



bae urban economics

DOWNTOWN PLAN ECONOMIC ANALYSIS PRELIMINARY FINDINGS

Davis, CA
April 19, 2018

ECONOMIC CONTEXT

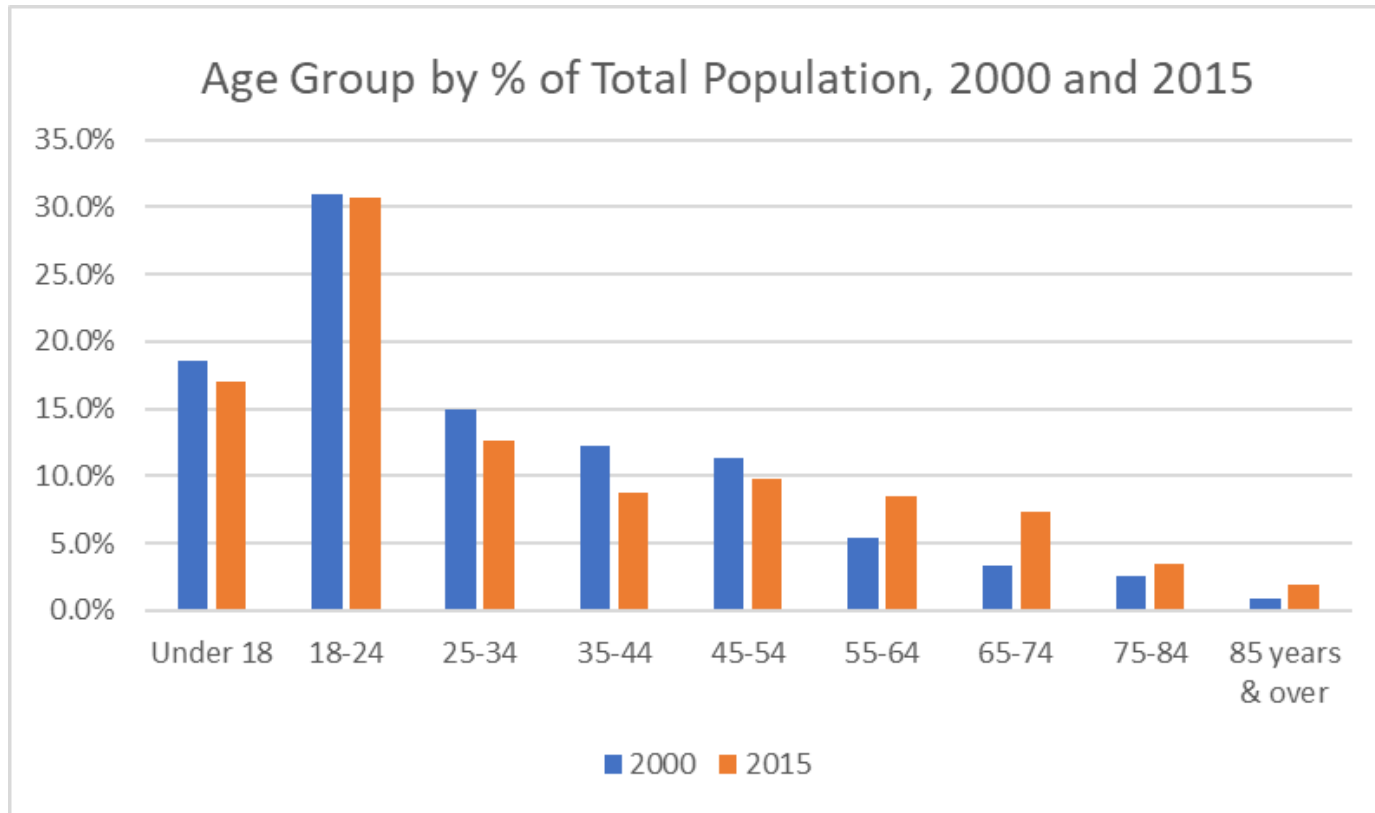
DOWNTOWN CHARACTERISTICS

- Size: 132 acres
 - Downtown boundary has not grown appreciably since 1970 while city population increased nearly 3X
- Near I-80 (over 130,000 cars per day)
- Next to UC Davis (32,663 students; 12,181 staff)
- Mostly built out – limited growth potential without redevelopment

POPULATION

- Residents in General Plan Planning Area
 - 2017: 82,058
 - Projected 2040: 99,218
- Residents in Core Area Specific Plan Area
 - 2017: 1,083
 - Share of Davis Area: 1.3%

CHANGE IN DAVIS AGE DISTRIBUTION



EMPLOYMENT

- Jobs in General Plan Planning Area
 - 2017: 39,956
 - Projected Growth: 46,086 by 2040
- Jobs in Core Area Specific Plan Area
 - 2017: 2,482
 - Share of Davis Area: 6.2%

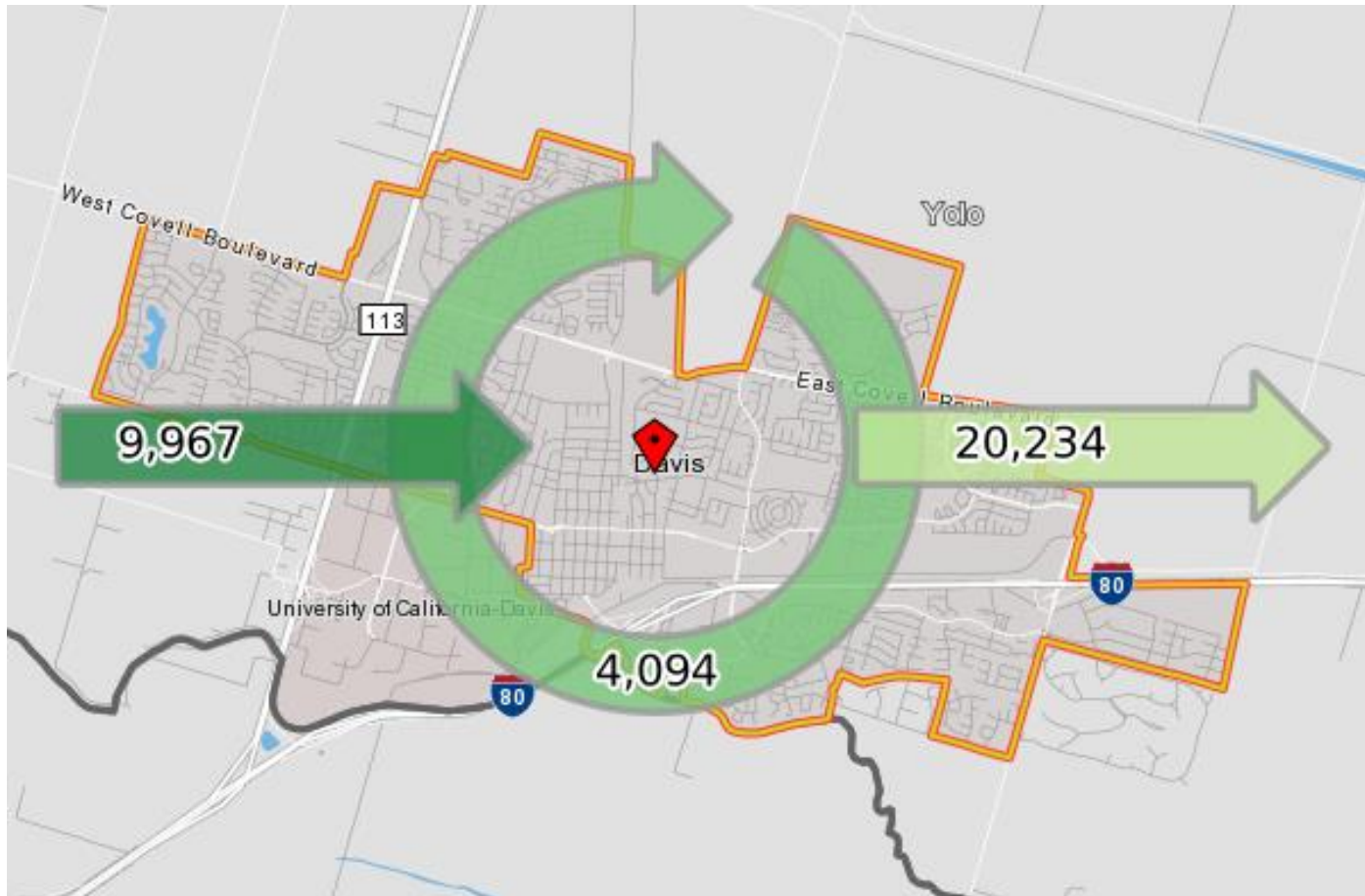
UC DAVIS

- Enrollment (Main Campus)
 - 2015/2016: 32,663
 - Projected Growth: 39,000 by 2027/2028
- Employment
 - 2015/2016: 12,181
 - Share of Davis Area: 42%
 - Projected Growth: 14,500 by 2027/2028

STUDENTS AS PART OF DAVIS GENERAL PLAN AREA POPULATION GROWTH THROUGH 2028

- New Population, 2017 to 2028: 6,790
- New UCD Enrollment, 16/17 to 27/27: 5,342
- Potential % of Enrollment Living in Davis: 80%
- New UCD Enrollment Living in Davis: 4,273
- New UCD Enrollment as % of New General Plan Area Growth 2017 to 2028: 63%

CITY OF DAVIS COMMUTE PATTERN, 2015



WHERE DO PEOPLE IN DOWNTOWN COME FROM?

	<u>Origins</u>		
	<u>Davis or UCD</u>	<u>Other Yolo</u>	<u>Beyond Yolo</u>
Mid-Week			
Day (9:00 to 3:00 p.m.)	77.0%	6.7%	16.3%
Evening (6:00 to 9:00 p.m.)	83.2%	5.4%	11.4%
Night (9:00 to 12:00 a.m.)	80.1%	3.9%	16.0%
Weekend (Sat. & Sun.)			
Day (9:00 to 3:00 p.m.)	76.5%	6.6%	16.9%
Evening (6:00 to 9:00 p.m.)	77.6%	8.0%	14.4%
Night (9:00 to 12:00 a.m.)	76.0%	6.0%	18.0%

- Data include employees and residents – anyone “present”
- People in downtown are overwhelmingly local
- Outside of Davis area, largest group comes from Sacramento
- Weekends and nights draw only slightly more out-of-towners
- Most downtown business interviewees thought about 10% of customers come from out of the immediate Davis area

DOWNTOWN BUSINESS LICENSES, 2007 AND 2017

- # of Downtown licenses went from 683 to 673, but share of citywide increased from 23% to 24%
- Biggest growth was in Health-related licenses (+36%) followed by Eating and Drinking (+20%)

Business Type	# of Business Licenses Issued				Absolute	
	2007	% Total	2017	% Total	Change	% Change
Downtown						
Retail	105	15%	90	13%	-15	-17%
FIRE	143	21%	106	16%	-37	-35%
ACE	6	1%	4	1%	-2	-50%
Beauty/Fitness/Pers. Svc.	77	11%	81	12%	4	5%
Health	79	12%	124	18%	45	36%
Prof. Svc.	107	16%	91	14%	-16	-18%
Eat and Drink	70	10%	88	13%	18	20%
Lodging	7	1%	5	1%	-2	-40%
Other	89	13%	84	12%	-5	-6%
Total	683	100%	673	100%	-10	-1%
Citywide						
Retail	439	15%	420	15%	-19	-5%
FIRE	224	8%	168	6%	-56	-33%
ACE	49	2%	36	1%	-13	-36%
Beauty/Fitness/Pers. Svc.	331	11%	240	9%	-91	-38%
Health	191	6%	412	15%	221	54%
Prof. Svc.	675	23%	609	22%	-66	-11%
Eat and Drink	184	6%	178	6%	-6	-3%
Lodging	12	0.4%	8	0.3%	-4	-50%
Other	868	29%	749	27%	-119	-16%

UNDER CONSTRUCTION, PLANNED, AND PROPOSED DOWNTOWN AREA PROJECTS

- Trackside Center, 901-919 3rd St. – 27 apt. units and 8,950 sq. ft. retail/restaurant (net 2,875 sq. ft. commercial reduction)
- 213-217 C Street – 2 res. units and 14,064 sq. ft. office
- Pizza 101, 3rd & B – 2,500 sq. ft. restaurant
- Hilton Tapestry Hotel, Richards Blvd. - 60 net new hotel rooms

RECENT DOWNTOWN PROPERTY SALES

- Mission Villas – four condominium sales in March for \$785,000 to \$839,500
- Brinley retail/office portfolio – about \$280 per building square foot
- Site for Pizza 101 – about \$165 per lot square foot
- Apartment and group quarters properties – average \$442 per building square foot
- Single-family homes and condos – average \$503 per building square foot

RETAIL

NATIONAL RETAIL TRENDS

- Retail is segregating into commodity vs. discretionary goods
- Internet sales are approximately 10% of retail sales, and projected to go to 17% by 2022
- In response, bricks and mortar retail is evolving around food, entertainment, experiences, and types of retail emphasizing service, non-commodity goods
- With evolution of “omni-channel” retail, some Internet-based retailers are entering the bricks and mortar arena

What about bank branches?

- Trend towards online banking
- Fewer branches
- Branches becoming smaller in size
- Bank branches not easily re-purposed for retail/services

CITYWIDE RETAIL TRENDS

- Inflation-adjusted sales tax revenues are up 10% since 2008
- City's most important sector is vehicle sales (35% of total), followed by restaurants (19%), followed by service stations (11%); and food stores (7%)
- Key sectors with disproportionate growth were vehicle sales and restaurants

DOWNTOWN RETAIL TRENDS

■ Taxable Sales Trend

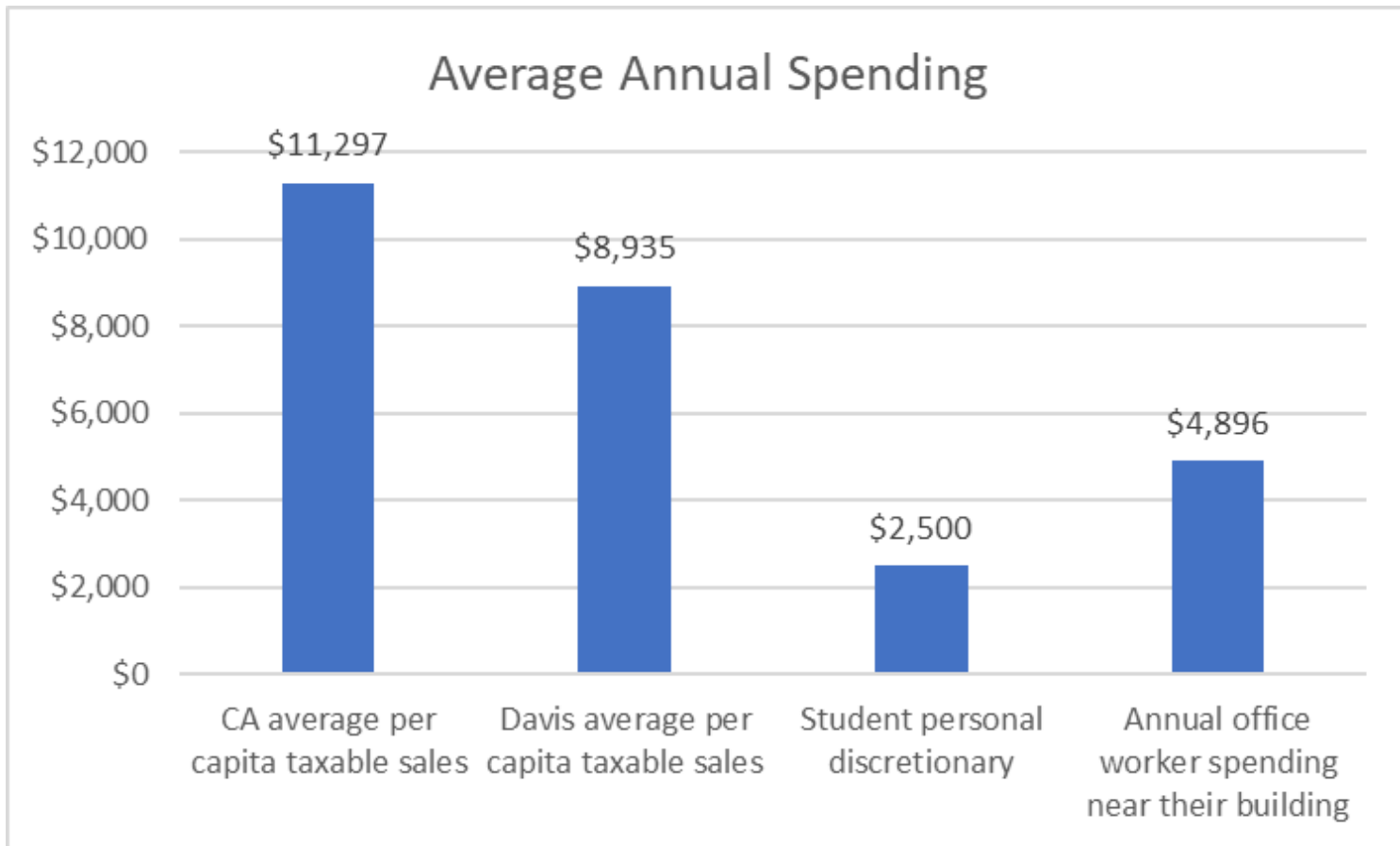
- Inflation adjusted downtown taxable sales declined 4% between 2008 and 2017
- Downtown was about 20% of citywide in 2017; down from about 28.6% in 2008

■ Taxable Sales Distribution

- Restaurants represent 55% of downtown taxable sales; up from 39% in 2008
- After restaurants, miscellaneous retail stores and building materials are the next two largest taxable sales categories, but their shares of downtown are down from 2008

*11 banks in
Downtown Davis,
occupy 70,000+
square feet of
space*

RETAIL SPENDING PATTERNS



RETAIL MARKET CONDITIONS

- Very low vacancy rates citywide and downtown
- Asking rents are also comparable in the two areas, down slightly since 2016
- Limited net absorption in 2016 and 2017
- Limited new space since 2010, particularly in downtown

<u>Retail</u>	<u>Core Area</u>	<u>City of Davis</u>
Inventory, 2017 (sf)		
Inventory (% of City of Davis)	759,921	2,234,786
Occupied Stock (sf)	34.0%	100.0%
Vacant Stock (sf)	731,463	2,144,945
Vacancy Rate	27,088	66,862
	3.6%	3.0%
Asking NNN Rents, 2016-2017		
Average Asking Rent (psf), 2016	\$1.81	\$1.82
Average Asking Rent (psf), 2017	\$1.73	\$1.68
% Change 2016 - 2017	-4.4%	-7.7%
Net Absorption, 2016-2017		
Net Absorption 2016	-635	18,815
Net Absorption, 2017	766	(743)
New Deliveries, 2010-2017 (sf)		
New Deliveries (% of City of Davis)	4,950	121,649
	4.1%	100.0%

Sources: CoStar; BAE, 2018

KEY POINTS FROM DOWNTOWN RETAIL INTERVIEWS

- Downtown's core customers remain overwhelmingly local residents, including UCD students; but renovation of MU and bringing food trucks on campus is keeping students on campus more
- Summer season declines may be lessening due to increased activity at UCD during summer
- Patrons view downtown as an experience and usually do multiple things per visit; more variety would help
- Interviewees strongly supported bringing more office and housing development downtown, to support retail
- Parking availability is viewed as constraining capacity to bring customers downtown at peak times
- Many national retailers indicate that the Davis trade area is too small and is shadowed by Sacramento
- Attracting more Davisites downtown is as big an opportunity as attracting more out-of-towners; need more programming

DOWNTOWN RETAIL OPPORTUNITIES

- Given limited population growth and shift towards Internet shopping; strive to fill retail vacancies and maintain existing inventory
- Demand will come from “Internet proof” activities, such as dining, personal services, health/fitness, and businesses offering “experiences” such as lessons/classes, activities (e.g., escape room)
- Seek opportunities to bring more shoppers downtown during off-peak times, such as weekday mornings
- Expanding office, housing, and arts, cultural, and recreational activities in downtown will support retail and reinforce downtown as a destination

OFFICE

NATIONAL OFFICE TRENDS

- Millennial workforce preference for dynamic urban environments
- Trend towards re-vamping business parks as mixed-use districts
- Increasing office employment densities = less space needed per employee

CITYWIDE OFFICE TRENDS

- Office land use category has about 2,600 jobs in the City of Davis
- Office is about 16 percent of 2017 citywide employment
- This is projected to grow by about 1,850 jobs by 2040
 - This represents about 44% of the projected citywide employment growth for the period

OFFICE REAL ESTATE MARKET CONDITIONS

- Vacancies very low downtown and citywide
- Asking rents somewhat higher in downtown
- Downtown has negative net absorption for 2016 and 2017
- Downtown has not had new office space delivered since 2010

Office	Core Area	City of Davis
Inventory, 2017 (sf)	443,452	1,708,253
Inventory (% of City of Davis)	26.0%	100.0%
Occupied Stock (sf)	431,785	1,651,011
Vacant Stock (sf)	11,667	58,042
Vacancy Rate	2.6%	3.4%
Asking NNN Rents, 2016-2017		
Average Asking Rent (psf), 2016	\$2.26	\$1.98
Average Asking Rent (psf), 2017	\$2.35	\$2.24
% Change 2016 - 2017	4.0%	13.1%
Net Absorption, 2016-2017		
Net Absorption 2016	6,325	7,101
Net Absorption, 2017	(10,144)	15,361
New Deliveries, 2010-2017 (sf)	0	75,615
New Deliveries (% of City of Davis)	0.0%	100.0%

Sources: CoStar; BAE, 2018

KEY POINTS FROM DOWNTOWN OFFICE INTERVIEWS

- Downtown has limited capacity to accommodate larger businesses
 - Most office tenants don't have sufficient lead times for build to suit office space
 - Speculative office development is not currently feasible
- Office tenants are concerned with parking – Davis housing is too expensive for many employees, so they drive to work from surrounding areas

DOWNTOWN OFFICE OPPORTUNITIES

- Office-based employment represents a large part of Davis' job growth potential
- Downtown has many of the attributes that traditional business parks are trying to emulate
- Limited potential for office growth elsewhere in town creates an opportunity for downtown to meet demand
- Challenge in downtown is small parcel sizes and lack of vacant land – accommodating a larger company would require parcel assemblage and redevelopment
- It will be difficult to capture growth without speculative office development; accommodate short lead times

OFFICE GROWTH SCENARIO 1: STATUS QUO SHARE OF CITYWIDE OFFICE SPACE

	<u>2017</u>	<u>Projected 2040</u>	<u>Increase 2017 to 2040</u>
City of Davis Office Employment	2,624	4,470	1,846
City of Davis Office Inventory (a)	1,708,253	2,909,959	1,201,706
Down town Davis Office Inventory (b)	443,452	755,407	311,955
Down town Davis Office Inventory as Share of Citywide	26.0%	26.0%	26.0%

Notes:

(a) Assumes citywide office square footage increases in proportion to increase in office employment. Does not account for changes in employment density.

(b) Assumes that downtown maintains constant share of citywide office inventory.

Sources: CoStar, 2018; SACOG, 2018; BAE, 2018.

OFFICE GROWTH SCENARIO 2: INDUCED DEMAND VIA INCREASED SUPPLY

	<u>2017</u>	<u>Projected 2040</u>	<u>Increase 2017 to 2040</u>
City of Davis Office Inventory (a)	1,708,253	5,158,253	3,450,000
Down town Davis Office Inventory (b)	443,452	1,025,591	582,139
Down town Davis Office Inventory as Share of Citywide	26.0%	26.0%	16.9%

Notes:

(a) Assumes potential citywide demand for up to 150,000 square feet of office space per year, based on Innovation Park study projections.

(b) Assumes that downtown maintains constant share of citywide office employment, but downtown share of office space goes down due to increased office employment densities downtown.

Sources: CoStar, 2018; SACOG, 2018; BAE, 2018.

RESIDENTIAL

NATIONAL HOUSING TRENDS

- Millennial preference for dynamic urban environments
- Trend towards downtown housing
- Downtown housing growth as share of new metro housing in five Sacramento peer metros ranged from 0.7 percent (Long Beach) to 8.3 percent (Portland) with a median of 4.1% (Minneapolis)
- Typical profiles of residents in new urban housing
 - Professional singles and couples
 - Empty-nesters

CITYWIDE RESIDENTIAL TRENDS

■ Household Growth Projections

- Estimated Davis General Plan Area housing unit growth from 2017 to 2040 is 5,086, based on SACOG projections

■ Citywide Residential Real Estate Market

- Inventory (2015): 25,626 units
- Vacancy (2015): 4.4%
- Average Sales Price (3-2017 to 3-2018): \$717,804
 - Not including Central Davis
- Average Sales Price/sq. ft.: \$362
 - Not including Central Davis
- Average Apartment Rental Rate (2017): \$1,673/month

DOWNTOWN RESIDENTIAL TRENDS

- Residential Real Estate Market
 - Inventory: 506 units (~90% renter-occupied)
 - Average Central Davis sales price: \$768,043
 - Average Central Davis Sales price/sq. ft.: \$466
 - Core Area sales prices are as high as \$600/sq. ft.
 - Average Core Area rental rate (2017):
\$1,239/month

KEY POINTS FROM DOWNTOWN RESIDENTIAL INTERVIEWS

- Downtown is very desirable and commands a premium for sales prices; Downtown rents tend to be lower as older units are a greater part of the housing stock
- Successful economic development focusing on increasing local professional employment will increase demand for downtown housing
- Demand from empty-nesters; younger professionals; university affiliates who want to be able to walk to campus

DOWNTOWN RESIDENTIAL OPPORTUNITIES

- Growing housing demand for UCD students, staff and faculty
- Demand for “move-down” housing for local empty nesters; likely to want homeownership
- Existing pent up demand for rental housing due to extremely low apartment vacancy rates
- Demand scenarios indicate potential for growth in downtown housing units, but this is constrained by lack of vacant, available sites

RESIDENTIAL GROWTH SCENARIO 1: CONSTANT SHARE OF DAVIS AREA

	<u>2017</u>	<u>Projected 2040</u>	<u>Increase 2017 to 2040</u>
Davis General Plan Area Housing Units	29,954	35,041	5,086
Downtown Housing Units	506	592	86
Downtown Units as % of Davis Area	1.7%	1.7%	1.7%

Sources: Esri, 2018; SACOG, 2018; BAE, 2018.

RESIDENTIAL GROWTH SCENARIO 2: TARGETED SHARE OF DAVIS AREA GROWTH

	<u>2017</u>	<u>Projected 2040</u>	<u>Increase 2017 to 2040</u>
Davis Area Housing Units	29,954	35,041	5,086
Downtown Housing Units	506	715	209
Downtown Units as % of Davis Area	1.7%	2.0%	4.1% (a)

Note:

(a) Targets a share of Davis area housing unit growth that is equal to the median share of metro area housing unit growth in five peer metro areas, including: Denver, Long Beach, Minneapolis, Nashville, Portland, between 2000 and 2010-2014 ACS reporting period.

Sources: Esri, 2018; SACOG, 2018; BAE, 2018.

ARTS, CULTURE, AND ENTERTAINMENT

DOWNTOWN ARTS, CULTURE, AND ENTERTAINMENT ASSETS

- Major anchors include:
 - Mondavi Performing Arts Center
 - Regal Holiday 6
 - Regal Stadium 5
 - Varsity Theater
 - Jan Shrem and Maria Manetti Shrem Museum of Art
 - Pence Gallery
 - Natsoulas Gallery
 - The Artery
 - Davis Art Walk, featuring public art throughout downtown and UC Davis

DAVIS COMMUNITY PERFORMING ARTS VENUES

Venue	Seating	Location	Comments
Mondavi Jackson Hall	1800	UCD	
Wright Hall Main Theater	470	UCD	
Ann E. Pitzer Center	399	UCD	
Veteran's Memorial Theater	325	North Davis	
Mondavi Vanderhoef Studio Theater	250	UCD	
DMTC Jean Henderson Performing Arts Center	240	East Davis	Only available for limited use other than DMTC productions
Wyatt Pavilion	200	UCD	
Varsity Theater (small and large theaters)	100, 270	Downtown	Only available during non-movie times (e.g., mornings)
Della Davidson Performance Studio	60	UCD	

KEY POINTS FROM ARTS, CULTURE, AND ENTERTAINMENT INTERVIEWS

- Parking availability does limit capacity to bring visitors in during peak hours
- Arts, culture, and entertainment help to make downtown a destination and keep visitors in downtown longer
- Visitors attracted by arts tend to be older

DOWNTOWN ARTS, CULTURE, AND ENTERTAINMENT OPPORTUNITIES

- Arts, Culture, and Entertainment activity is needed to make downtown a destination and support retail/restaurants
 - Critical tool to expand downtown's draw beyond local residents
 - Also key to creating a vibrant location for office and residential uses
- Downtown does not have a dedicated performing arts venue and there is an existing gap within the community for a facility with between 60 and 200 seats
- Expand, maintain, and promote Davis Art Walk as a key element of the downtown experience
- Maintain and expand “programming” of recurring downtown events as a way to attract out of town visitors who will support retail, restaurants, and lodging

LODGING

CITYWIDE TRENDS AND CONDITIONS

- Key Findings from 2016 HVS Study
 - Citywide Room Supply: 732 rooms
 - Average Occupancy: 74.8% (est. 2016)
 - Average Daily Room Rate: \$129 (est. 2016)
 - Annual Room Demand: 138,148 room nights
 - Composition of local lodging demand
 - 40% commercial; 36% leisure; 21% meetings/group; 3% extended stay
- Market could support Embassy Suites (now Hilton Tapestry), Hyatt House, and one additional extended stay (now Residence Inn) by about 2023; forecasting limited growth for 2020-2025

DOWNTOWN TRENDS AND CONDITIONS

- Key Data Points from 2017 STR Data
 - Room Supply: 385 rooms (including Hyatt Place, UCD)
 - Average Occupancy: 74.1%
 - Occupancy is highest on Friday and Saturday nights; lowest on Sunday and Monday nights
 - Average Daily Room Rate: \$140.76
 - Room Demand: 104,163

KEY POINTS FROM HOTELIER INTERVIEWS

- Downtown is a desirable hotel location due to proximity (walkable) to campus; quieter than free-way oriented locations
- Occupancy is strong and generally improving
- There is room for more hotels; planned and proposed projects may satisfy demand; new competition may be more of an issue for hotels outside of downtown
- More programming and events (especially annual events) will help expand market; more corporations in town would drive increased business travel

DOWNTOWN LODGING OPPORTUNITIES

- Planned and proposed projects can satisfy demand through 2023, assuming completion of Hilton Tapestry, Hyatt House, and Residence Inn
- Citywide demand growth beyond 2023 limited, absent new local business growth or increased visitor attraction
- Hilton Tapestry will address gap for upscale boutique-style hotel; beyond 2023 downtown could be attractive for another boutique hotel if the market grows

OVERALL CONCLUSIONS

DOWNTOWN GROWTH POTENTIAL

- Downtown growth has not kept pace with community growth
- Downtown is a very desirable location for all uses profiled
- Downtown currently caters primarily to locals, but has the potential to be more of a regional destination
- Downtown growth potential is limited by lack of available sites; not lack of demand
- Parking supply remains a near-term concern for all real estate sectors
- New housing, arts/culture/entertainment, hospitality, and office uses can create synergies to help expand the local economy, support retail, and maintain downtown as the community focal point
- A plan that clearly articulates desired uses and limits discretionary decision-making about development proposals would reduce entitlement risk and encourage developers to pursue redevelopment projects that would accelerate downtown revitalization

SUMMARY OF DOWNTOWN DEMAND POTENTIAL THROUGH 2040

- Retail: Seek to maintain and support existing inventory of retail with limited additions to supply
- Office: 312,000 to 582,000 square feet
- Residential: 86 to 209+ units
- Arts, Culture, Entertainment: Expand programming and regular, recurring events; maintain, promote, and expand Art Walk/public art; consider opportunity for performing arts venue to accommodate between 60 and 200 seats
- Lodging: Allow potential for an additional boutique hotel in the mid to long-term