DOWNTOWN PLAN
ECONOMIC ANALYSIS
PRELIMINARY FINDINGS

Davis, CA
April 19, 2018
ECONOMIC CONTEXT
DOWNTOWN CHARACTERISTICS

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

- Residents in General Plan Planning Area
  - 2017: 82,058
  - Projected 2040: 99,218

- Residents in Core Area Specific Plan Area
  - 2017: 1,083
  - Share of Davis Area: 1.3%
CHANGE IN DAVIS AGE DISTRIBUTION

Age Group by % of Total Population, 2000 and 2015

- Under 18
- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65-74
- 75-84
- 85 years & over

- 2000
- 2015
EMPLOYMENT

- Jobs in General Plan Planning Area
  - 2017: 39,956
  - Projected Growth: 46,086 by 2040

- Jobs in Core Area Specific Plan Area
  - 2017: 2,482
  - Share of Davis Area: 6.2%
UC DAVIS

- Enrollment (Main Campus)
  - 2015/2016: 32,663
  - Projected Growth: 39,000 by 2027/2028

- Employment
  - 2015/2016: 12,181
  - Share of Davis Area: 42%
  - Projected Growth: 14,500 by 2027/2028
STUDENTS AS PART OF DAVIS GENERAL PLAN AREA POPULATION GROWTH THROUGH 2028

- New Population, 2017 to 2028: 6,790
- New UCD Enrollment, 16/17 to 27/27: 5,342
- Potential % of Enrollment Living in Davis: 80%
- New UCD Enrollment Living in Davis: 4,273
- New UCD Enrollment as % of New General Plan Area Growth 2017 to 2028: 63%
CITY OF DAVIS COMMUTE PATTERN, 2015
WHERE DO PEOPLE IN DOWNTOWN COME FROM?

- Data include employees and residents – anyone “present”
- People in downtown are overwhelmingly local
- Outside of Davis area, largest group comes from Sacramento
- Weekends and nights draw only slightly more out-of-towners
- Most downtown business interviewees thought about 10% of customers come from out of the immediate Davis area
DOWNTOWN BUSINESS LICENSES, 2007 AND 2017

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

- Trackside Center, 901-919 3rd St. – 27 apt. units and 8,950 sq. ft. retail/restaurant (net 2,875 sq. ft. commercial reduction)

- 213-217 C Street – 2 res. units and 14,064 sq. ft. office

- Pizza 101, 3rd & B – 2,500 sq. ft. restaurant

- Hilton Tapestry Hotel, Richards Blvd. - 60 net new hotel rooms
RECENT DOWNTOWN PROPERTY SALES

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

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

What about bank branches?
- Trend towards online banking
- Fewer branches
- Branches becoming smaller in size
- Bank branches not easily re-purposed for retail/services
Inflation-adjusted sales tax revenues are up 10% since 2008

City’s most important sector is vehicle sales (35% of total), followed by restaurants (19%), followed by service stations (11%); and food stores (7%)

Key sectors with disproportionate growth were vehicle sales and restaurants
DOWNTOWN RETAIL TRENDS

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

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

11 banks in Downtown Davis, occupy 70,000+ square feet of space
RETAIL SPENDING PATTERNS

Average Annual Spending

- CA average per capita taxable sales: $11,297
- Davis average per capita taxable sales: $8,935
- Student personal discretionary: $2,500
- Annual office worker spending near their building: $4,896
RETAIL MARKET CONDITIONS

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

<table>
<thead>
<tr>
<th></th>
<th>Core Area</th>
<th>City of Davis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory, 2017 (sf)</td>
<td>759,921</td>
<td>2,234,786</td>
</tr>
<tr>
<td>Inventory (% of City of Davis)</td>
<td>34.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Occupied Stock (sf)</td>
<td>731,463</td>
<td>2,144,945</td>
</tr>
<tr>
<td>Vacant Stock (sf)</td>
<td>27,088</td>
<td>66,862</td>
</tr>
<tr>
<td>Vacancy Rate</td>
<td>3.6%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

**Asking NNN Rents, 2016-2017**

- Average Asking Rent (psf), 2016: $1.81 - $1.82
- Average Asking Rent (psf), 2017: $1.73 - $1.68
- % Change 2016 - 2017: -4.4% - 7.7%

**Net Absorption, 2016-2017**

- Net Absorption 2016: -635 - 18,815
- Net Absorption, 2017: 766 (743)

**New Deliveries, 2010-2017 (sf)**

- 4,950 - 121,649
- New Deliveries (% of City of Davis): 4.1% - 100.0%

Sources: CoStar; BAE, 2018
Downtown’s core customers remain overwhelmingly local residents, including UCD students; but renovation of MU and bringing food trucks on campus is keeping students on campus more.

Summer season declines may be lessening due to increased activity at UCD during summer.

Patrons view downtown as an experience and usually do multiple things per visit; more variety would help.

Interviewees strongly supported bringing more office and housing development downtown, to support retail.

Parking availability is viewed as constraining capacity to bring customers downtown at peak times.

Many national retailers indicate that the Davis trade area is too small and is shadowed by Sacramento.

Attracting more Davisites downtown is as big an opportunity as attracting more out-of-towners; need more programming.
DOWNTOWN RETAIL OPPORTUNITIES

- Given limited population growth and shift towards Internet shopping; strive to fill retail vacancies and maintain existing inventory
- Demand will come from “Internet proof” activities, such as dining, personal services, health/fitness, and businesses offering “experiences” such as lessons/classes, activities (e.g., escape room)
- Seek opportunities to bring more shoppers downtown during off-peak times, such as weekday mornings
- Expanding office, housing, and arts, cultural, and recreational activities in downtown will support retail and reinforce downtown as a destination
Millennial workforce preference for dynamic urban environments
Trend towards re-vamping business parks as mixed-use districts
Increasing office employment densities = less space needed per employee
CITYWIDE OFFICE TRENDS

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

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

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

Sources: CoStar; BAE, 2018
Downtown has limited capacity to accommodate larger businesses
  • Most office tenants don’t have sufficient lead times for build to suit office space
  • Speculative office development is not currently feasible

Office tenants are concerned with parking — Davis housing is too expensive for many employees, so they drive to work from surrounding areas
Office-based employment represents a large part of Davis’ job growth potential.

Downtown has many of the attributes that traditional business parks are trying to emulate.

Limited potential for office growth elsewhere in town creates an opportunity for downtown to meet demand.

Challenge in downtown is small parcel sizes and lack of vacant land – accommodating a larger company would require parcel assemblage and redevelopment.

It will be difficult to capture growth without speculative office development; accommodate short lead times.
OFFICE GROWTH SCENARIO 1: STATUS QUO SHARE OF CITYWIDE OFFICE SPACE

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

Notes:
(a) Assumes citywide office square footage increases in proportion to increase in office employment. Does not account for changes in employment density.
(b) Assumes that downtown maintains constant share of citywide office inventory.

Sources: CoStar, 2018; SACOG, 2018; BAE, 2018.
## OFFICE GROWTH SCENARIO 2: INDUCED DEMAND VIA INCREASED SUPPLY

<table>
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<tr>
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<th>2017</th>
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<tbody>
<tr>
<td>City of Davis Office Inventory (a)</td>
<td>1,708,253</td>
<td>5,158,253</td>
<td>3,450,000</td>
</tr>
<tr>
<td>Downtown Davis Office Inventory (b)</td>
<td>443,452</td>
<td>1,025,591</td>
<td>582,139</td>
</tr>
<tr>
<td>Downtown Davis Office Inventory as Share of Citywide</td>
<td>26.0%</td>
<td>26.0%</td>
<td>16.9%</td>
</tr>
</tbody>
</table>

**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.
Millennial preference for dynamic urban environments

Trend towards downtown housing

Downtown housing growth as share of new metro housing in five Sacramento peer metros ranged from 0.7 percent (Long Beach) to 8.3 percent (Portland) with a median of 4.1% (Minneapolis)

Typical profiles of residents in new urban housing
  • Professional singles and couples
  • Empty-nesters
CITYWIDE RESIDENTIAL TRENDS

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

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

- Residential Real Estate Market
  - Inventory: 506 units (~90% renter-occupied)
  - Average Central Davis sales price: $768,043
  - Average Central Davis Sales price/sq. ft.: $466
  - Core Area sales prices are as high as $600/sq. ft.
  - Average Core Area rental rate (2017): $1,239/month
Downtown is very desirable and commands a premium for sales prices; Downtown rents tend to be lower as older units are a greater part of the housing stock.

Successful economic development focusing on increasing local professional employment will increase demand for downtown housing.

Demand from empty-nesters; younger professionals; university affiliates who want to be able to walk to campus.
DOWNTOWN RESIDENTIAL OPPORTUNITIES

- Growing housing demand for UCD students, staff and faculty
- Demand for “move-down” housing for local empty nesters; likely to want homeownership
- Existing pent up demand for rental housing due to extremely low apartment vacancy rates
- Demand scenarios indicate potential for growth in downtown housing units, but this is constrained by lack of vacant, available sites
# Residential Growth Scenario 1: Constant Share of Davis Area

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

Sources: Esri, 2018; SACOG, 2018; BAE, 2018.
## RESIDENTIAL GROWTH SCENARIO 2: TARGETED SHARE OF DAVIS AREA GROWTH

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

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

**Sources:** Esri, 2018; SACOG, 2018; BAE, 2018.
ARTS, CULTURE, AND ENTERTAINMENT
DOWNTOWN ARTS, CULTURE, AND ENTERTAINMENT ASSETS

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

<table>
<thead>
<tr>
<th>Venue</th>
<th>Seating</th>
<th>Location</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mondavi Jackson Hall</td>
<td>1800</td>
<td>UCD</td>
<td></td>
</tr>
<tr>
<td>Wright Hall Main Theater</td>
<td>470</td>
<td>UCD</td>
<td></td>
</tr>
<tr>
<td>Ann E. Pitzer Center</td>
<td>399</td>
<td>UCD</td>
<td></td>
</tr>
<tr>
<td>Veteran’s Memorial Theater</td>
<td>325</td>
<td>North Davis</td>
<td></td>
</tr>
<tr>
<td>Mondavi Vanderhoef Studio Theater</td>
<td>250</td>
<td>UCD</td>
<td></td>
</tr>
<tr>
<td>DMTC-Jean Henderson Performing Arts Center</td>
<td>240</td>
<td>East Davis</td>
<td>Only available for limited use other than DMTC productions</td>
</tr>
<tr>
<td>Wyatt Pavilion</td>
<td>200</td>
<td>UCD</td>
<td></td>
</tr>
<tr>
<td>Varsity Theater (small and large theaters)</td>
<td>100, 270</td>
<td>Downtown</td>
<td>Only available during non-movie times (e.g., mornings)</td>
</tr>
<tr>
<td>Della Davidson Performance Studio</td>
<td>60</td>
<td>UCD</td>
<td></td>
</tr>
</tbody>
</table>
KEY POINTS FROM ARTS, CULTURE, AND ENTERTAINMENT INTERVIEWS

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

- Arts, Culture, and Entertainment activity is needed to make downtown a destination and support retail/restaurants
  - Critical tool to expand downtown’s draw beyond local residents
  - Also key to creating a vibrant location for office and residential uses

- Downtown does not have a dedicated performing arts venue and there is an existing gap within the community for a facility with between 60 and 200 seats

- Expand, maintain, and promote Davis Art Walk as a key element of the downtown experience

- Maintain and expand “programming” of recurring downtown events as a way to attract out of town visitors who will support retail, restaurants, and lodging
LODGING
CITYWIDE TRENDS AND CONDITIONS

- **Key Findings from 2016 HVS Study**
  - Citywide Room Supply: 732 rooms
  - Average Occupancy: 74.8% (est. 2016)
  - Average Daily Room Rate: $129 (est. 2016)
  - Annual Room Demand: 138,148 room nights
  - Composition of local lodging demand
    - 40% commercial; 36% leisure; 21% meetings/group; 3% extended stay

- **Market could support Embassy Suites (now Hilton Tapestry), Hyatt House, and one additional extended stay (now Residence Inn) by about 2023; forecasting limited growth for 2020-2025**
**DOWNTOWN TRENDS AND CONDITIONS**

- **Key Data Points from 2017 STR Data**
  - Room Supply: 385 rooms (including Hyatt Place, UCD)
  - Average Occupancy: 74.1%
    - Occupancy is highest on Friday and Saturday nights; lowest on Sunday and Monday nights
  - Average Daily Room Rate: $140.76
  - Room Demand: 104,163
Downtown is a desirable hotel location due to proximity (walkable) to campus; quieter than free-way oriented locations.

Occupancy is strong and generally improving.

There is room for more hotels; planned and proposed projects may satisfy demand; new competition may be more of an issue for hotels outside of downtown.

More programming and events (especially annual events) will help expand market; more corporations in town would drive increased business travel.
DOWNTOWN LODGING OPPORTUNITIES

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

- Downtown growth has not kept pace with community growth
- Downtown is a very desirable location for all uses profiled
- Downtown currently caters primarily to locals, but has the potential to be more of a regional destination
- Downtown growth potential is limited by lack of available sites; not lack of demand
- Parking supply remains a near-term concern for all real estate sectors
- New housing, arts/culture/entertainment, hospitality, and office uses can create synergies to help expand the local economy, support retail, and maintain downtown as the community focal point
- A plan that clearly articulates desired uses and limits discretionary decision-making about development proposals would reduce entitlement risk and encourage developers to pursue redevelopment projects that would accelerate downtown revitalization
SUMMARY OF DOWNTOWN DEMAND POTENTIAL THROUGH 2040

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