accommodated at ConAgra. Also, the live/work component in Covell Village will help meet the demand for small service-oriented businesses to own their office space rather than rent.

## APPENDIX

### ANALYSIS AND CONSIDERATIONS

#### Retail Demand – Leakage and Types of Uses

The proposed non-residential uses at Covell Village were evaluated in light of the existing community need for additional retail development that is documented in two recent City-sponsored studies.

#### Retail Demand and Goals

The July 14, 2004 Bay Area Economics (BAE) “Retail Sales Tax Leakage Study” concluded that the City lacked sufficient businesses (square footage) in the following community retail categories to meet existing demand:

- Apparel Stores
- General merchandising stores
- Home furnishings and appliances
- Building materials

The BAE Retail Sales Tax Leakage Study focused on City residents’ patronage of retail centers in other communities (leakage) due to the lack of regional and community retail establishments in Davis.

The City Council has adopted the goal of: “Increase retail shopping opportunities consistent with the BEDC survey to meet community demand.” The Council’s adopted the following objective to meet that goal: “Pursue high demand retail stores such as Target, Trader Joes, and electronics consistent with the BEDC survey. Work to mitigate impacts on neighborhoods and existing Downtown businesses.”

#### Community vs. Neighborhood Retail

“Neighborhood” Retail: According to the Economic Research Associates (ERA) “Commercial Feasibility Study of Selected Properties in Davis,” dated September 8, 2004, a “Neighborhood Center” is comprised of stores that sell convenience goods and personal services, and are generally anchored by a grocery store. This report states that the General Plan defines neighborhood shopping centers as those that: “Serve the daily needs of the surrounding neighborhoods for goods and services, such as groceries, pharmaceuticals, dry cleaning, and other uses.”

A typical neighborhood retail center was set at between 60,000 to 120,000 sq. ft. (assuming multiple tenants). However, this same report indicated that a small neighborhood retail center in Mace Ranch at the 5<sup>th</sup> and Alhambra site could be sized at between 10,000 and 20,000 square feet.

“Community” Retail: Community retail centers range in size from 100,000 to 500,000 sq. ft. (minimum of 10 acres) according to this recent ERA “Community Feasibility” report. The examples of community retail uses provided were the following types of stores: apparel, general merchandising, home furnishings, appliances, electronics, sporting goods, books, and larger specialty stores (i.e. Michaels Art Supply, Cost Plus, Petsmart, etc). The smallest community retail user mentioned was 20,000 sq. ft. for an electronics store.

### Restaurants

Although the number of existing restaurants was not considered deficient per the BAE “leakage” report, it did note that a significant amount of sale taxes were generated by eating and drinking establishments. Restaurants can fit under either community or neighborhood retail definitions based on the size, type of food service and whether the restaurant is part of national (marketing) franchise.

### Office Developments

The ERA “retail feasibility” study also addressed the suitability of the South Davis freeway parcels for office use. Office uses are dependent on visibility or prominence of the setting to provide prestige and walking distance to support facilities like restaurants and shops. Typical office uses would include stand alone medical offices, small tenants clustered together or a multi-parcel office/business park, or small offices on small parcels. Neither study addressed the demand for additional office space.

### Other Uses

Other non-residential uses listed in the ERA report would include service commercial (e.g., gasoline stations), hotels, health and fitness facilities, family fun centers, childcare facilities, and churches. This report did not analyze the demand for such other uses. Automobile dealerships were also noted in the report, but those are more of a regional use and require a freeway location.

### **Relation to Other Proposed Retail/Office/Hotel Projects**

In the Subcommittee’s opinion, the Commission should evaluate the non-residential uses proposed at Covell Village in light of all of the following approved, proposed or conceptual projects:

- ConAgra at Covell and L Streets - retail, office and residential development (pre-application).
- Target at Second Street – plus two 15,000 sq. ft. pads for ancillary retail uses (pre-application).
- Mace and Alhambra Retail Center – restaurants, Trader Joes or drug store, offices, and neighborhood serving smaller retail users (application).
- South Davis freeway parcels along Cowell – conversion from office/industrial to community retail uses (conceptual).
- UC Davis Hotel/Conference Center – 75 room facility plus conference center (approved).

ConAgra: The proposed ConAgra project includes 25 acres or 250,000 sq. ft. for “retail” development, which was supported in concept by BEDC on October 25, 2004. The City staff’s breakdown of this square footage, as set out in the table labeled “Potential Neighborhood and Community Retail Opportunities” (dated August 19, 2004) was roughly 55% community retail and 45% neighborhood retail. This was a pre-application so the range of community retail is between 125,000 to 150,000 sq. ft. with the remaining 100,000 and 125,000 sq. ft. consisting of neighborhood retail. In addition, this project is to include at least 20 acres of office/R&D/business park space, and 400 residential units that would be primarily higher density housing.

The developer, Lewis Planned Communities, has previously developed (and continues to own) large, mixed use, retail centers that include a number of national chains and regional and community retail businesses. Therefore, the expectation is that their project at ConAgra would constitute an even higher percentage of community retail tenants versus neighborhood retail than the City staff’s estimated breakdown.

In terms of the office development, the BEDC recommended that the ConAgra development include at least 20 acres for office/R&D/business park. Based on ConAgra’s initial 15 acre proposal of roughly 200,000 sq. ft. of office space, the total office/R&D/business park at 20 acres could be approximately 250,000 sq. ft. The breakdown of this square footage among the office park and a live/work components has not yet been defined.

The office workers and residents at the ConAgra site would create a demand for some level of additional community and neighborhood serving retail. The developer, Lewis Planned Communities, indicated that it intended to cluster the “neighborhood” or service retail users among the “community” retail anchors. The proposed neighborhood retail component at around 125,000 sq. feet would be double the size of the Mace and Alhambra retail center.

The proposed amount of neighborhood retail at the ConAgra project would meet more than its internal generated need and accommodate some of the neighborhood retail needs of the adjacent Covell Village residents, as well as East and North Davis residents. However, it is expected that the types of neighborhood retail uses at ConAgra would compliment both Oak Tree Plaza as well as Covell Village retail establishments.

Target: The proposed Target project at Second Street (at 136,000 sq. ft) would fall under the apparel stores and general merchandising categories, and would be considered a “community” and “regional” retail use. The ancillary uses would be two 15,000 sq. ft. pads that could accommodate community retail users such as an electronics or sporting goods store, or other larger specialty store that would be attracted to locate next to Target.

Mace Ranch Retail Center: The developer is proposing to build a 62,700 sq. ft. “neighborhood” retail center that could accommodate one “community” retail anchor, targeted either for a small specialty market like a Trader Joes or a drug store.

In addition, this center is expected to include a family style sit-down restaurant, with the other tenants primarily smaller ancillary neighborhood and service commercial users. As part of this project, one of the four buildings would be designed for small offices on the first floor (such as medical, dental, or financial tenants) and second floor would be devoted to residential apartment units.

South Davis Scattered Parcels: The ERA Commercial Feasibility Study essentially concluded that community serving retail was not viable on the four South Davis office/industrial zoned properties included in that study.

### **Covell Village Recommendations - Subcommittee Analysis**

Retail: There is an existing need for additional neighborhood serving retail in East Davis, such as a coffee shop, bagel or bakery store, dry cleaners, stationary store, and mail/packaging and copying service; as well as smaller convenience or fast food operations. Also, adding 1,500 residential units at Covell Village over the next seven to ten years will create additional demand for retail.

The retail component is integral to the applicant's "village" concept, which is targeted to reduce traffic by meeting internal retail needs. The phasing for the village is not specified in order to allow flexibility as to when to bring each of the proposed uses online. While there may be a desire to coordinate the phasing of the new housing with the village development, retail construction (demand) may not easily coincide with the residential phasing, and some of the proposed uses are needed to serve existing retail needs.

The type of retail businesses located in the village should compliment the type of existing tenants at the adjacent Oak Tree Plaza center. Zoning and the development agreement will not be able to specify the specific tenants; however the type and size of the permitted retail can be regulated if such restrictions, rather than relying on market forces, is desired.

In addition to the stand-alone retail, the Covell Village project includes 29,000 sq. ft. of live/work businesses. These tenants will be primarily small retail or service commercial users that will be in addition to, and should compliment, the neighborhood retail tenants in the village.

Restaurants: The BAE study showed that significant sale tax dollars were generated from restaurant establishments. Restaurants outside of the Downtown area in general do not adversely impact the patronage at the Downtown restaurants because of their concentration and proximity to shopping and entertainment venues in the core area. Therefore, we do not believe that the type or size of restaurants need to be regulated.

Offices: Most of the demand for office space will probably be attracted to the ConAgra business park. However, smaller office space users seem to prefer to own their buildings rather than to rent. The Covell Village project includes 39,500 sq. ft of "stand alone" office, in addition to 26,400 sq. ft of live/work/office space.

The live/work/office space would likely be used by home-based businesses, such as consultants, computer programmers, architects and attorneys. The roughly 40,000 sq. ft. of “stand alone” office buildings in Covell Village may directly compete with the same tenants as the ConAgra office park. However, the Covell Village office square footage represents only 15% to 20% of the office park space proposed by ConAgra.

The ConAgra applicant has indicated that it does not believe that there is sufficient demand for the roughly 250,000 sq. ft. of office space desired by the City, due to the slow office growth over the past few years. However, in planning for the future and to support the expected R&D created by UC Davis endeavors, it is anticipated that the office demand in the future will be greater than past trends. Therefore, for the foregoing reasons, we do not believe that the proposed office uses at Covell Village need to be modified in regards to either total square footage or the type of space (i.e., office building vs. live/work).

Hotel: Covell Village proposes an extended-stay hotel to serve primarily out-of-town family visiting relatives at the Eskaton assisted living center, the hospice, Sutter Davis hospital, and the smaller senior housing component of the project. We note that an extended-stay hotel in Covell Village may also serve the office/business park tenants in the adjacent ConAgra project, as well as other existing office parks and UC Davis.

The concern is locating a hotel so far away from the cluster of hotels within or near the Downtown area (with the exception of the low-cost freeway motels in South Davis). An extended stay hotel typically provides suites or studios with full kitchens and laundry facilities in the facility.

The recent ERA Study of Commercial Feasibility dated September of 2004 concluded that due to the pending UC Davis hotel and conference center project, “it is not likely that Davis will warrant additional hotel development, assuming that the UC Davis project proceeds, until beyond 2010.” However, the “extended stay” type of hotel proposed at Covell Village may be unique enough to meet another type of hotel demand.