

# bae urban economics

## DRAFT Economic Background Analysis – Downtown Davis Plan

Prepared for the City of Davis

June 5, 2018



# bae urban economics

June 5, 2018

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Dear Bob:

Attached, please find the Draft Economic Background Analysis for the Davis Downtown Plan. This Draft incorporates revisions in response to staff comments on the Administrative Draft Report. It has been a pleasure working with City staff and the rest of the consultant team in the preparation of this draft. I am available to discuss the draft if you have any questions.

Sincerely,



Matt Kowta, MCP  
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# EXECUTIVE SUMMARY

The City of Davis commissioned BAE Urban Economics, Inc. (BAE) to prepare this report to support preparation of the Downtown Davis Plan, an update of the 1986 Core Area Specific Plan. This report focuses on identifying the potential growth in several key land use sectors, including retail, office, residential, arts/culture/entertainment, and lodging, through the year 2040. The CASP plan focused on the City's central commercial area, generally located between within the area bounded by the Union Pacific Railroad tracks, the UC Davis Campus, Fifth Street, and the California Northern Railroad Tracks, but also including an area that extends north along G Street to East Eighth Street. Downtown Davis currently functions primarily as a commercial location for local area residents, but has the potential for a bigger role as a regional destination and as a residential location, if the community desires to move in that direction.

The analysis finds that there are a number of key trends affecting Downtown Davis, including national trends such as an aging population and the changing needs of the elderly, the rise of the Millennial generation and their influence on business location preferences, and lifestyle preferences, restructuring of the retail industry, emergence of food and entertainment as key functions in commercial areas, and increasing real estate costs, among others. The growth of UC Davis, and its influence on the community also has significant implications for Downtown Davis, including demand for real estate across all sectors, either directly or indirectly. In addition, anticipated changes, such as innovations in transportation and mobility technologies and how those could influence the downtown form over the long-term (e.g., parking needs and vehicular access to downtown) present challenges for developing effective strategies that address near-term needs, but that also have long-term utility.

The research conducted for this report suggests that the City should seek to maintain and support the existing inventory of ground floor retail space in Downtown Davis, with limited additions to the overall supply, in recognition of shifting retail trends, coupled with limited growth in local demand for retail goods through 2040. Two different office demand scenarios identify potential for between approximately 300,000 and 600,000 square feet of new downtown office space. Two different residential demand scenarios very conservatively identify demand for 86 to 209 new residential units, mostly in the form of higher density apartments, townhouses, and condominiums. This range could likely be significantly higher, if the community wished to more aggressively pursue housing demand, particularly for UC Davis students, staff, and faculty. This report recommends expanding downtown arts, culture, and entertainment programming and venues, to serve as amenities for residents and businesses and their employees. Downtown planning should also accommodate the potential for at least one new hotel over the long-term.

Financial feasibility analysis conducted as part of this study, indicates that many downtown development prototypes that could help to accommodate demand for the types of new development indicated in the market analysis will face feasibility challenges. This is primarily due to high land costs and high construction costs, compounded by the additional challenges presented in a downtown area that is largely built out. The lack of vacant sites will mean that substantial new development will require redevelopment of existing buildings, which further increases cost and challenges feasibility. As a result, the City should carefully consider how the Downtown Plan itself can help to encourage and facilitate these activities by providing clear direction for the desired types of new development and establishing policies that will help to reduce entitlement risk and processing timeframes (and costs). To further assist desirable catalyst projects, the City should consider opportunities to leverage public resources, such as City-owned land, to help developers put together desirable projects.



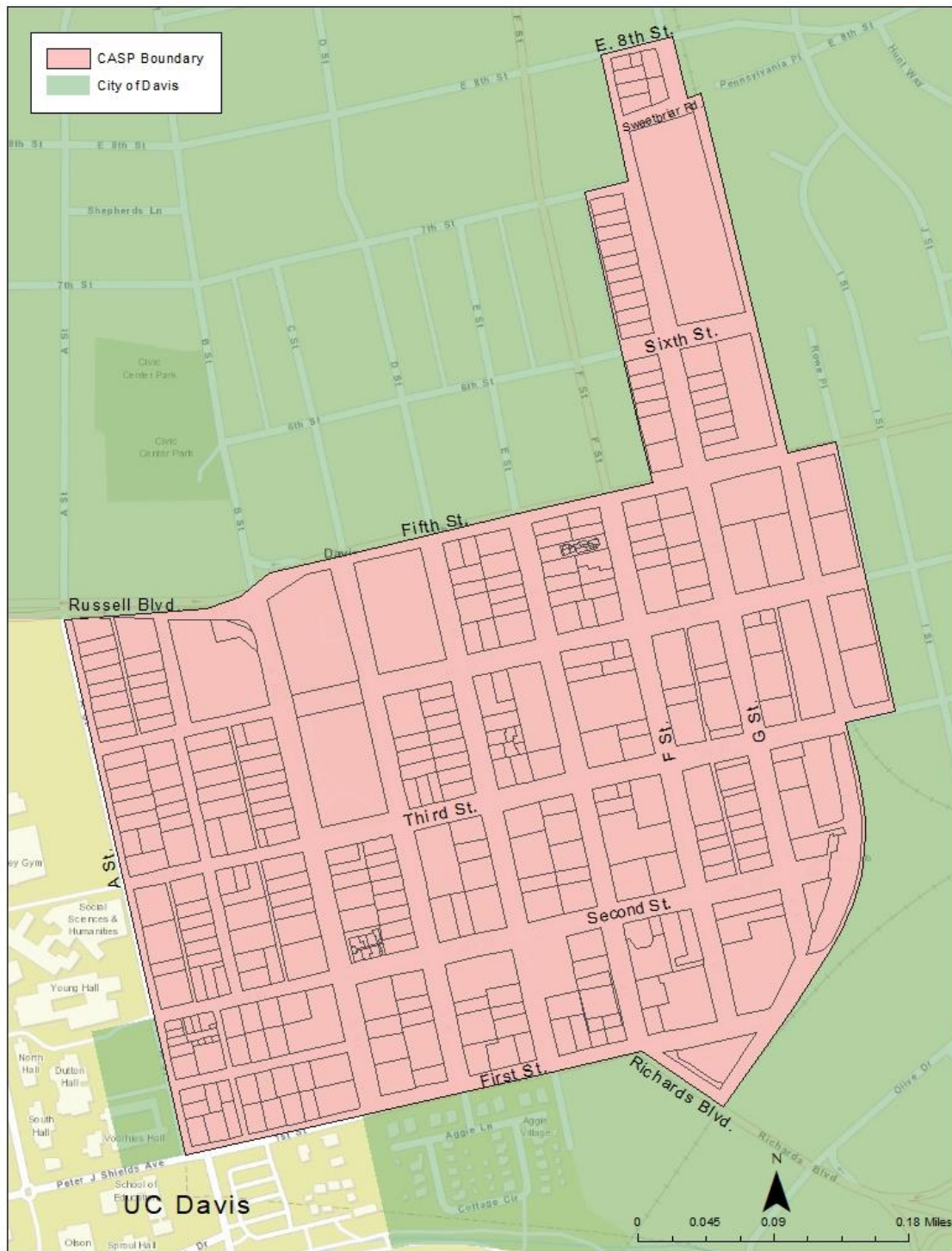
# INTRODUCTION

This background report for the Davis Downtown Plan provides information regarding economic conditions and trends affecting the City's downtown area. The purpose of the report is to identify opportunities for economic and housing growth in the plan area. This information will be available to local stakeholders, the Downtown Plan consultant team, and City staff and policy-makers to help inform decisions about the Downtown Plan. The report focuses on identifying the potential growth in several key land use sectors, including retail, office, residential, arts/culture/entertainment, and lodging, through the year 2040.

## **Study Area**

The Downtown Plan effort will update the City of Davis' existing Core Area Specific Plan (CASP), first adopted in 1996. The CASP focuses on the City's central commercial area, generally located between within the area bounded by the Union Pacific Railroad tracks, the UC Davis Campus, Fifth Street, and the California Northern Railroad Tracks, but also including an area that extends north along G Street to East Eighth Street. Figure 1 is a map that specifically delineates the CASP boundaries. Data presented in this report for the Downtown Plan Area conform to this set of boundaries.

**Figure 1: Core Area Specific Plan Boundary**



Source: City of Davis; BAE, 2018.

## **Davis Planning Area**

For contextual and comparative purposes, this report also presents certain data for the Davis General Plan Planning Area (hereafter, Davis Planning Area). This is an area that includes not only the City of Davis itself, but also surrounding areas that are in close proximity to the incorporated city boundaries and which function as part of the larger Davis community. This includes UC Davis and other urbanized areas adjacent to the City, such as Willowbank, El Macero, and the Binning Tract.

For this report's data collection purposes the Davis Planning Area has been approximated in two different ways. To utilize population and employment growth projections prepared by the Sacramento Area Council of Governments (SACOG), this report defines the Davis Planning Area using a series of Transportation Analysis Zones that most closely approximate the Davis Planning Area. These TAZs are mapped and listed in Appendix A. To utilize economic and demographic data reported for units of geography defined by the U.S. Census, this report also defines the Davis Planning Area using a series of Census Block Groups that most closely approximate the Davis Planning Area. These Block Groups are mapped and listed in Appendix B.

# ECONOMIC CONTEXT

This section of the report presents some basic information to set the general context for discussions about growth opportunities in the individual land use sectors.






## Downtown Characteristics

Downtown Davis is a relatively compact area, located centrally within the Davis community and immediately adjacent to the core of the UC Davis main campus which had 32,663 students and 12,181 faculty as of the 2015/2016 academic year. The existing CASP boundaries encompass approximately 132 acres of land, most of which is developed at relatively low densities. There is very little vacant land in the downtown area. According to estimates for the CASP Area furnished by Esri, a private demographic data vendor, downtown businesses employ 2,482 people and 1,083 people live in downtown housing units, most of whom are renters. According to City records, downtown retail establishments account for approximately 20 percent of the citywide taxable sales.

Buildings tend to be mostly single-story, with some buildings having two to three stories. The tallest building in the downtown area is the Chen Building, at 803 2<sup>nd</sup> Street, which includes ground floor retail/restaurant space, 2<sup>nd</sup> floor office space, and live-work lofts that occupy the 3<sup>rd</sup> and 4<sup>th</sup> floors. With very few exceptions, parking tends to be provided in uncovered surface parking lots.

The downtown street network is arranged in a traditional grid pattern with one lane of auto travel in each direction. With most intersections controlled with four-way stop signs, traffic travels relatively slowly and lanes are shared with bicycles while sidewalks provide pedestrian access on most block faces. This configuration makes Downtown Davis quite pedestrian- and bike-friendly while also making the downtown easily accessible by car.

The downtown grid street network connects to the rest of the City of Davis through extensions of downtown streets to neighborhoods the north and to the east, and the connection of E Street to Richards Boulevard across Olive Drive and I-80 (which carries an average of 130,000 vehicles per day) to South Davis. Additional connectivity is provided by a bicycle/pedestrian-only undercrossing from South Davis to the UC Davis Arboretum, with bike routes continue to downtown.

<b>132</b>	Acres of land in downtown; vacant land is scarce
	2,482 jobs in downtown
	20% of citywide taxable retail sales
	506 housing units; ~ 90% renter-occupied; 1,083 residents
	Next to UCD with 32,663 students and 12,181 faculty and staff
	Next to I-80 with 130,000 vehicles per day

## Key Trends Affecting Downtown

Downtown Davis primarily caters to the needs of the larger Davis community. As a result, downtown conditions are directly related to local conditions and trends. Key trends include an aging population, changing consumer preferences for retail goods as well as for housing and workplace style and locations, and increasing land costs.

### Community Population Growth

Based on SACOG estimates and projections, the Davis Planning Area currently has a resident population of approximately 82,058. Based on this total, CASP Area residents represent just 1.3 percent of the Davis Planning Area population. SACOG projects that the Davis Planning Area population will grow to approximately 99,218 residents by 2040. Population growth will be the primary driver of increased demand for housing in the Downtown Area and the community overall.

### Changing Age Distribution

One trend that has the potential to bring significant changes to the U.S. as a whole as well as to the Davis community is the general aging of the population as the Baby Boom generation progresses in its senior years and as birthrates for younger generations decline. Despite the continuing growth of the UC Davis Campus, with its predominantly young adult population, the age group in the Davis Planning Area population that grew most rapidly between 2000 and 2017 was 65 to 74-year olds. According to Esri estimates shown in Table 1, this group expanded by 1,544 individuals, or 44.5%, while the overall population grew just under seven percent for the period. Other age groups that grew more

rapidly than the population as a whole included 25 to 34-year olds, 55 to 64-year olds, 75 to 84-year olds, and those 85 and older. Esri estimates that the populations under the age of 18, and those between the ages of 35 and 54 actually registered slight declines during the period. While the actual pool of potential shoppers has increased, the shifting make-up of the population has implications downtown retail in particular. Large portions of retail sales are traditionally associated with the population that is within the age range where household formation and child-rearing are key drivers of shopping habits. As the population ages, there is less need for housewares and furnishings, home improvements, and clothing, for example. This can also have an impact on the types of housing demanded with empty nesters and seniors having different needs than young adults and growing families.

	<b>Local Demographic Shifts</b> Composition of population growth; students and residents 55 and older
	<b>Land Scarcity/Increasing Land Costs</b> Redevelopment needed to accommodate infill; creates high feasibility hurdle
	<b>Changing Retail Industry</b> Internet shopping, bricks and mortar store closures, trend toward food, entertainment, and experiences
	<b>Changing Preferences</b> Millennials' preference for dynamic, urban, mixed-use areas affecting national office and residential development patterns

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**Table 1: Davis Planning Area Population, 2010 to 2017**

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Age	2010		2017		# Change 2010-2017	% Change 2010-2017
	Number	Percent	Number	Percent		
Under 18	12,223	16.0%	11,629	14.3%	-594	-4.9%
18-24	26,416	34.6%	27,022	33.2%	606	2.3%
25-34	9,912	13.0%	12,568	15.4%	2,656	26.8%
35-44	6,943	9.1%	6,783	8.3%	-160	-2.3%
45-54	7,581	9.9%	7,135	8.8%	-446	-5.9%
55-64	6,728	8.8%	7,629	9.4%	901	13.4%
65-74	3,469	4.5%	5,013	6.2%	1,544	44.5%
75-84	1,977	2.6%	2,457	3.0%	480	24.3%
85 or older	1,019	1.3%	1,275	1.6%	256	25.1%
<b>Total</b>	<b>76,268</b>	<b>100.0%</b>	<b>81,511</b>	<b>100.0%</b>	<b>5,243</b>	<b>6.9%</b>
<b>Median Age</b>	<b>24.9</b>		<b>26.4</b>			

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Note:

The Davis Planning Area is defined by Census Block Groups most closely resembling the Davis General Plan Planning Area.

Sources: Esri Business Analyst; BAE, 2018.

## Davis Planning Area Job Growth

Planning Area job growth will be a primary driver of demand for new commercial space in the Downtown Area and the community overall. Based on SACOG estimates, the approximate number of jobs in the Davis Planning Area in 2017 was just under 40,000. SACOG projects that this number will increase to just over 46,000 by 2040. As mentioned previously, Esri estimates that downtown establishments employ about 2,482 persons, which represents about 6.2 percent of the Davis Planning Area total.

## UC Davis Growth

US Davis is the largest driver of population and employment growth within the Davis Planning Area. As of the 2015/2016 academic year, the main campus enrollment was 32,663, representing approximately 42 percent of the Davis Planning Area jobs total. The campus Public Review Draft Long Range Development Plan (LRDP) projects that main campus enrollment will increase to 39,000 by 2030/2031. This increase in enrollment will drive student housing demand and will also bring accompanying increases in university staff and faculty. As of the 2015/2016 academic year, the main campus employment was 12,181 and the LRDP projects that will increase to 14,500 by 2030/2031. This growth in campus employment will stimulate additional housing demand from staff and faculty.

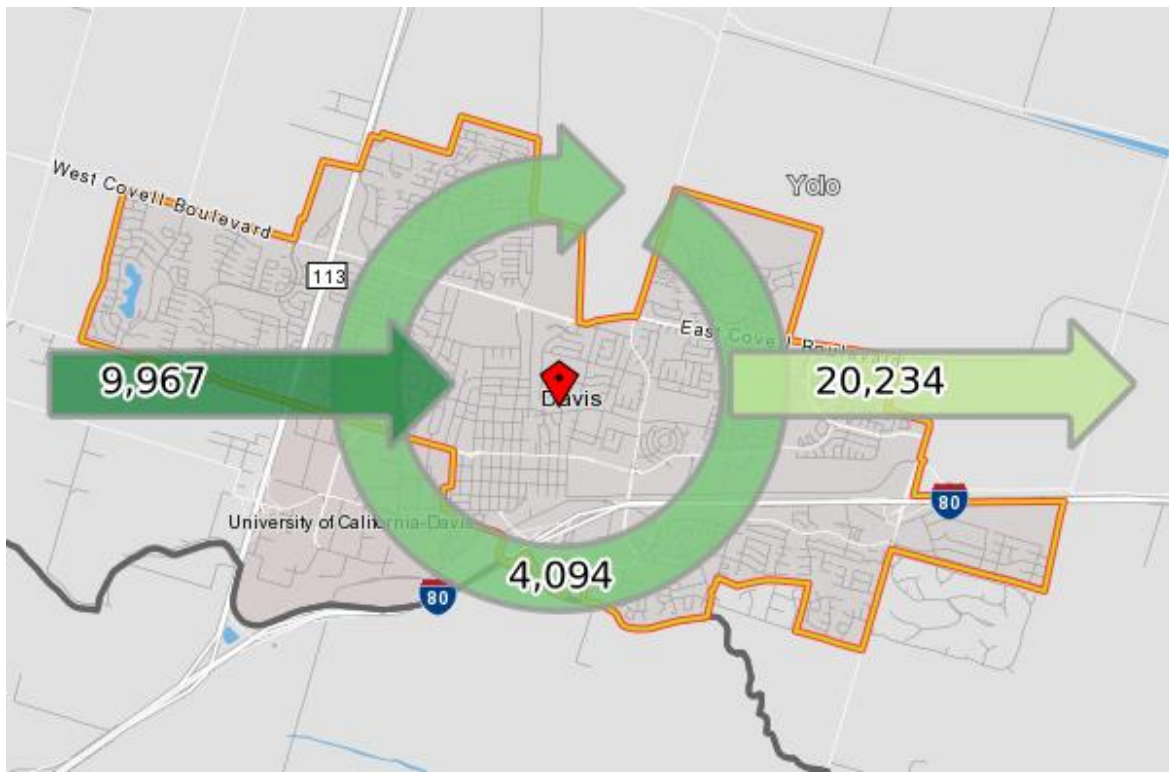
## Commute Pattern

Aside from UC Davis, there are no other dominant employers or employment sectors in the Davis Planning Area. At the same time, the City of Davis is known as a community with a high quality of life that is easily accessible to job centers in the Sacramento region via I-80 and Highway 113 as well as to job centers in the eastern part of the Bay Area. This has made

Davis an attractive location for commuters who have jobs outside of the Davis community. Due to growth of UC Davis and demand from commuters, combined with city and county planning policies that limit the amount of new residential development that can occur in the area, the demand for available housing is high and consequently, housing costs are also relatively high in comparison to regional norms. As a result, many people who work within the City of Davis face housing affordability challenges. Given opportunities to find housing at lower cost within nearby communities, many people employed in the Davis area live elsewhere and commute to Davis for work. The graphic in Figure 2 illustrates the current City of Davis commuting pattern, from the U.S. Census Longitudinal Employer-Household Dynamics (LEHD), 2015 data set. The image indicates that there were an estimated 14,061 jobs in the City of Davis and an estimated 24,328 employed persons living in the City of Davis in 2015. Of those, the Census Bureau estimates that 4,094 both live and work within the City. This means that 9,967 people commuted into Davis to fill jobs within the City and 20,234 people commuted out of Davis to work elsewhere. A major component of the 20,234 people leaving Davis to work elsewhere can be assumed to work at UC Davis.

The commute patterns have implications for local retail spending, as commuters typically make significant retail spending near their place of work, which reduces their spending near home. While a substantial number of employees come into Davis to work each day, anecdotal information provided by downtown business owners indicates that it is likely that many are lower-income workers, with less spending power, who are most affected by the City's lack of housing affordability. It is likely that many of the City's out-commuters are higher income workers with greater spending power, who are not as cost-sensitive and choose to live in Davis for various lifestyle reasons.

**Figure 2: City of Davis Commute Pattern**



Sources: U.S. Census Longitudinal Employer-Household Dynamics, 2015; BAE, 2018.

### **Where Do People in Downtown Come From?**

Of interest for this study is whether downtown functions primarily as a commercial center that serves people from the general Davis area, or whether the downtown area functions as a destination for people who come to Davis from other surrounding communities. For transportation analysis purposes, Downtown Plan consultant team member Fehr & Peers obtained data compiled from users of mobile devices using location-based applications, from a data vendor called StreetLight. This information indicates the origin locations of people present in a defined area within defined time periods. Fehr & Peers shared this information with BAE, as summarized in Table 2, below.



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**Table 2: Origin Location for People Present in Downtown Davis**

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	Origins		
	Davis or UCD	Other Yolo	Beyond Yolo
<b>Mid-Week</b>			
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%
<b>Weekend (Sat. &amp; Sun.)</b>			
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%

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Sources: StreetLight, Fehr & Peers, 2018.

These data include people using mobile devices who were present in the downtown area during the prescribed time periods. This can include residents and employees as well as visitors. The data show that people in the downtown area are overwhelmingly local, with 75 percent or more coming from within the City of Davis or UC Davis in all of the time periods. Even during weekend and evening times, outside of normal work and school hours when many people would be more available to travel to Downtown Davis, the increase in people coming from outside Davis/UC Davis is limited. Looking at detailed data, the people coming from Sacramento represent the largest group of people coming from outside the Davis/UC Davis area. As will be discussed in the Retail Growth Opportunities section, interviews with a range of downtown business owners indicate that approximately 10 percent of downtown customers may be drawn from outside the Davis community. Appendix C includes a listing of all individuals interviewed as part of this study.

This information indicates that Downtown Davis is currently dependent primarily upon demand from people coming from immediate Davis Planning Area for market support, meaning the amount of commercial activity that the downtown can support is primarily a function of the local population and employment base. As will be discussed further in the Retail Growth Opportunities section, this has implications for the types of retailers and other businesses the downtown can support.

## Downtown Business Licenses

Business license data furnished by the City of Davis from 2007 and 2017 and summarized by BAE in Table 3 provide insight into the types of businesses that operate in the downtown, and how that has changed over the last ten years. The data show that the number of business licenses issued citywide and in downtown has declined slightly since 2007; however, the decline was slightly less pronounced in the downtown area. In total, there were 673 business licenses in downtown in 2017. This includes individual license holders, such as hair stylists, therapists, and Realtors, as well as larger companies with multiple employees, so it does not

speak to the total number of people who work in the downtown area. On June 4<sup>th</sup>, the City of Davis obtained access to detailed establishment-level employment data from the California Employment Development, for the downtown and the City of Davis overall. The final version of this report will incorporate more in-depth analysis of businesses and employment activity utilizing these data.

Downtown's share of citywide business licenses remained fairly stable, at 24 percent of the citywide total. The largest percentage increases in downtown business licenses were in Health-related licenses (up 36 percent since 2007) and in Eating and Drinking Places (up 20 percent). In terms of the number of licenses, the largest declines were in Finance, Insurance, and Real Estate (FIRE) sectors (-37), Professional Services (-16) and Retail (-15).

**Table 3: Downtown and Citywide Business Licenses, 2007 and 2017**

Business Type	# of Business Licenses Issued				Absolute Change	
	2007	% Total	2017	% Total	Change	% Change
<b>Downtown</b>						
Retail	105	15%	90	13%	-15	-17%
Finance, Insurance & Real Estate (FIRE)	143	21%	106	16%	-37	-35%
Arts, Culture & Entertainment (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%
<b>Total</b>	<b>683</b>	<b>100%</b>	<b>673</b>	<b>100%</b>	<b>-10</b>	<b>-1%</b>
<b>Citywide</b>						
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%
<b>Total</b>	<b>2,973</b>	<b>100%</b>	<b>2,820</b>	<b>100%</b>	<b>-153</b>	<b>-5%</b>

Sources: City of Davis, 2018; BAE, 2018.

## Under Construction, Planned, and Proposed Projects

The central part of Davis is undergoing slow changes in its physical building stock. Projects currently under construction or planned and proposed in the downtown vicinity highlight a trend towards gradual densification of the City's core. These projects include:

- Trackside Center, planned for 901-919 3<sup>rd</sup> Street will replace 11,825 square feet of commercial space with a mixed-use project that includes 27 apartment units and 8,950 square feet of retail/restaurant space. This property is located just outside of the CASP's eastern boundary.
- 213-217 C Street is another mixed-use project, currently under construction. It is replacing two single-family residences with 14,064 square feet office/laboratory space above two new residential units.
- Pizza 101 is a 2,500 square foot restaurant, currently under construction at the southeast corner of 3<sup>rd</sup> & B Streets. It replaces a single-family residential unit.
- The Hilton Tapestry Hotel, on the west side of Richards Boulevard, between Downtown Davis and I-80 is a hotel redevelopment project that will add 60 net new hotel rooms on the site of the existing University Park Inn & Suites.

## Recent Downtown Property Sales

With a limited supply and a desirable location, downtown property is highly valued. Recent property sales confirm this. BAE compiled property sales records from ListSource, a commercial data vendor that compiles real estate transaction data from County assessor's office records. Tables 4 and 5 summarize commercial and residential sales data for the January 2016 through March 2018 time periods, respectively.

**Table 4: Commercial Property Transactions, CASP Area, January 2016 through March 2018**

<u>Name/Address</u>	<u>Building Type</u>	<u>Building Area (SF)</u>	<u>Sale Price</u>	<u>Sale Price per Bldg. SF</u>	<u>Sale Date</u>
Brinley Portfolio	Office/Retail	66,689	\$18,700,000	\$280.41	02/17/2016
513 2nd St.	Retail	15,190			
603 2nd St.	Office/Retail	26,600			
615-623 2nd St. and 209a F St.	Retail	18,899			
718-726 2nd St.	Retail	6,000			
505 2nd St. A/B	Office	10,295	\$2,100,000	\$203.98	03/08/2016
102 E St.	Office	2,184	\$1,532,000	\$701.47	10/19/2017
509 4th St.	Office	4,213	\$1,435,000	\$340.61	06/16/2016
301 B St.	Restaurant	1,623	\$935,000	\$576.09	07/10/2017
515 G St.	Office	1,602	\$720,000	\$449.44	10/03/2016
523 G St.	Office	984	\$655,000	\$665.65	03/06/2017
413 E St.	Vacant Land	0	\$539,000	n.a.	01/30/2018
114 E St.	Office	1,733	\$331,000	\$191.00	10/19/2017
808 E 8th St.	Office	675	\$270,500	\$400.74	08/25/2017
<b>Median Sale Price</b>			<b>\$827,500</b>		
<b>Median Sale Price per Bldg. SF</b>				<b>\$400.74</b>	

Sources: ListSource, County of Yolo Assessor's Office, BAE, 2018.

**Table 5: Residential Property Transactions, CASP Area, January 2016 through March 2018**

**Multifamily Buildings and Group Quarters**

<u>Address</u>	<u>Building Type</u>	<u>Building Area (SF)</u>	<u># of Bedrooms</u>	<u>Sale Price</u>	<u>Sale Price per Bldg. SF</u>	<u>Sale Date</u>
324 D St.	Triplex	3,424	7	\$1,350,000	\$394.28	5/23/2016
203 1st St.	Group Quarters	2,559	4	\$1,080,000	\$422.04	06/23/2017
318 A St.	Group Quarters	1,890	3	\$925,000	\$489.42	05/23/2016
820 E St.	Duplex	1,734	4	\$800,000	\$461.36	07/23/2016
<b>Median Sale Price</b>				<b>\$1,002,500</b>		
<b>Median Sale Price per Bldg. SF</b>				<b>\$441.70</b>		

**Single Family Homes and Condominiums**

<u>Address</u>	<u>Building Type</u>	<u>Building Area (SF)</u>	<u># of Bedrooms</u>	<u>Sale Price</u>	<u>Sale Price per Bldg. SF</u>	<u>Sale Date</u>
334 University Ave.	Single Family	2,090	4	\$1,030,000	\$492.82	07/06/2017
337 B St.	Single Family	1,658	3	\$850,000	\$512.67	12/13/2016
313 University Ave.	Single Family	1,401	3	\$820,000	\$585.30	02/14/2018
349 B St.	Single Family	1,650	3	\$815,000	\$493.94	09/01/2017
425 A St.	Single Family	1,544	2	\$755,000	\$488.99	10/24/2017
526 G St.	Single Family	1,178	2	\$725,000	\$615.45	12/06/2017
516 G St.	Single Family	1,777	4	\$715,000	\$402.36	11/17/2017
329 B St.	Single Family	1,162	2	\$699,000	\$601.55	10/27/2017
132 A St.	Single Family	1,027	2	\$566,500	\$551.61	08/18/2016
810 E. 8th St.	Condominium	955	2	\$436,000	\$456.54	08/16/2016
<b>Median Sale Price</b>				<b>\$740,000</b>		
<b>Median Sale Price per Bldg. SF</b>				<b>\$503.30</b>		

Sources: ListSource, County of Yolo Assessor's Office, BAE, 2018.

The data in Table 5 do not reflect recent sales of recently completed homes in the Mission Villas project, on the 200 block of B Street. This includes four condominiums sold in March at prices ranging between \$785,000 and \$839,500.

# RETAIL MARKET OPPORTUNITIES

## National Retail Trends

Nationally, the retail industry is undergoing significant transformation relating to changes in the way consumers shop. With internet access and mobile devices proliferating, and the expansion of quick delivery services for goods of all types, ranging from fresh food to appliances and automobiles. With the ability to quickly and conveniently conduct comparison shopping searches online, consumers do not need to physically visit stores in order to inspect and purchase many types of goods; rather, they are drawn to online shopping.

Online sales are increasing rapidly and this is affecting the traditional “bricks and mortar” retail industry as consumers differentiate between commodity and discretionary goods. Across the U.S., even during the current period of strong economic growth, the retail industry is retrenching. According to a recent article in Bloomberg Business Week, 2017 set a record for the amount of retail space closed by national retail chains, at 105 million square feet; however, by April of this year, the 2018 total of announced retail closures was already 77 million square feet.<sup>1</sup>

Commodity goods are those which consumers buy on a regular basis, are familiar with the available choices, and for which their purchasing decisions are based on price and convenience. These are the types of goods for which online shopping is an ideal tool. As opposed to commodity purchases, discretionary purchases involve items that consumers purchase less frequently and which are not necessities. So-called because consumers spend their discretionary time and income on them, discretionary purchases may involve specialty items for which expert sales help is needed and/or for which the experience of purchasing the items and the sales and after-sale support experience is important. Online shopping is not as conducive to this type of purchase.

According to various sources, online shopping currently represents approximately ten percent of total retail sales in the U.S. While it took two decades for online shopping to reach this level, this trend has gained momentum in recent years, and Business Insider recently reported that Forrester Research projected that online sales will increase to approximately 17 percent of total sales by 2022.<sup>2</sup>

In response to these trends, bricks and mortar retail is evolving around food, entertainment, experiences and services, and certain types of retail emphasizing service and non-commodity goods. This trend is evident in Downtown Davis, as indicated by the shift in business licenses discussed previously, with retail licenses declining and increases in eating and drinking

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<sup>1</sup> *Retail's Real Estate Glut is Growing*, Bloomberg Business Week, p. 31, April 23, 2018.

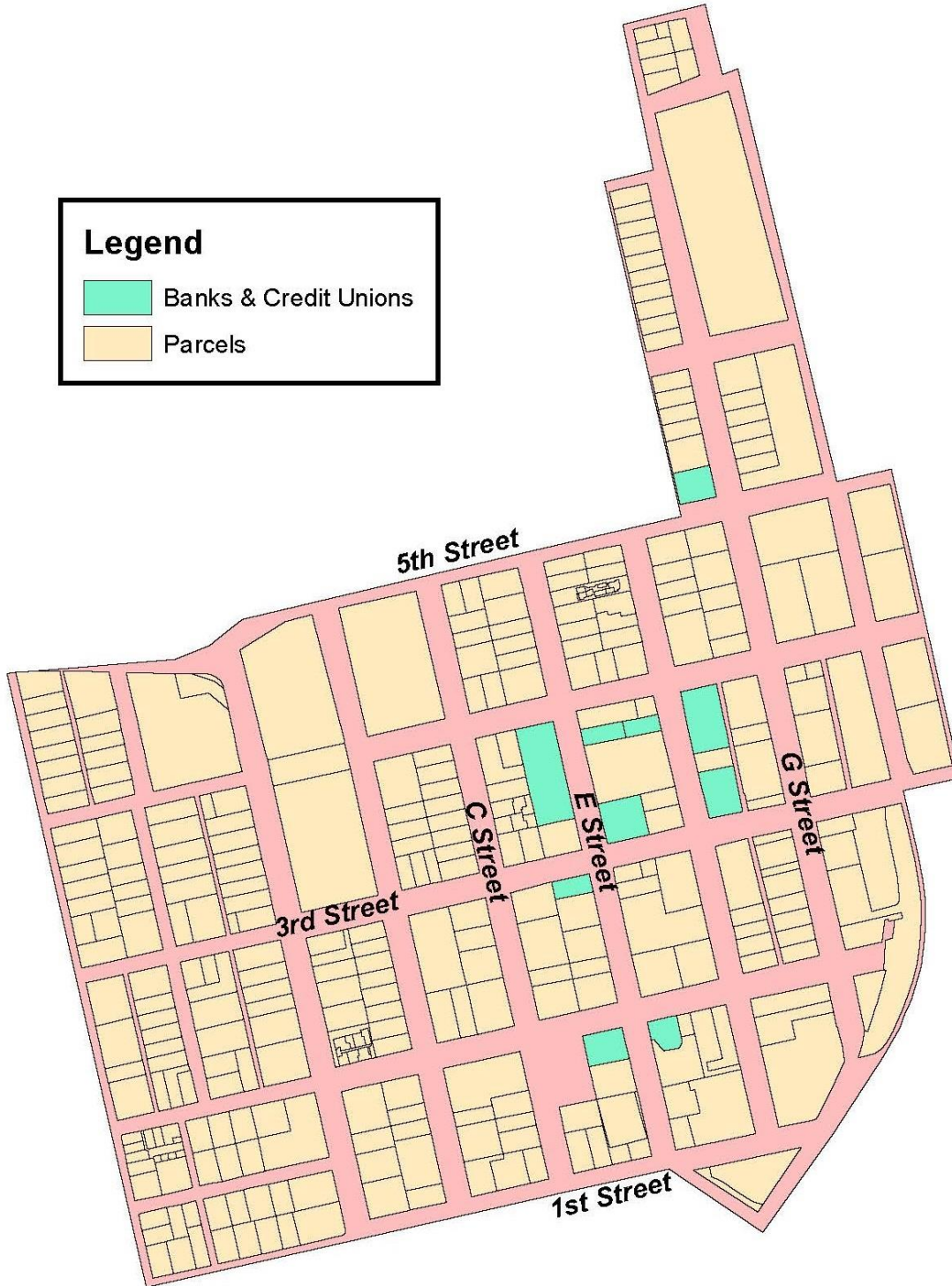
<sup>2</sup> <http://www.businessinsider.com/e-commerce-retail-sales-2022-amazon-2017-8>, accessed 3-22-18.

establishments and different types of services. The implication is that even with a growing population, it will be difficult to maintain the amount of traditional retail space over time as online sales capture greater market shares.

In addition to taxable retail sales, the move towards online transactions can also affect certain types of services. For Downtown Davis, banking is prominent. Davis has long placed a priority on keeping bank branches in the Downtown area, and requires that banks operating branches outside of the Downtown Area also operate a branch downtown. As a result, there are a total of 11 bank branches located in downtown Davis, occupying over 70,000 square feet of built space, including prominent corner locations. Figure 4 shows a map of the Downtown bank locations. Meanwhile, various financial industry sources indicate that with mobile banking applications, including the ability deposit checks remotely, the emergence of branchless banks, and increasing use various payment methods in place of cash foot traffic into physical bank branches is declining and banks are closing branches and downsizing remaining branches and new branches. Although this trend has not yet had a substantial effect on Downtown Davis, if it does, it may have significant land use implications given the amount of space that they occupy and the concentration of banks within a relatively small area focusing on block faces bounded by 3<sup>rd</sup>, 4<sup>th</sup>, E, and F Streets.



**Figure 3: Downtown Davis Bank Locations**



Sources: City of Davis built space inventory, BAE, 2018.

## Citywide Retail Trends

In spite of the changes in the retail industry, the City of Davis as a whole saw a ten percent increase in sales tax revenues between 2008 and 2017, on an inflation-adjusted basis, according to data from the State Board of Equalization. From a sales tax revenue-generating standpoint, the City's most important sector is the automotive category, which accounts for 28 percent of the City's total. Next most important is restaurants, which contributes 19 percent, followed by service stations (11 percent) and food stores (7 percent). The importance of food stores as a commercial activity may be understated, because taxable sales typically represent less than half of the total sales in a supermarket. Also from 2008 to 2017, key sectors that had disproportionate growth in sales tax generation were vehicle sales and restaurants.

Davis has historically been considered to have an under-supply of retail facilities relative to the size of the local population; however, this may be beneficial to the City in light of national retail closure trends. With a limited presence of large national retail chains and an existing citywide inventory of retail space per capita that is relatively low, Davis may be less vulnerable to the types of large-scale retail closures reported earlier in this chapter.

## Retail Spending Patterns

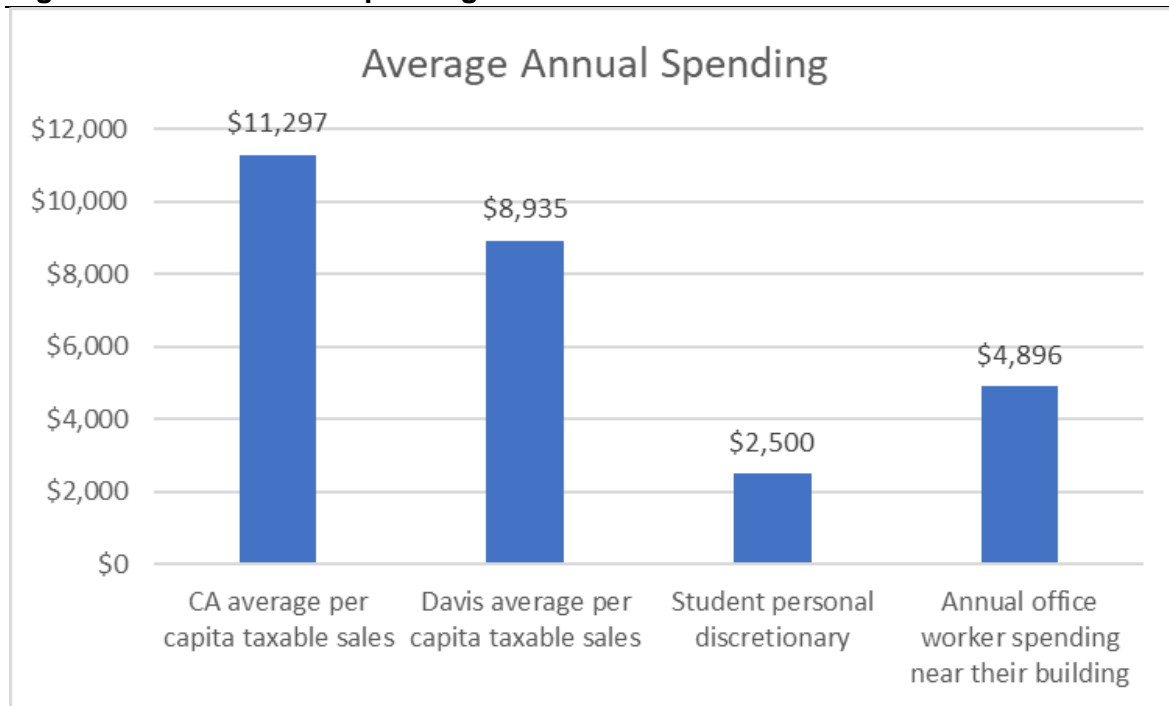
As just mentioned, the City of Davis has historically been considered to have relatively low retail sales for a city of its size. Figure 5 contains retail expenditure data that speaks to this issue. As shown on the left side of the figure, the 2016 average statewide per capita taxable sales was \$11,297. In Davis, the average per capita figure for the same year was \$8,935. Although a significant contributor to Davis' below-average spending has likely been the limited selection of retail facilities present within the city, community characteristics touched upon earlier are likely factors as well; specifically, a large student population and a large out-commuter population.

In the middle of Figure 5, the third column to the right represents an estimate of the average per capita discretionary spending for college students, based on a number of sources. If retail spending per student is less than 25 percent of the statewide average per capita spending, this indicates that retail demand in Davis may be significantly reduced as compared to another community with a similar population size that is not as heavily skewed towards students. Additionally, because students spend much of their day on campus, significant amounts of their limited discretionary spending may occur on campus as opposed to downtown or elsewhere in the City of Davis. [Note that UC Davis has indicated it will provide data regarding on-campus retail sales activity; however, as of the date of publication of this draft, university staff were still working on compiling the data. BAE anticipates that these data will be available to enable additional analysis of local retail sales activity, accounting for on-campus sales, for inclusion in the final report.]

The column at the right side of Figure 5 indicates that the typical annual purchases made by office employees near their place of work is just under \$5,000, based on a national survey

conducted by the International Council of Shopping Centers. With over 20,000 employed residents leaving the City of Davis to go to work, this represents a potentially very large quantity of local retail demand that “leaks” out to other areas. It is also true that approximately 10,000 local employees commute into Davis from other communities to work; however, as mentioned previously, there may be a significant spending differential between higher wage out-commuters and lower-wage in-commuters.

**Figure 4: Annual Retail Spending**



Sources: International Council of Shopping Centers, 2012; State Board of Equalization, BAE, 2018.

### Downtown Retail Trends

In contrast to the citywide trend, sales tax generation in Downtown Davis declined about four percent between 2008 and 2017, on an inflation-adjusted basis. Downtown represented approximately 20 percent of the citywide sales tax generation in 2017; down from almost 29 percent in 2008. Restaurants account for more than half of downtown sales tax generation, increasing from 39 percent in 2008 to 55 percent in 2017. 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.

### Retail Real Estate Market Conditions

Table 6 summarizes retail real estate market data for the City of Davis and for the CASP Area from CoStar Group. As shown in the table, the vacancy rates citywide and downtown are very low. In the case of downtown, the vacancy rates may not fully reflect all space that was vacant at the time of the CoStar surveys. Some space that is physically vacant may not be counted as

vacant in the table if the space was under lease, such as case of some of the Brinley property space on 2<sup>nd</sup> Street between E and F Streets. Also, this inventory does not include vacant space in Davis Commons, as it is technically outside of the Core Area. This includes the vacant but-still under lease former Whole Foods space.

Asking lease rates are similar in Downtown Davis and the rest of the city, with both areas exhibiting slight declines compared to 2016 rates. The Core Area represents approximately one-third of the citywide retail inventory.

**Table 6: Retail Real Estate Market Conditions**

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

Sources: CoStar, 2018; BAE, 2018.

## Key Points from Retailer/Restaurant Interviews

BAE's data collection process included interviews with a range of downtown retail, restaurant, and service businesses, property owners and real estate brokers, to gain insight into downtown trends and conditions from the perspective of downtown business people. Consistently, business owners indicated that downtown's core customers remain overwhelmingly local residents, including UCD students. Interviewees commonly cited approximately ten percent as the portion of their patronage that comes from outside of the Davis area; although many acknowledged that during certain periods, such as UC Davis graduation, visitors are more prevalent.

One interviewee noted that the renovation of the UC Davis Memorial Union and bringing food trucks on campus is keeping students on campus more, which means that students are less apt to spend time and money in downtown. Two interviewees noted that the traditional

summer season lull for downtown retail is somewhat less pronounced in recent years, attributing this to increased programming of activities on campus during the summer months. Several interviewees also expressed the idea that their patrons view downtown as an experience, and usually do multiple things per visit. Such as watching a movie, going to dinner, and having drinks, or browsing a bookstore and then getting ice cream or frozen yogurt. Recognizing this behavior, interviewees felt that bringing more activity to downtown, whether programming or new businesses would be helpful to enhancing downtown as a destination. While many thought that downtown does have an opportunity to be more successful at attracting visitors from outside of the Davis community, several also observed that there is a more immediate opportunity to encourage more Davis area residents to spend more time in downtown. Interviewees also strongly supported bringing more office and housing development to the downtown area, as well as increasing the amount of downtown programming, as a means to increase the market support for retailers and service providers.

Most interviewees felt that parking availability (particularly during peak times) is constraining capacity to bring customers downtown. Other constraints noted were the fact that Davis is surrounded by sparsely populated rural areas which; that Davis is in the shadow of the much larger Sacramento retail market and, as a result, the Davis market is viewed as too small by many national retailers.

## **Downtown Retail Opportunities**

Given limited population growth and shift towards Internet shopping, the City of Davis should strive to fill existing retail vacancies and maintain the existing inventory of retail space as retail sales continue to migrate online. Demand for downtown commercial space will come from “Internet proof” activities, such as dining, personal services, health/fitness, and businesses offering “experiences” such as lessons/classes, and activities (e.g., escape room). These changes mean that the idea of downtown’s retail function should be broadened beyond the traditional image of merchandise sales. To be successful, Downtown Davis can evolve to become an environment that provides a place where residents and visitors can pursue various activities that enhance their lifestyles, such as health/fitness/recreation, artistic and cultural endeavors, learning, dining, and socialization. Within this environment, there will be room for retail that supports and enhances these pursuits and functions as part of the downtown experience.

Given parking challenges, in the near term, the City, the Davis Downtown Business Association, and individual businesses should seek to bring more shoppers downtown during off-peak days and times, such as weekday mornings. For example, this could include consideration of moving the 2<sup>nd</sup> Friday ArtAbout event to a different day, such as Monday, when downtown is currently less active; whereas Friday evenings are very busy, even on weeks that do not have the ArtAbout. Additionally, businesses could have promotions to attract patrons during weekday morning hours, when on-street parking is usually plentiful. For the long-term, the City and stakeholders should collaborate to develop a strategy to provide for

appropriate downtown “access” for shoppers, considering potential changes in transportation and how current needs will evolve over the long term, prioritizing investments that will have the most long-term utility.

To better support existing retail businesses, to encourage new retail businesses to come into downtown, and to reinforce downtown’s role as a destination for the Davis Area and surrounding areas, the City should encourage expansion of office, housing, and arts/cultural, and recreational activities in the downtown, including additional downtown programming designed to attract local residents as well as visitors from surrounding areas.

# OFFICE MARKET CONDITIONS AND OPPORTUNITIES

## National Office Trends

The office real estate sector is evolving in response to changing workforce demographics as well as trends in the way businesses utilize office space. Businesses and office property owners recognize that the Millennial generation is becoming the largest portion of the workforce and this group has different preferences and expectations for their workplaces than their predecessors. Millennials are considered to have a preference for dynamic, mixed-use environments that are accessible via multiple transportation modes, including auto (both personal and shared), bike, transit, and walking. Companies that have traditionally been located in suburban locations have prioritized expansion in more urban locations, such as Amazon's RFP for its HQ2 project, which emphasized urban amenities, Google announcing plans to develop a major "campus" facility at downtown San Jose's Diridon multimodal station, and Menlo Park-based Facebook recently announcing it has leased an entire ¾ million-square foot building that is nearing completion in downtown San Francisco. In response to these trends, traditional suburban business parks are re-inventing themselves as mixed-use hubs, including not only a range of complementary commercial uses, but housing as well. This response was evident in the applicant's expressed interest in re-configuring of the proposed Mace Ranch Innovation Center to include housing, prior to the withdrawal of that project. Other trends affecting the office sector include a continuing focus on building efficiency, including increasing employee density in office buildings (which decreases the need for office space for a given head count) and a related trend towards "office as a service", with companies such as WeWork evolving the concept of "co-working" spaces for small businesses to "flexible" office space arrangements for businesses spanning the range from start-ups to Fortune 500 companies. Based on this model, one real estate broker interviewed for this study indicated that WeWork is now the single largest office tenant in New York City.

## Citywide Office Trends

According to SACOG estimates, the office land use category in the City of Davis as a whole includes about 2,600 employees. This represents about 17 percent of the total jobs that SACOG estimates for the city overall. SACOG's employment projections call for growth of 1,850 additional office jobs by 2040, which represents about 44 percent of the projected citywide employment growth for the period.

## Office Real Estate Market Conditions

Table 7 summarizes local office real estate market conditions. Downtown Davis represents approximately 26 percent of the citywide office market. As with the retail real estate market, office vacancies are quite low, in both the downtown and citywide. Asking office lease rates are somewhat higher in the downtown than the citywide average, indicating that downtown is a

desirable office location; however, the downtown year over year increase lagged the citywide increase. The amount of occupied downtown office space did decrease by about 10,000 square feet in 2017, which may be tied to the downsizing of the USDA’s office lease at their offices in the mixed-use project on G Street between 4<sup>th</sup> and 5<sup>th</sup> Streets. It is notable that downtown has not had new office space delivered since 2010. This is likely related to the perceived risk in developing office space on speculative basis (i.e., without a committed tenant).

**Table 7: Office Real Estate Market Conditions**

<b>Office</b>	<b>Core Area</b>	<b>City of Davis</b>
<b>Inventory, 2017 (sf)</b>	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%
<b>Asking NNN Rents, 2016-2017</b>		
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%
<b>Net Absorption, 2016-2017</b>		
Net Absorption 2016	6,325	7,101
Net Absorption, 2017	(10,144)	15,361
<b>New Deliveries, 2010-2017 (sf)</b>	0	75,615
New Deliveries (% of City of Davis)	0.0%	100.0%

Sources: CoStar, 2018; BAE, 2018.

## Key Points from Office Broker/Owner Interviews

As part of this study, BAE interviewed several key informants regarding the downtown office real estate market, including property owners and real estate brokers. Key points from the interviews confirmed that downtown is a desirable office location; however, it also poses challenges for tenants, including concerns about parking availability. Interviewees noted that due to Davis’ relatively high housing costs, many employees cannot afford to live in Davis. With limited transit connectivity to other surrounding communities, most commuter employees will drive themselves to work, creating the need for parking.

Another important observation from the interviews was the fact that Downtown Davis features mainly small-scale office spaces, which limits the size of businesses that can be accommodated in existing buildings. Further, downtown office developments will also be constrained by the limited availability of buildable sites and the relatively small size of most parcels. As in many smaller markets, Davis in general, including downtown, faces a challenge



in that attraction of office tenants is constrained by the availability of space, yet the market is small enough that speculative office construction is considered too risky, while most users either do not have sufficient lead time for a build to suit office development or they do not have sufficient capital to be able to finance a build to suit project that would meet their needs.

## **Downtown Office Opportunities**

Looking forward, office-based employment represents a large part of Davis' job growth potential. This means that solving the Catch-22 that pairs infeasibility of speculative office development with a lack of space to accommodate growing businesses will be a key to achieving Davis' economic development potential. With the constraints of Measure R and the failure of peripheral business parks to gain approvals, the limited potential for office growth elsewhere in town creates an opportunity for downtown to meet demand. The Downtown Davis environment is well positioned in relation to contemporary demand for office space in mixed-use environments and, therefore, if developers are successful in expanding the downtown office inventory, they are likely to enjoy solid demand over time.

A key challenge in downtown is small parcel sizes and lack of vacant land. Accommodating a larger company would require parcel assemblage and redevelopment. The Downtown Plan can help to alleviate the inherent challenges and risks of undertaking such a project, by creating a planning and land use policy framework that provides a clear path to approvals. Without a clear ability to achieve significantly higher densities in new development than the development that is being replaced, project economics will be such that developers will not be interested in trying to put together redevelopment projects. The Downtown Plan can help to encourage projects that increase downtown's capacity to accommodate a portion of the City's projected job growth by providing a planning framework that provides developers with a clear path to obtaining development approvals for projects that increase density.

Even with the ability to quickly secure entitlements for new projects, the economics of downtown development will likely remain challenging. Thus, to stimulate economic development, the City should consider providing assistance to help spur projects that would bring new office development and help to retain existing companies that seek to grow, or attract new companies, either of which would bring new employees and their spending to downtown. Given the increasing cost of sites for development in Downtown Davis, the City's publicly-owned downtown properties represent important assets that could be leveraged to help attract desired development.

### ***Potential Office Demand Through 2040***

To provide estimates of the potential demand for new downtown office space, BAE created two different projections of downtown office growth through 2040. The first projection assumes that the downtown area would maintain its existing 26 percent share of the citywide office inventory as the citywide office inventory grows to accommodate SACOG's projected growth in citywide office employment.

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**Table 8: Office Demand Scenario 1: Status Quo Share of Citywide Office Space**

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	<b>2017</b>	<b>Projected 2040</b>	<b>Increase 2017 to 2040</b>
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
Downtown Davis Office Inventory (b)	443,452	755,407	311,955
Downtown Davis Office Inventory as Share of Citywide	26.0%	26.0%	26.0%

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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.

As shown in Table 8, this scenario assumes that the citywide office space inventory would increase in proportion to the citywide increase in office employment. This would translate to approximately 1.2 million additional square feet of office space needed through 2040. If Downtown Davis maintains its 26 percent share of the citywide office inventory, this would translate to just over 300,000 square feet of additional downtown office space.

The second office growth scenario assumes that there is latent demand for office space in Davis related to commercial activity that spins out from research conducted at UC Davis. This scenario ties back to the analysis of potential demand for building space in proposed innovation centers that BAE conducted for the City in late 2014.<sup>3</sup>

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**Table 9: Office Scenario 2: Induced Demand Via Increased Supply**

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

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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.

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<sup>3</sup> *Economic Evaluation of Innovation Park Proposals*, BAE Urban Economics, 12-19-2014.

Table 9 shows that, based on the 2014 analysis, provision of new office space in Davis could potentially enable the city to capture demand for up to approximately 150,000 square feet of office space per year, averaged over the long-term. Over a 23-year period, this would translate to an increase of just under 3.5 million square feet of space per year. If the downtown area maintains a constant share of citywide office employment associated with this amount of new office space, this would stimulate additional downtown demand beyond that projected in the first scenario; however, this scenario also assumes that employment attracted to downtown would occupy traditional office space. As a result, the quantity of office space needed to accommodate the employment would be reduced. This scenario estimates that the amount of downtown office space demanded could be just over 582,000 square feet through 2040.

These two scenarios suggest there is potential demand for a significant amount of new office space in Downtown Davis over the next 20 years or so. Because of the largely built out status of Downtown Davis, it is likely that rather than being constrained by demand, downtown office development potential will be constrained by the availability of sites and the financial feasibility challenges related to the economics of undertaking redevelopment projects.

# RESIDENTIAL MARKET CONDITIONS AND OPPORTUNITIES

## National Housing Trends

As with office real estate, the residential real estate market is being affected by the Millennial generation's preference for dynamic urban environments where employment, entertainment, shopping and recreation are easily accessible. This has encouraged a revival of central city areas as desirable housing locations. Accompanying the aging of the Millennials, the U.S. is seeing significant demographic shifts, with more young adults delaying getting married and having families and an increase in the senior population, as the Baby Boom generation ages and lives longer than previous generations. Both of these phenomena translate to fewer households meeting the definition of a traditional married couple family with one or more children, and greater proportions of non-family households. The latter includes single people living alone and groups of unrelated individuals sharing housing. For many people in these groups, single-family detached homes are not necessarily appropriate or desirable. Alternatively, denser urban housing styles, such as townhomes, apartments, and condominiums can offer dwellings that better match contemporary lifestyles.

As part of work that BAE completed in support of the City of Sacramento's recent Central City Specific Plan, BAE analyzed the share of housing built in the central city areas of five "peer city" metro areas that were deemed similar in some respects to the Sacramento area. These included: Denver, Nashville, Portland, Minneapolis-St. Paul, and Long Beach.<sup>4</sup> Among these peer metro areas, the research indicated that the central city share of housing development ranged between 0.7 percent for Long Beach to a high of 8.3 percent in Portland. The median value was 4.1 percent in Minneapolis. These data points provide some indication of the interest among households in regions deemed similar to the Sacramento region in living in higher density urban housing types that are similar to those that are likely to be developed in Downtown Davis in the coming years. Research on buyer and tenant profiles in those market areas indicated that the most common tenant types attracted to central city housing were professional singles and couples and empty nesters.

## Citywide Residential Market Conditions and Trends

According to data from the American Community Survey, in 2015 the City of Davis housing stock included 25,626 housing units, with an overall vacancy rate of 4.4 percent. This is evidence of the strong demand for available Davis housing. More recent data for the Davis apartment market compiled on behalf of UC Davis as part of their annual apartment survey amplify this. According to the 2017 vacancy survey, completed in Fall 2017, the vacancy rate for apartment units leased on a traditional "per unit" basis was 0.1 percent, while the vacancy

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<sup>4</sup> *Sacramento Downtown Specific Plan Housing Market Analysis*, BAE Urban Economics, 12-6-2016

rate in the apartment units leased on a “per bed” basis was 1.6 percent. Both of these vacancy rates are considered extremely low for multifamily housing, where economists and planners often consider a five percent vacancy rate to be indicative of an appropriate balance between supply and demand.<sup>5</sup>

Citywide, the average residential sales price between March 2017 and March 2018 in Davis, excluding Central Davis, according to data compiled by NextHome Cornerstone Real Estate, was \$717,804.<sup>6</sup> The average sales price per square foot was \$362. According to the 2017 UC Davis apartment survey, the average apartment rental rate was \$1,673 per month.

SACOG projects that Davis area housing unit growth between 2017 and 2040 will amount to 5,086 new units.

### **Downtown Residential Conditions and Trends**

As mentioned earlier in this report, the Downtown Area has an inventory of approximately 506 housing units, most of which are occupied by renters. According to the home sales data compiled by NextHome Cornerstone Real Estate, the average Central Davis home sales price from March 2017 through March 2018 was \$768,043, and the average sales price per square foot was \$466. This last figure in particular indicates that downtown residential units command a significant (i.e. 29%) sales price premium as compared to housing units sold elsewhere in the city. The Central Davis average value is actually somewhat below the median price of \$503 per square foot reported for Downtown Area single-family homes sales, where some individual sales were as high as \$600 per square foot. Median and average sales price figures are not directly comparable; however, in real estate sales, expensive housing units tend to skew average prices above median prices; thus, the Downtown average would likely also be significantly above the citywide and Central Davis averages.

Unlike home sales prices, data from CoStar indicate that apartment rental rates are less than the citywide averages, with an estimated average rental rate of \$1,239 per month. This is likely not due to the fact that Downtown Area apartments are less desirable than comparable apartments available elsewhere in Davis but, rather, the existing downtown apartments are older and smaller than their counterparts located elsewhere in the city.

### **Key Points from Residential Real Estate Interviews**

In conducting research for this study, BAE interviewed a number of residential real estate experts regarding downtown residential real estate market conditions and trends. A prevalent theme from the interviews was that downtown is very desirable residential location and commands a premium for sales prices. Downtown is attractive to a wide spectrum of

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<sup>5</sup> 2017 Apartment Vacancy and Rental Rate Survey, BAE Urban Economics, 1-16-18

<sup>6</sup> Central Davis prices are reported separately, below.

individuals and households; including students, university employees, and empty nesters. One interviewee indicated that demand from working professionals is not as strong as it could be, because Davis has a relatively small amount of professional employment outside of the university. The suggestion was that successful economic development efforts that bring additional professional office space to the City of Davis in general, and the downtown in particular, would increase the demand for downtown housing. Currently, demand for downtown housing is strong from university affiliates (students, staff, and faculty) who would like the convenience of being able to walk or bike to campus.

### **Downtown Residential Opportunities**

There is growing housing demand within Davis, particularly from the increasing numbers of UCD students, staff and faculty. In addition, there is demand for “move-down” housing for local empty nesters. These households in particular, are likely to want homeownership. There is existing pent up demand for rental housing due to extremely low apartment vacancy rates. UC Davis reports increasing proportions of students and staff seeking housing outside of Davis, due to lack of availability and affordability, suggesting that additional demand could be captured within the City if the supply of housing is expanded. As shown below, there is likely to be substantial demand for downtown housing; however, as with other downtown land uses, the ability to support additional growth is constrained not by limits of demand, but by lack of vacant, available sites for new development.

### ***Residential Demand Scenarios***

BAE developed two residential demand scenarios that illustrate a range of potential downtown housing demand. The first scenario illustrates a continuation of status quo, whereby the downtown stock would maintain its existing 1.7 percent share of the Davis Planning Area housing stock. In this case, with a projected increase of 5,086 housing units within the planning area between 2017 and 2040, a downtown share of 1.7 percent would translate to just 86 new downtown housing units, as shown in Table 10. Table 11 presents a more aggressive scenario, which assumes that the downtown area would capture a share of Davis Planning Area housing demand that is equal to the median share observed in Sacramento metro area peer cities (4.1%). This would translate to an increase of 209 units, as shown in Table 11. BAE believes that this is a conservative number, given the numerous factors that make downtown Davis a desirable housing location, including proximity to UD Davis, the presence of shopping, dining, and entertainment amenities, transit access via the Unitrans system and the Amtrak/Capitol corridor system that serve the downtown, and a central location within the city that is accessible by car, bike, and foot.

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**Table 10: Residential Growth Scenario 1: Constant Share of Davis Area**

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	<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%

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

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**Table 11: Residential Growth Scenario 2: Targeted Share of Davis Area Growth**

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	<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)

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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 CONDITIONS AND OPPORTUNITIES

## **Downtown Arts, Culture, and Entertainment Assets**

Arts, culture, and entertainment are increasingly important components of a vibrant downtown. These types of activities tend to attract not only residents but visitors, and while they often serve as the primary draw for people to visit a downtown area, engagement in arts, cultural, or entertainment often is linked to shopping, dining, and lodging expenditures. In addition, office-based businesses are attracted to vibrant locations, to these activities become important parts of the amenity packages that businesses are seeking when deciding where to establish their operations.

Downtown Davis functions as the community's hub for arts, culture, and entertainment. Key arts-related venues in Downtown Davis include:

- Regal Holiday 6 Movie Theater
- Regal Stadium 5 Movie Theater
- Varsity Theater Movie Theater
- Pence Gallery
- Natsoulas Gallery
- The Artery (artist collective retail shop/gallery)

In addition to these commercial establishments, Downtown Davis also features many art installations of the Davis Art Walk, which includes over 30 pieces of public art throughout downtown and UC Davis. Also, the Davis Downtown Business Association promotes the 2<sup>nd</sup> Friday ArtAbout, featuring open galleries as well as additional businesses hosting art displays, on the second Friday of each month. Finally, UC Davis includes many artistic, cultural, and entertainment resources, including major anchors such as the Mondavi Performing Arts Center and the Jan Shrem and Maria Manetti Shrem Museum of Art, among others. These attractions are in close proximity to Downtown Davis.

Overall, Davis boasts an enviable range of arts, cultural, and entertainment venues, which would be difficult to replicate in a community without the presence of a major university and the resources and talent that it attracts. One area where the City appears to have a gap in assets is a small to medium-sized performing arts venue. Table 12 summarizes existing performing arts venues in Davis and shows that there is currently a gap in the availability of a small to mid-sized venue that could seat between 60 and 200 persons. In addition, there is no dedicated performing arts venue in Downtown Davis.



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**Table 12: Davis Community Performing Arts Venues**

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<u>Venue</u>	<u>Seating</u>	<u>Location</u>	<u>Comments</u>
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	

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Sources: Respective venue websites and correspondence, 2018; BAE, 2018.

### **Key points from arts, culture, and entertainment interviews**

BAE interviewed two local contacts regarding arts, culture, and entertainment opportunities in Davis. One interviewee noted that parking availability does limit capacity to bring in visitors during peak hours, particularly during weekend evenings. Also noted was that visitors attracted by arts tend to be older, which means that these patrons may be less likely to be able to walk or ride bikes to access downtown venues, further emphasizing the need to ensure there are good access options provided for all demographic groups that use Downtown Davis. These interviewees as well as retailers recognized that arts, culture, and entertainment activities help to make downtown a destination, and help to encourage visitors to spend more time in the downtown area.

### **Downtown arts, culture, and entertainment opportunities**

Arts, Culture, and Entertainment activity is needed to make downtown a destination and support retail/restaurants. A vibrant arts, culture, and entertainment scene is a critical tool to expand downtown's draw beyond local residents, and also to position downtown as a desirable place for businesses, particularly those associated with the creative economy, whose owners and employees are likely to be engaged in these activities professionally as well as for leisure-time activities. Arts, culture, and entertainment are also viewed as key amenities to attract housing and residents to downtown areas.

While downtown has many arts, culture, and entertainment assets, it 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. While the proposed arts facility by Pamela Trokanski in the Mace Ranch area may provide such a venue, there may still be an opportunity for a complementary facility in downtown.

In addition, the City, the Davis Downtown Business Association, local arts groups, and other stakeholders should seek to expand, maintain, and promote the Davis Art Walk as a key element of the downtown experience that can enhance visitor attraction and support for other arts venues and non-arts businesses in the downtown area. Along with this, maintaining and

expanding “programming” of recurring downtown events will be an important tool to attract out-of-town visitors who will support retail, restaurants, and lodging.

# LODGING MARKET CONDITIONS AND OPPORTUNITIES

## Citywide Conditions and Trends

The City of Davis is seeing strong interest in lodging development. The City has recently approved three different lodging projects, including redevelopment and expansion of one existing lodging property (University Park Inn & Suites) and construction of two new hotels, including a Hyatt House hotel in South Davis and a Residence Inn in East Davis.

While the City was in the process of reviewing the planning applications for the multiple hotel projects in 2016, the City commissioned a lodging market study by HVS Consulting and Valuation, to better understand the capacity of the Davis market to absorb additional hotels.<sup>7</sup> According to the HVS study, Davis' existing lodging was experiencing strong and growing demand, with an average occupancy rate for 2016 of just under 75 percent. The HVS research indicated that demand for Davis hotel space comes from a combination of commercial use (40 percent), leisure use (36 percent) meetings (21 percent) and extended stay (3 percent).

The HVS analysis indicated that the Davis market could support the planned expansion of lodging at the University Park Inn & Suites site (proposed to be branded as Hilton Tapestry), plus the proposed Hyatt House in South Davis. The HVS analysis indicated that the market could also support one additional extended stay hotel (East Davis hotel now proposed as Residence Inn) with continued market growth anticipated through about 2023. Given the structure of the Davis lodging market, HVS forecasted limited additional lodging demand growth in the Davis market for 2020 to 2025 and beyond, in the absence of new growth in the business sector in the local area.

While the lack of extended stay properties has been a gap in the Davis lodging market, the proposed Hyatt House and Residence Inn properties will address this need. This is viewed as an opportunity to capture demand that is currently leaking out of the Davis market. Similarly, the Davis market has lacked a more luxury-oriented hotel and/or boutique hotel, but the Hilton Tapestry hotel proposed for the University Park Inn & Suite redevelopment project will at least partially address that gap.

## Downtown Conditions and Trends

As part of the research for this study, BAE collected lodging market data for hotels located in Downtown Davis plus the Hyatt Place hotel on the UC Davis campus, from STR, a lodging industry data vendor. Table 13 summarizes the hotel properties included in the data. As

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<sup>7</sup> *New Hotel Impact & Analysis*, HVS Hospitality & Valuation, 4-11-2016

shown in the table, the existing properties are primarily considered midscale to upscale, and they provide 385 total rooms.

Figure 6 illustrates the performance trend for the selected hotels, and shows that over the last five years there has been a general upward trend in both room rates and occupancy rates, achieving an approximately 74 percent occupancy rate in 2017. This information, like the information compiled for the city overall in 2016 by HVS indicates conditions that are ripe to encourage additional hotel development.

**Table 13: Downtown and UC Davis Hotel Properties**

Year	Avg. Daily Rate	Occupancy Rate	RevPAR (a)	Room Night Demand
2012	\$109.78	67.8%	\$74.40	82,375
2013	\$114.76	71.2%	\$81.73	86,564
2014	\$120.03	71.8%	\$86.20	98,720
2015	\$125.94	75.9%	\$95.63	106,704
2016	\$134.18	73.6%	\$98.76	103,424
2017	\$140.76	74.1%	\$104.34	104,163

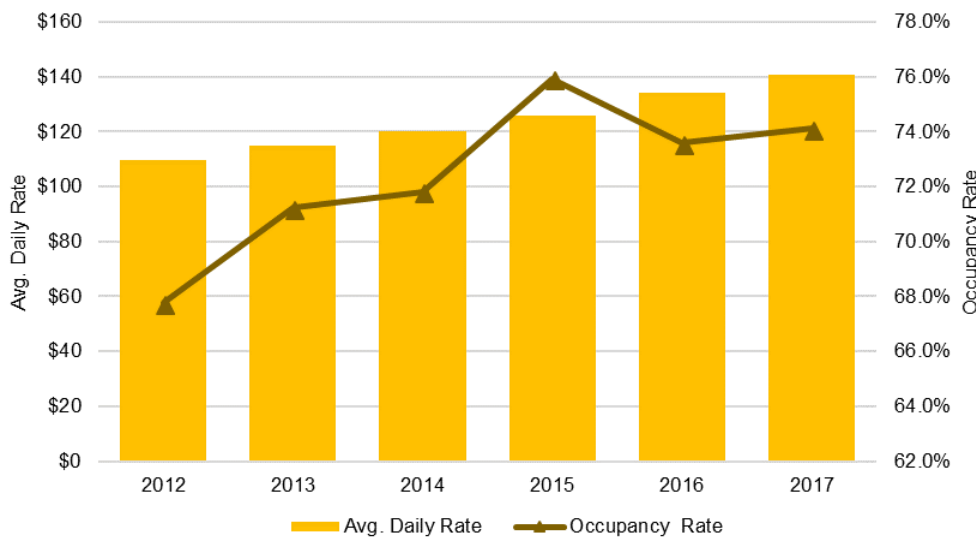
Notes:

Table summarizes data reported to STR by five hotels in the Core Area and one hotel outside but in close proximity to the Core Area (Hyatt Place UC Davis).

(a) Revenue per available room (RevPAR) is calculated by multiplying a hotel's average daily room rate by its occupancy rate.

Sources: STR; BAE, 2018.

**Figure 5: Downtown and UC Davis Hotel Performance 2012-2017**



Notes:

Table summarizes data reported to STR by five hotels in the Core Area and one hotel outside but in close proximity to the Core Area (Hyatt Place UC Davis).

Sources: STR, 2018; BAE, 2018.

Although the data from the HVS study indicated that the largest component of demand for Davis hotels was commercial activities, the STR data indicate that the occupancy rates for the Downtown and UC Davis hotel is highest on Friday and Saturday nights, and lowest on Sunday and Monday nights, which suggests that there is a strong leisure component of demand for downtown hotels (i.e., weekend travel).

### **Key Points from Hotelier Interviews**

BAE interviewed several hotel operators as part of the research for this study, who indicated that downtown is a desirable hotel location due to proximity (walkable) to campus, and felt that downtown hotel locations are distinct from Davis' other freeway-oriented hotels, with the downtown location providing a more peaceful setting.

Lodging interviewees corroborated the STR data, indicating that that occupancy is strong and growing. One interviewee felt that there is room for more hotels, but that the currently planned and proposed projects may adequately satisfy demand. Perhaps recognizing the importance of leisure travel for the downtown and UC Davis hotels, one interviewee noted that more programming and events, especially annual events that build a following over the years, would be beneficial to increasing downtown lodging demand. Further, it was noted that if the City can attract more corporate tenants to establish operations in the Davis, this will also stimulate more business lodging demand.

### **Downtown Lodging Opportunities**

Based on the available data and analyses, it appears that currently approved new lodging projects will help to satisfy expected lodging demand through 2023. Two new extended hotel stays and a new luxury-oriented hotel will help to address existing under-served market segments in Davis. HVS expects only limited additional lodging demand beyond 2023, unless the City is able to stimulate significant new business growth or visitor attraction.

Beyond 2023, Downtown Davis would be an attractive location for another hotel, potentially a boutique style hotel whose patrons would value the downtown experience as opposed to the freeway-oriented locations elsewhere in the City that do not have the same access to dining, entertainment, shopping, and other amenities found in downtown. The Downtown Plan should provide the option to accommodate at least one additional hotel, as additional lodging will increase the capacity to attract out-of-town visitors to the downtown area, which will bolster support for restaurants, retail, and services.

# FINANCIAL FEASIBILITY ASSESSMENT

In support of the April 2018 participatory design workshop, BAE prepared a pro-forma financial feasibility assessment tool to provide preliminary evaluation of whether design concepts considered as part of the workshop process would be economically viable. BAE designed the tool to have flexibility to evaluate the feasibility of retail, office, and residential (for-sale and for-rent) projects, including mixed-use projects. In addition, the model has ability to factor in different types of parking (surface parking, stacked parking, podium parking, or subterranean parking) as well as payment of a parking in-lieu fee rather than providing on-site parking and also payment of an in-lieu fee for affordable housing units.

A pro-forma financial analysis models the costs of developing a real estate project and then calculates the financial returns (either net rental income for net sales proceeds) to the developer. Then the rate of financial return is compared to a target rate of return that is considered acceptable under current market conditions, to determine if the project would be financially attractive to developers, investors, and lenders.

## Development Cost Assumptions

BAE collected information to serve as the basis for model cost inputs from a range of sources, as indicated below.

### *Land Costs*

BAE estimated costs for downtown land for development projects based on the sales prices of various properties that have sold in Downtown Davis. There have been few sales of vacant land in the Downtown in recent years; thus, land costs are indicated by purchase prices of properties that have relatively old structures that have been, or will likely be, torn down and replaced with new development. For the purposes of this exercise, BAE has assumed a site acquisition cost of \$150 per square foot.

### *Demolition Costs*

Based on consultations with local contractors and prior experience, BAE estimated a demolition cost of approximately \$5 per lot square foot<sup>8</sup>, for removal of old structures.

### *New Construction Costs*

BAE estimated new construction costs on a per net rentable/sellable square foot basis, based on interviews with local contractors and developers. Construction costs include necessary site preparation, onsite utility connections, and vertical construction to produce leasable or sellable space. In the case of retail and office space, the construction costs assume

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<sup>8</sup> This is referencing the lot area, assuming that existing buildings on most properties subject to redevelopment will typically be low-density, single-story wood frame buildings.

construction of shell space with a limited amount of tenant improvements (TIs). Corresponding income assumptions assume this limited level of TIs. To the extent that tenants require additional TIs, it is assumed the tenant will pay for the additional improvements up-front or that an increased rental rate will be negotiated. The pro-forma model assumes base construction costs ranging between \$200 and \$255 per square foot, depending on the use type, plus additional TIs of \$25 per square foot for office and retail spaces.

### ***Parking Costs***

Based on interviews with local developers and contractors, plus experience with other projects, BAE estimated parking construction costs will range from a low of \$3,000 per surface parking space, to \$12,000 per space for spaces created using car stacking systems, to \$30,000 per space for podium parking, to \$45,000 per space for subterranean parking space. The financial model also includes an assumption of \$8,000 per space for projects paying a parking in-lieu fee.

### ***Soft Costs***

Developers incur a range of miscellaneous costs when undertaking development projects, including professional fees for architects, engineers, and other professional service providers, and their own company overhead. BAE estimated soft cost costs as a percentage of demolition and vertical construction costs. Based on conversations with developers and experience with other projects, BAE estimated this item at 20 percent of demolition and construction costs. This does not include permit/fee costs or financing costs, which are discussed below.

### ***Permit/Fee Costs***

City of Davis staff compiled permit and fee cost information for a range of recent Downtown development projects. BAE then converted those costs to average per unit costs for residential units and average per square foot costs for retail and office space. Based on the information provided, the model assumes average residential costs of \$28,000 per unit, average retail costs of \$40 per square foot, and average office costs of \$20 per square foot. Given that many future Downtown development projects will involve redeveloping sites with existing buildings, BAE also calculated average fee credits per existing residential unit removed (\$16,500), and average fee credits per existing square foot of commercial space (i.e., office or retail) removed (\$25).

### **Financing Costs**

The pro-forma model assumes that Downtown development projects will typically be financed using a combination of developer equity and conventional bank financing. The bank financing terms are based on interviews with a range of local construction lenders, and assume that a developer would be able to finance 65% of the project cost, at an annual interest of 6.0 percent. The model assumes that banks would charge a 1.5% loan fee. To calculate

construction period interest, the model assumes an 18 month development period and that the average outstanding loan over the period would be 0.55 percent of the total loan amount.

## **Project Income**

### ***Rental Income***

For apartments, retail space, and office space, the pro-forma model assumes that the developer would hold the completed property and lease it out as an income-generating asset. Recognizing that the pro-forma exercise is modeling new development, BAE assumes that the completed projects will command rents that are at the high end of the local market. The model assumes \$2.50 per square foot per month for rental apartments, \$2.90 for office space, and \$2.50 for retail space.

### ***Sales Income***

In addition to rental apartments, the pro-forma model can evaluate development of for-sale residential units (e.g., condominium units). The model assumes a selling price of \$500 per square foot for condominiums. The model converts gross sales revenue to net sales revenue by subtracting sales costs of six percent.

## **Operating Cost Assumptions**

For investment properties that a developer would own and lease to tenants once the construction is completed (i.e., rental apartments, retail, and office space), it is necessary to net out operating costs from income, to determine the developer's return on the development costs.

### ***Rental Apartments***

For rental apartments, operating costs are expressed as a percentage of potential rental income. Given the relatively high rents assumed for Downtown apartments and the fact that downtown apartments will typically not have large common areas and expensive amenities such as clubhouses, pools, etc., BAE has assumed an operating expense ratio of 22 percent of rental revenues.

### ***Office and Retail Space***

The pro-forma tool is set up to assume that retail and office rents are collected on a triple-net basis, meaning that in addition to a base triple-net rent, the retail and office tenants will be responsible for their pro-rata share of the building's operating expenses, in addition to paying their own utility and janitorial costs. Based on this assumption, the pro-forma model incorporates a two percent operating cost ratio for retail and office space, which would represent limited ongoing owner costs that are not passed through to the tenants.



## Feasibility Targets

To determine if prototype projects are financially feasible, it is necessary to establish an assumption about the level of project profitability that will be necessary to attract interest from developers and their investors and lenders. Based on consultation with developers and lenders in conjunction with this study and experience with other projects, BAE established feasibility targets as follows:

- 8.5% yield on cost for income-producing projects
- 10.0% return on cost for for-sale projects

For an income-producing project, yield on cost is defined as net operating income divided by total project cost. For a for-sale project, return on cost is defined as net sales proceeds divided by total project cost. For a mixed-use project that includes a combination of for-sale residential units and rental commercial space, a hybrid measure is used, which involves estimating the total project return on cost considering net residential sales proceeds plus a capitalized value of the rental space, divided by the total project cost. The capitalized value of the rental space is defined as the net operating income divided by a market-based capitalization rate, which is assumed to be 6.0 percent for rental apartments and 7.0 percent for retail and office space. For this hybrid approach, the targeted feasibility threshold is 10.0 percent return on cost.

## Prototype Projects

As part of the April 2018 Participatory Design Workshop process, Opticos considered a range of development types that could be representative of the types of projects that developers might undertake in Downtown Davis, considering the existing land use pattern, parcel sizes, preliminary findings regarding potential market demand, urban design considerations, and input received from the public during the Participatory Design Process. Based on these considerations, Opticos requested that BAE use the pro-forma model to analyze the following different general design prototypes:

- **Small Lot Residential; No Onsite Parking**

This project assumes a 6,000 square foot lot with one existing single-family residential structure in place would be redeveloped with multistory residential units. This scenario allows for testing of the feasibility of downtown redevelopment under a “low-cost” approach, since it would avoid parking costs and enable increased leasable/salable space. Variations of this prototype included versions with eight rental units, 12 rental units, 12 for-sale units, and 12 for-sale units that incorporate payment of an affordable housing in-lieu fee.

- **Medium Lot Mixed Use Residential Over Retail; 30 Stacked Parking Spaces**

This project assumes that a 12,000 square foot lot with a small existing commercial building is redeveloped with a mixed-use building that includes 7,200 square feet of retail space on the

ground floor and multifamily residential units on the upper floors. This prototype also assumes that parking is provided at the rear of the property using car stackers which fit two cars in the footprint of a single surface parking lot space. Variations of this prototype include versions with 40 rental units, 50 rental units, 33 owner units, and 33 owner units with affordable housing in-lieu fee payment.

- **Medium Lot Mixed Use Office Over Retail; 30 Stacked Parking Spaces**

Like the Medium Lot Mixed Use Residential Over Retail project, this project assumes that a 12,000 square foot lot with a small existing commercial building is redeveloped with a mixed-use building that includes 7,200 square feet of retail space on the ground floor, but substitutes office space for residential units in the upper floors. Variations of this prototype include 32,000 square feet of office space or 40,000 square feet of office space.

### **Pro-Forma Feasibility**

Following is a table summarizing the feasibility results for the different prototype project variants.

Table 14 shows that none of the small lot residential project prototypes are feasible under current conditions<sup>9</sup>; however, the results indicate that project economics tend to improve as the number of units increases. Also, it appears that converting to ownership units could be beneficial; however, it should be acknowledged that the pro-forma model does not fully account for the dis-economies of scale that occur with development of a small (i.e., 12-unit) condominium project.

Similarly, the middle part of Table 14 indicates that the medium-lot mixed-use prototypes with residential units above retail are not feasible, except the variant with 33 owner units (without affordable housing in-lieu fee). The 33 owner unit project just clears the ten percent gross profit feasibility threshold, but if an affordable housing in-lieu fee is assessed assuming a ten percent affordable housing requirement, and a \$75,000 per affordable unit in-lieu fee, the estimated gross profit drops below the ten percent threshold.

Finally, the mixed-use prototypes with office over retail do not appear feasible under current economic conditions, although increasing the amount of office space from 30,000 to 38,000 square feet does help to improve feasibility. It is possible that an office developer who is very confident in their ability to successfully develop the project and secure credit-worthy tenants to

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<sup>9</sup> There have been instances of smaller residential projects having been completed in downtown Davis in recent years, such as the 4-unit Park View Place project. All development projects are subject to their own unique circumstances and may vary from the “prototype” development assumptions listed herein due to changed economic conditions over time and numerous other factors. The modeling assumptions attempt to be generally representative of the conditions that new projects would face under existing economic conditions.

rent the space on fairly long-term leases would undertake this type of project under current conditions.

These results indicate that under current conditions, it will be very difficult for developers to undertake projects similar to the prototype projects, with a few exceptions. As mentioned previously, it appears that a medium-sized mixed-use project incorporating high density for-sale residential units could be feasible. It is likely that a similar project that omits the retail component and replaces it with additional for-sale residential units would also be feasible; however, in both cases, feasibility would be tenuous and imposition of significant affordable housing requirements or other requirements that increase project costs could tilt the projects away from feasibility.

**Table 14: Pro-Forma Feasibility Summary**

	<b>Rental 8 units</b>	<b>Rental 12 units</b>	<b>Owner 12 Units</b>	<b>Owner 12 Units w/In-Lieu</b>
<b>Small Lot Residential; No Parking</b>				
Gross Profit on Total Cost	n.a.	n.a.	7.70%	5.90%
Yield on Cost	5.10%	5.70%	n.a.	n.a.
Feasible/Not Feasible	Not Feasible	Not Feasible	Not Feasible	Not Feasible
<b>Medium Lot MXD Retail/Residential 30 Parking Spaces</b>	<b>Rental 40 units</b>	<b>Rental 50 units</b>	<b>Owner 33 units</b>	<b>Owner 33 units w/In-Lieu</b>
Gross Profit on Total Cost	n.a.	n.a.	10.30%	8.50%
Yield on Cost	6.50%	6.70%	n.a.	n.a.
Feasible/Not Feasible	Not Feasible	Not Feasible	Feasible	Not Feasible
<b>Medium Lot MXD Retail/Office 30 Parking Spaces</b>	<b>30,000 sq. ft. office</b>	<b>38,000 sq. ft. office</b>		
Gross Profit on Total Cost	n.a.	n.a.		
Yield on Cost	7.10%	7.30%		
	Not Feasible	Not Feasible		

Source: BAE, 2018.

It should also be recognized that the pro-forma analysis models project feasibility strictly from the standpoint of investor/developers, and not from the standpoint of owner/users. For the owner/user, the evaluation of “feasibility” may be influenced by considerations of establishing control of the premises where they operate their business, the opportunity to building equity by owning real estate over the long-term and controlling future escalation of occupancy costs, and availability of financing on favorable terms, such as from the US Small Business Administration (SBA). In fact, many of the recent downtown commercial real estate development projects have been undertaken by owner/users, including the Pizza 101 project at 3<sup>rd</sup> and B Street (under construction), the mixed-use office/laboratory over residential project on C Street between 2<sup>nd</sup> and 3<sup>rd</sup> Streets, and the Coldwell Banker real estate office at the corner of 2<sup>nd</sup> and D Street.

Finally, the pro-forma feasibility analysis estimates development feasibility under generalized assumptions. Individual real estate development projects will have their own unique circumstances that affect development feasibility. For example, a long-time owner of a downtown property that contains old, obsolescent buildings, may be able to undertake a redevelopment project and benefit from substantially different project economics versus a developer who must first acquire a development site at current market prices. As mentioned previously, tenant quality can also have a significant impact on project feasibility, because perceived project risk is reduced, which can justify a lower rate of return for the development. In addition, a developer who is building for a high-quality tenant may also be able to obtain more favorable financing terms.

Notwithstanding the comments above, it is still reasonable to conclude that development feasibility in Downtown Davis is challenging under current conditions. It should also be recognized that the Downtown Davis Plan will establish the long-term vision for the evolution of the area. The feasibility or infeasibility of certain development types is based on current conditions, and it is very likely that development feasibility will change along with cyclical economic conditions that can be expected over the life of the Plan. Thus, current financial feasibility results should not be a driving factor in determining the desired forms of development for the downtown area. On a policy level, the takeaways from the feasibility analysis should be that developers undertaking speculative real estate development projects in Downtown Davis face unique challenges, including scarcity of sites, high site acquisition costs, and limited profitability. There are important ways that the City of Davis can positively influence development feasibility, including:

- Reduce project risk and project timelines by establishing clear planning guidelines for the desired development types and reducing or eliminating discretionary review processes
- Allow increased densities, so that developers can achieve greater efficiencies of scale on the limited number of available sites, including better spreading the high cost of site acquisition
- Limit requirements imposed on downtown development projects which would translate to increased costs that do not bring corresponding revenue increases
- Consider entering into public-private partnerships with developers to help put together feasible development projects that attract new businesses to downtown. This could include utilization of City-owned land on terms that help to bridge feasibility gaps where there is an expected return on the City's involvement.

# OVERALL CONCLUSIONS

## Downtown Growth Potential

Downtown growth has not kept pace with community growth, yet 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, if the community desires. Downtown growth potential is limited by lack of available sites; not lack of demand (except potentially in the retail real estate sector where there is limited market potential for merchandising retail, due to shifting shopping patterns). 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.

Parking supply remains a near-term concern for all real estate sectors, so a key challenge will be to accommodate immediate concerns regarding parking supply and availability, while ensuring that significant investments will have long-term utility as transportation technology evolves at a rapid rate.

A Downtown 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. City assistance in the form of public-private partnerships, by leveraging available public assets, such as land, can help to stimulate the types of development that are desired for downtown, and serve as catalyst for further private investment.

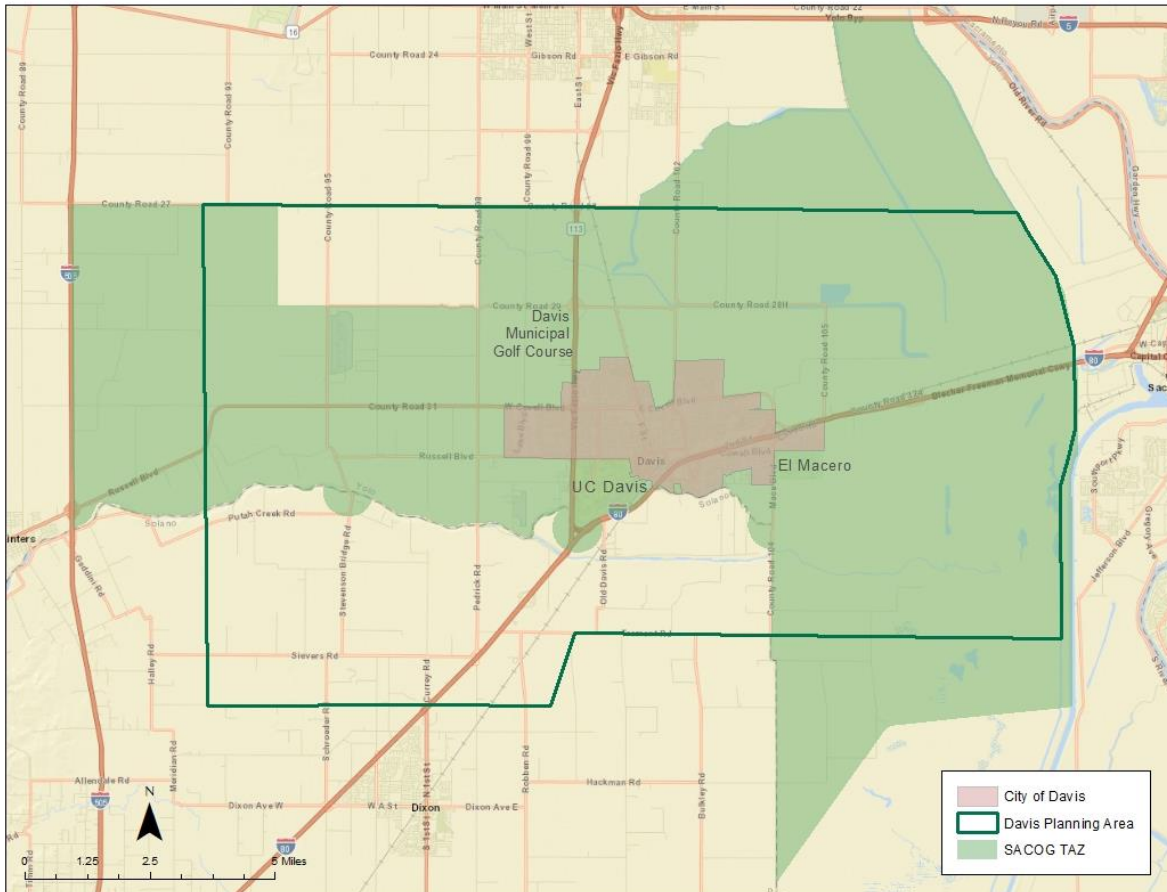
## Summary of Demand Potential

Following is a summary of the downtown growth opportunities identified in this report:

- 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 Downtown Area in the mid to long-term

# APPENDIX A: DAVIS PLANNING AREA (SACOG TRANSPORTATION ANALYSIS ZONE-BASED

**Figure: A-1: Davis Planning Area Traffic Analysis Zone (TAZ) Definition**



Sources: City of Davis; SACOG 2016; BAE, 2018.

**Appendix: A-2: Davis Planning Area Traffic Analysis Zone (TAZ) Definition**

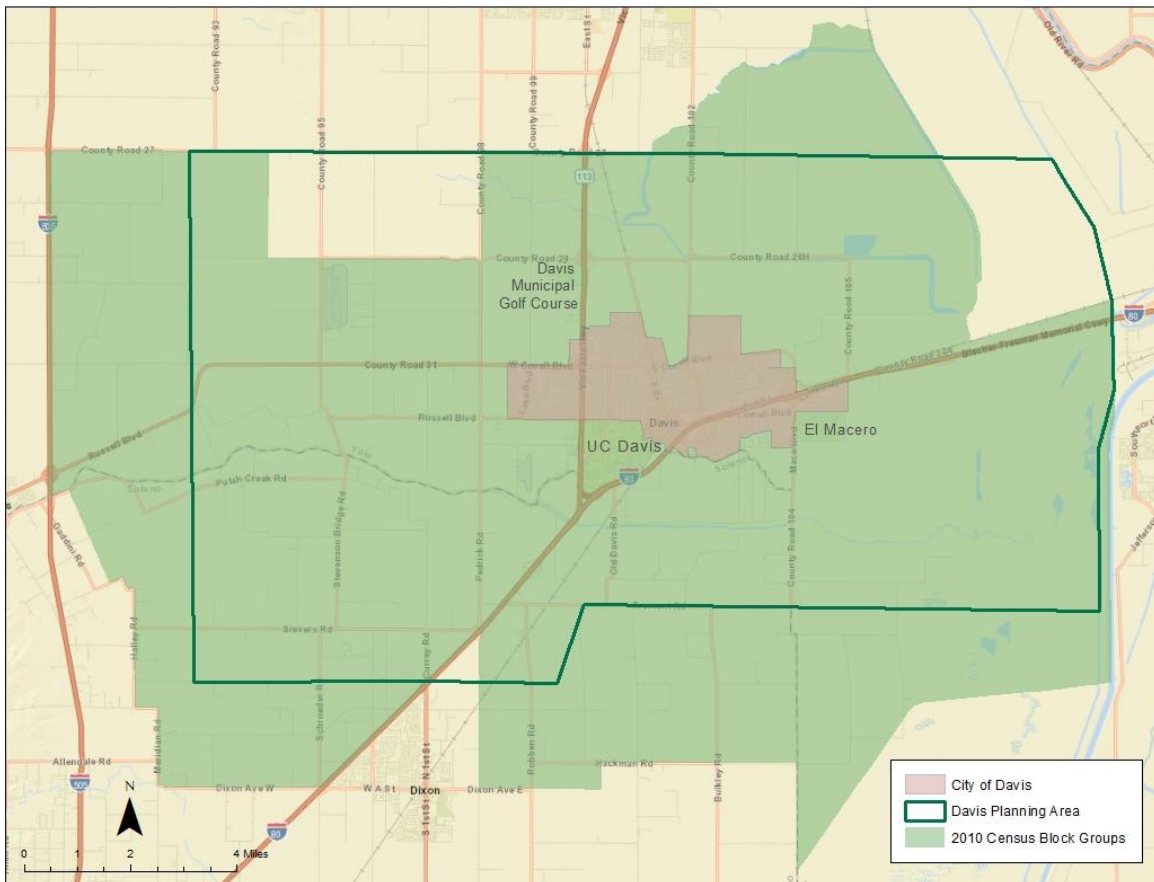
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<b>TAZ ID</b>	<b>Regional Analysis District (RAD)</b>	<b>TAZ ID (Cont.)</b>	<b>Regional Analysis District (RAD)</b>
20	Gateway	100	Davis
21	Gateway	101	Davis
22	Gateway	102	Davis
81	Davis	103	Davis
82	Davis	104	Davis
83	Davis	105	Davis
84	Davis	106	Davis
85	Davis	107	Davis
86	Davis	108	Davis
87	Davis	109	Davis
88	Davis	110	Davis
89	Davis	111	Davis
90	Davis	112	Davis
91	Davis	113	Davis
92	Davis	114	Davis
93	Davis	148	Yolo Causeway
94	Davis	813	Davis
95	Davis	814	Winters
96	Davis	862	Davis
97	Yolo Causeway	987	Davis
98	Yolo Causeway	1080	Davis
99	Davis	1141	Davis

Sources: SACOG, 2016; BAE, 2018.

# APPENDIX B: DAVIS PLANNING AREA (U.S. CENSUS BLOCK-GROUP-BASED)

**Figure B-1: Davis Planning Area, Census 2010 Block Group Definition**



Sources: City of Davis; U.S. Census Bureau, 2010; BAE, 2018.



**Appendix B-2: Davis Planning Area Census Block Group Definition, Census 2010**

<b>Block Group ID</b>	<b>Definition</b>
60952533002	Block Group 2, Census Tract 2533, Solano County, California
61130104011	Block Group 1, Census Tract 104.01, Yolo County, California
61130104012	Block Group 2, Census Tract 104.01, Yolo County, California
61130105011	Block Group 1, Census Tract 105.01, Yolo County, California
61130105012	Block Group 2, Census Tract 105.01, Yolo County, California
61130105051	Block Group 1, Census Tract 105.05, Yolo County, California
61130105052	Block Group 2, Census Tract 105.05, Yolo County, California
61130105053	Block Group 3, Census Tract 105.05, Yolo County, California
61130105081	Block Group 1, Census Tract 105.08, Yolo County, California
61130105091	Block Group 1, Census Tract 105.09, Yolo County, California
61130105092	Block Group 2, Census Tract 105.09, Yolo County, California
61130105101	Block Group 1, Census Tract 105.10, Yolo County, California
61130105102	Block Group 2, Census Tract 105.10, Yolo County, California
61130105103	Block Group 3, Census Tract 105.10, Yolo County, California
61130105104	Block Group 4, Census Tract 105.10, Yolo County, California
61130105111	Block Group 1, Census Tract 105.11, Yolo County, California
61130105112	Block Group 2, Census Tract 105.11, Yolo County, California
61130105121	Block Group 1, Census Tract 105.12, Yolo County, California
61130105122	Block Group 2, Census Tract 105.12, Yolo County, California
61130105131	Block Group 1, Census Tract 105.13, Yolo County, California
61130105132	Block Group 2, Census Tract 105.13, Yolo County, California
61130106021	Block Group 1, Census Tract 106.02, Yolo County, California
61130106022	Block Group 2, Census Tract 106.02, Yolo County, California
61130106023	Block Group 3, Census Tract 106.02, Yolo County, California
61130106024	Block Group 4, Census Tract 106.02, Yolo County, California
61130106051	Block Group 1, Census Tract 106.05, Yolo County, California
61130106052	Block Group 2, Census Tract 106.05, Yolo County, California
61130106061	Block Group 1, Census Tract 106.06, Yolo County, California
61130106062	Block Group 2, Census Tract 106.06, Yolo County, California
61130106063	Block Group 3, Census Tract 106.06, Yolo County, California
61130106064	Block Group 4, Census Tract 106.06, Yolo County, California
61130106065	Block Group 5, Census Tract 106.06, Yolo County, California
61130106071	Block Group 1, Census Tract 106.07, Yolo County, California
61130106072	Block Group 2, Census Tract 106.07, Yolo County, California
61130106073	Block Group 3, Census Tract 106.07, Yolo County, California
61130106081	Block Group 1, Census Tract 106.08, Yolo County, California
61130106082	Block Group 2, Census Tract 106.08, Yolo County, California
61130106083	Block Group 3, Census Tract 106.08, Yolo County, California
61130107011	Block Group 1, Census Tract 107.01, Yolo County, California
61130107012	Block Group 2, Census Tract 107.01, Yolo County, California
61130107013	Block Group 3, Census Tract 107.01, Yolo County, California
61130107014	Block Group 4, Census Tract 107.01, Yolo County, California
61130107031	Block Group 1, Census Tract 107.03, Yolo County, California
61130107032	Block Group 2, Census Tract 107.03, Yolo County, California
61130107033	Block Group 3, Census Tract 107.03, Yolo County, California
61130107034	Block Group 4, Census Tract 107.03, Yolo County, California
61130107041	Block Group 1, Census Tract 107.04, Yolo County, California
61130113002	Block Group 2, Census Tract 113, Yolo County, California

Sources: US Census Bureau, Census Tiger Files, 2017; BAE, 2017.

## APPENDIX C: LIST OF INTERVIEWEES

<b>Name</b>	<b>Organization</b>
Alzada Knickerbocker	Avid Reader/Avid Reader Active
Amanda Mason	Lyon Real Estate
Anthony Ruebner	R2 Property
Bri Maloney	Best Western Palm Court/Royal Guest Hotels
Ciana Wallace	Good Home Group Davis, RE/MAX Gold
Chuck Roe	Pyramid Construction
David Pitcher	Regal Theaters #6
Ed Maeda	NextHome Cornerstone Real Estate
Eileen Hendren	Pence Gallery
Jim Gray	Cushman & Wakefield
Jim Raulien	Regal Theaters #5
Jim Stephens	Browman Properties
John Natsoulas	John Natsoulas Gallery
Jolie	Miyamo
Jose Lopez	Lu'Ro Jewelers
Lisa Lias	La Renew Skin Care
Lynn Yackzan	Yackzan Group
Matt De Fazio	Brown Construction
Michael Bisch	Davis Commercial Properties
Nahz Anvary	Cushman & Wakefield
Niel Cordero	DesCor Builders
Rocket Roquet	Hyatt Place (UC Davis)
Scout Judd	Fleet Feet
Sinisa Novacovic	Varsity Theater/Mishka's Café
Soledad Sandoval	Bank of the West
Stacia Rusakowicz	Pomegranate Salon
Stephen Barney	F&M Bank
Stephen Layton	The Good Scoop
Steve Harrison	Harrison Construction
Stewart Savage	Davis Downtown Business Associate
Sumi Yee	Chen Building
Will Arnold	Mother and Baby Source

Note: This report incorporates information obtained from personal contacts with a number of other individuals who preferred not to be identified.