

APPENDIX C

URBAN DECAY ANALYSIS

The Economics of Land Use



Final Report

Deer Creek Village Urban Decay Analysis

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1. INTRODUCTION AND SUMMARY OF FINDINGS

Economic & Planning Systems, Inc. (EPS) has been retained by the City of Petaluma to conduct an “urban decay” analysis for the Deer Creek Village mixed-use development proposal (the Project) located in Petaluma, California. The Project is anticipated to be composed primarily of retail uses anchored by a Lowe’s home improvement store but will also include an office, bank, and fitness component. This analysis focuses on the retail component of the Project and addresses the following primary issues:

- How will the proposed Deer Creek Village project individually and cumulatively affect the performance of the retail sector in Petaluma and the broader regional retail market?
- Does the Deer Creek Village Project possess the potential to start an economic chain reaction that could lead to physical deterioration of the built environment and urban decay?
- Beyond the issue of urban decay, the City is interested in understanding its potential for long-term sales tax implications from the retail sector. What will be the City’s change of sales tax from the Deer Creek Village Project and other sources in the future?

Report Organization

This report contains five chapters. Following this chapter, **Chapter 2** provides the background context for the Project and supplementary information on the geographic area. **Chapter 3** provides an overview of the retail trends and sales patterns in the trade area. **Chapter 4** describes the methodology and scenarios for potential urban decay analysis, and **Chapter 5** provides the estimate of potential sales taxes that would be generated to the City.

Primary Data Sources

This report relies on a variety of data sources cited throughout the document as well as previous market studies completed for the City. In addition to the primary sources of information listed below, the findings are also based on existing EPS research and in-house data from other retail studies. The primary information sources include, but are not limited to, the following:

- Demographic and economic data from the Association of the Bay Area Governments (ABAG), the U.S. Census Bureau, the California State Board of Equalization (SBE), the California Department of Finance (DOF), the U.S. Bureau of Labor Statistics (BLS), and other publicly available sources.
- Operational and project description information related to Deer Creek Village from the Project application.
- *Fiscal and Economic Impact Analysis for Proposed Deer Creek Village Shopping Center in Petaluma, California* prepared by Bay Area Economics.

- *Deer Creek Plaza Economic Impact Analysis: Petaluma, California* prepared by Sedway Group.
- *Petaluma Leakage & Sustainable Retail Strategy Study* prepared by Thomas Consultants.
- Online internet-based information.

This analysis is conducted in constant 2010 dollars (adjusting for inflation).

Summary of Findings

The key findings from this analysis are summarized below.

- 1. Paralleling national trends, Petaluma's retail market has experienced declining sales in recent years that resulted in increasing vacancy rates and declining lease rates.*** Despite the decline in sales and difficulties retaining current occupants or re-tenanting recently vacated space, the City's retail market has performed relatively well, especially in downtown. Good retail performance is attributable to the trade area's attractive setting within a regional tourist market, relatively high capture of retail expenditures from Petaluma's residents, and a diversified retail mix.
- 2. The City has experienced a net inflow of consumer spending above demand generated by trade area residents ("retail capture").*** The City captures regional demand in a number of retail categories that include food stores, auto dealers and supplies, and general merchandise. The four categories where the City "leaks" sales are apparel, service stations, restaurants, and building materials and construction. Overall, the City has experienced an estimated net retail capture of \$62 million, which means that as a whole, local establishments sold 12 percent more than would be expected from demand from local trade area residents alone. The City's retail sales are estimated at \$817 million a year based on the normalized 10-year average.
- 3. Success of the retail sector's performance will be heavily driven by the trade area's population and employment growth and ability to continue competing with neighboring jurisdictions by taking full advantage of the remaining retail opportunities while upgrading existing ones.*** Demand for new retail space is expected to increase over time as population and employment continue to grow. Future retail demand will support some of the retail space currently in the pipeline, such as the Deer Creek Village Project. The impact of future retail supply on the market will depend on the degree to which it meets or exceeds this level of growth in demand.
- 4. Development of Deer Creek in conjunction with other approved and proposed projects in the City's pipeline except for East Washington Place is not likely to have a significant impact on the performance of existing retail space in the City.*** This assumes that in addition to 282,000 square feet of new retail from Deer Creek Village, 31,000 square feet of other new retail would enter the market by 2015. While this space would increase citywide retail supply by about 12 percent (measured in terms of sales),

it would also capture a portion of new demand because of further diversification in the retail mix. Overall, it would result in \$58.1 million in net new sales to the City out of \$94.0 million in total new sales by 2015.

Achieving its expected sales performance would require about a 4 percent capture of sales from existing (or future) retail establishments in the City in 2015, reducing to below 1 percent by 2025. This level of shift in sales from existing businesses is considered below a level that would significantly impact the long-term viability of existing retail properties. In other words, the cumulative impact of the Deer Creek Project, excluding the addition of East Washington Place, is not likely to overwhelm the market and create market conditions conducive to urban decay.

- 5. Development of Deer Creek, as well as other approved and proposed projects in the City's pipeline including East Washington Place, is likely to have a significant impact on the performance of existing retail space, potentially creating conditions conducive to urban decay for a 3 to 6 year period.** East Washington Place is the largest Project in the City's pipeline that consists of 362,000 square feet of retail, including a 139,000-square foot Target anchor. Combined with the other projects described above, this new retail would need to generate \$101.6 million in net new sales out of \$213.5 million in total sales by 2015 in order to achieve typical sales targets for new retail of the type envisioned, including nearly \$120 million in sales attributed to East Washington Place. This represents a 26 percent increase over existing supply (measured in terms of normalized sales) compared to a 4 increase in population and a 2 percent increase in employment by 2015.

This translates into the new cumulative retail's capture of 12 percent of existing trade area retail sales in 2015, reducing to 9.0 percent by 2020 and to 5.5 percent by 2025. In other words, the cumulative retail space, including East Washington Place, would shift 12 percent of sales from existing retail establishments in the City by 2015 and 6 percent by 2025. Under this scenario, the volume of retail space encompassed in the future retail projects does possess the ability to create conditions conducive to urban decay, especially in the 2015 to 2020 time frame. After 2020 the potential for urban decay under this scenario declines significantly. Performance for the new retail will depend on the actual phasing of new projects.

A combination of actual outcomes is possible under this scenario, including new retail establishment performing below expected levels, or more isolated rather than across-the-board impacts that focus on one or several vulnerable centers. In addition, the outcome described above assumes that the East Washington Place project is fully built out by 2015 and Deer Creek is built out by 2012. To the extent that this development schedule is extended for either project, the conditions conducive to urban decay are likely to diminish (conversely, these conditions may be exacerbated if the development schedules are accelerated). It is also worth noting that a variety of options may be available to existing property owners that could help mitigate against the potential for urban decay, including (1) identifying and establishing innovative retail niches that successfully attract increased demand from outside the Trade Area identified for this study and/or (2) transitioning their properties to other non-retail uses that are more viable from a market and financial perspective.

6. **The Deer Creek Village Project is estimated to generate \$407,000 a year to the City's General Fund in net new sales tax revenue.** This equates to 42 percent of net new sales tax revenues generated by new retail growth. These proceeds will be available to fund City services or reduce certain taxes or fees under City control. The City's retail sales revenues will depend on the actual amount of new retail space development, which would be driven by the broader market conditions, development timing, and the City's priorities and policies related to new retail growth.

2. PROJECT AND STUDY AREA BACKGROUND

This chapter provides a detailed overview of the Deer Creek Village Project and its local and regional context.

Project Background

The proposed mixed-use Deer Creek Village Project is located on a 36.5-acre site in central Petaluma. The site is situated along Highway 101 and is bound by McDowell Boulevard, Lynch Creek Way, and proposed extension of Rainier Avenue. The area immediately surrounding the Deer Creek Village Project site includes a mix of residential and commercial uses. Several strip shopping centers are also located along McDowell Boulevard within proximity of the Project. The site is visible from Highway and is located about one quarter mile from the Washington Street exit.

The Project is proposed for approximately 313,000 square feet of building space, including a mix of retail, office, bank, and fitness uses. While no specific tenants except for Lowe's have been identified, the Project is proposed to include the following allocation of uses:

- Lowe's Anchor 121,000 square feet
(with an additional 31,384-square foot outdoor garden center)
- Other Retail Anchors 69,000 square feet
- Inline Shops 31,300 square feet
- Pharmacy 14,820 square feet
- Grocery 8,100 square feet
- Restaurants 6,500 square feet
- Office Space 12,500 square feet
- Bank 5,000 square feet
- Fitness Center 44,450 square feet

Deer Creek Village is estimated to generate nearly \$84 million in annual sales, as shown in **Table 1**. This estimate is based on data derived from Lowe's 2009 Shareholder Annual Report as well as typical sales rates for the other types of tenants expected to occupy the site.

Table 1
Project Description and Sales Estimate
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	Building Size (sq.ft.)	Annual Sales per Sq.Ft. (1)	Total Annual Sales
Retail Anchors			
Lowes Store (2)	120,944	\$310	\$37,492,640
Lowes Garden Center (2)	31,384		
Potential Consumer Electronics Store	25,250	\$400	\$10,100,000
Potential Furniture Store	25,250	\$250	\$6,312,500
Other	<u>18,500</u>	\$300	<u>\$5,550,000</u>
Subtotal	221,328		\$59,455,140
Other Retail			
Inline Shops	31,300	\$375	\$11,737,500
Pharmacy	14,820	\$500	\$7,410,000
Grocery	8,100	\$425	\$3,442,500
Restaurants	<u>6,500</u>	\$275	<u>\$1,787,500</u>
Subtotal	60,720		\$24,377,500
Other Uses			
Bank	5,000	na	na
Office	12,500	na	na
Fitness	<u>44,450</u>	na	<u>na</u>
Subtotal	61,950		na
TOTAL	343,998		\$83,832,640

(1) Based on the Lowe's 2009 Shareholder Annual Report adjusted for regional sales differences, Dollars & Cents for Shopping Centers inflated to 2010 dollars and EPS's experience for feasibility of new development in comparable projects; rounded.

(2) Garden center sales are included in the overall Lowe's sales.

Sources: Dollars & Cents for Shopping Centers 2010 and Economic & Planning Systems, Inc.

Trade Area Description

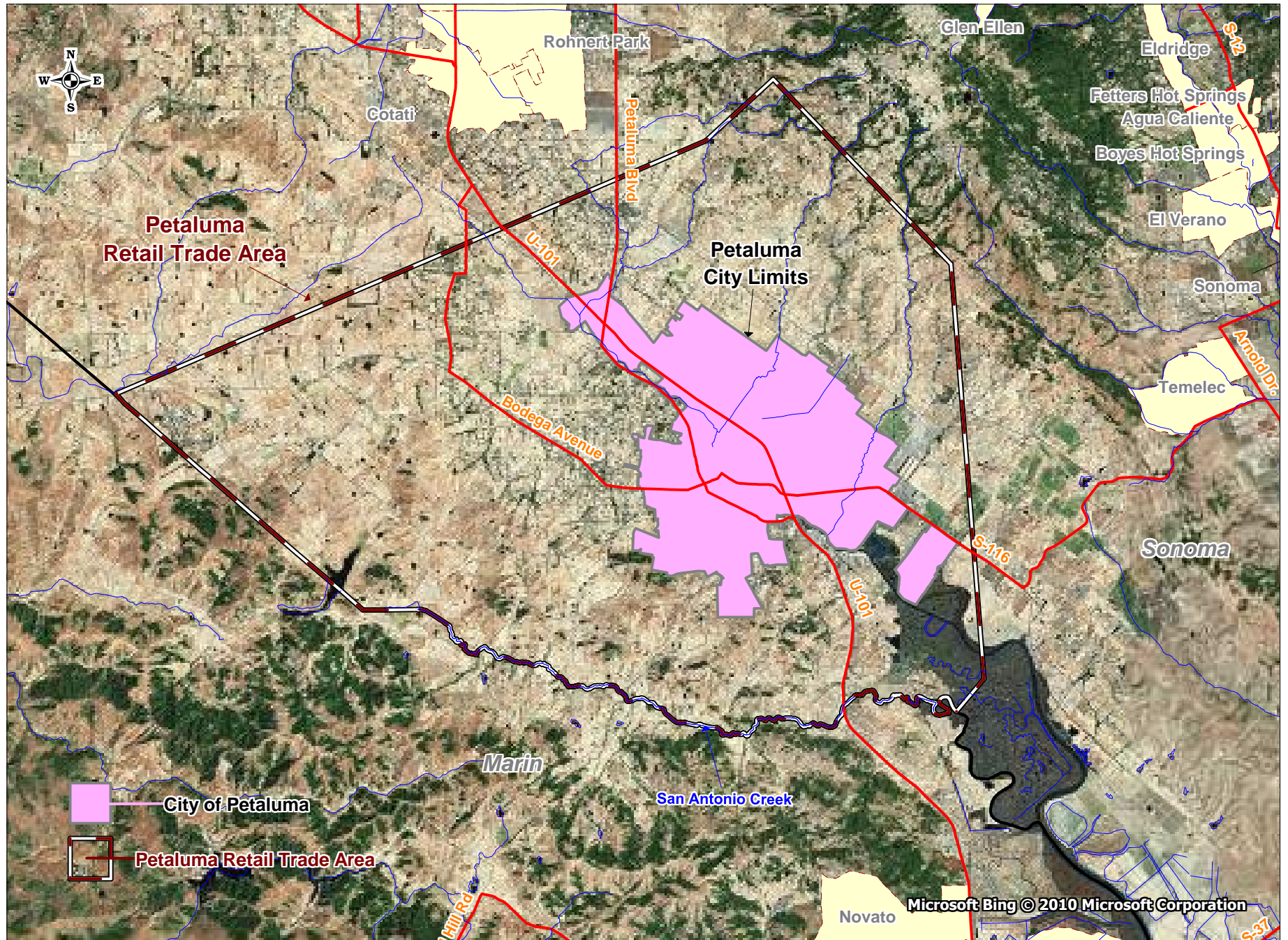
A trade area is a geographic region that contains the elements of demand and supply that will determine the performance of a particular retail store or project. Trade areas are influenced by a variety of factors, including the location and density of the targeted residential population, the location of key competitors, the relative distance or travel time for each of the above, geographic and psychological barriers, and existing commute and shopping patterns. Retail establishments outside of a given trade area are not considered to be at risk of urban decay from development within the trade area.

It is important to note that trade areas are also influenced by the type of tenant. Although the precise tenanting of the retail anticipated for Deer Creek Village is not fully determined, based on the overall size of the Project there will likely be a regional retail-serving component, drawing shoppers from a wide geographical sphere and serving residents of other cities outside Petaluma. However, the significance of this regional draw will depend on the existence of competitive establishments elsewhere with similar product lines to those offered at the Project (e.g., national Home Improvement retailers in other jurisdictions).

Because this analysis evaluates long-term equilibrium in the retail sector, significant regional capture assumptions would likely result in optimistic sales estimates, as other jurisdictions would eventually position themselves to capture the leakage of sales from their communities. As a result, the trade area excludes any other jurisdictions but does include smaller adjacent unincorporated communities outside of the City's boundary. These communities benefit from direct and convenient access to retail located in Petaluma and are located primarily northeast and southwest of the City. It is worth noting that the Marin County portion is assumed to be excluded from the trade area because of poor road connectivity and proximity of north Marin County residents to retail destinations in Novato and other Marin County cities. The trade area outline is shown in **Figure 1**.

The trade area is identified as a relatively self-contained retail market for the purpose of this analysis. The geographic reach of the Deer Creek Village Project is likely to exceed the trade area because of its size, mix of uses, and competitive retail supply (especially short-term) and would likely capture expenditures from northern Marin County and central Sonoma County. However, this additional expenditure would likely be offset by a share of existing trade area residents shopping elsewhere. For example, a certain segment of the Petaluma population may continue to shop at Home Depot located in Rohnert Park, despite the shorter commute to Lowe's, which would be located in the trade area.

Figure 1:
Petaluma Retail Trade Area



3. *RETAIL MARKET TRENDS AND SALES CONDITIONS*

This chapter provides an overview of the national and local retail market trends relevant to the performance and success of the Deer Creek Village Project, the City's sales trends, and leakage analysis. It focuses on retail market conditions, key demographic factors, future retail supply, and retail sales flows.

National Retail Market Conditions

The recent economic downturn that has spread across national and global markets has had a significant effect on the retail sector. At the national level, the combination of increasing unemployment rates, reduced consumer credit, and a potential over-supply of retail space has resulted in bankruptcies, store closures, and consolidations among a wide range of formerly successful retail chains including Mervyn's, Sharper Image, and KB Toys (bankruptcy); Linens 'N Things, Circuit City, Office Depot, Home Expo, and Starbucks (closures); and CVS's acquisition of Long's Drugs (consolidation).

Recent events have led many retail analysts to conclude that the United States is potentially "over-retailed," particularly when considering the amount of retail square feet per person relative to rates experienced in European nations: 41.6 square feet per person compared to approximately 10 feet per person.¹ As described later, Petaluma's current square footage of retail space coincides with the U.S. national average, although this could increase substantially with the completion of projects in the pipeline. The transformative nature of the current economic conditions on the retail sector at both the local and national level warrants a fundamental review of the impacts of new retail projects and the capacity of regions to support continued expansion in retail supply. In lieu of these events, the foundation for the national retail landscape has been undeniably altered and future analyses should be viewed in the context of more tempered expectations.

Although numerous trade areas may be perceived to have a saturated retail market, there may still be opportunities for expansion or upgrades in the type of product available. For instance, many markets enhance their performance through innovative strategies such as a differentiated product or market niche, the relocation or consolidation of existing retail categories, direct competition, or a combination of the above. It is also important to note that the recent economic trends suggest that the national retail market is likely to undergo significant transformation in the upcoming years, including substantial consolidation and store closings. Although the recent recession has caused significant turbulence in the retail market and created a high degree of uncertainty with regard to tenanting and absorption forecasting, fundamental changes in retail also presents new opportunities as more competitive retail tenants, concepts, and formats emerge and establish their presence in new locations.

¹ KAHR Real Estate Group Bulletin, December 2008.

Citywide Socio-Economic Trends

Existing Trends

Located in the North Bay along the Highway 101 Corridor, Petaluma has a population of approximately 58,000 with 28,000 jobs, with an additional 11,000 residents in the trade area outside of the City's boundary. Petaluma is considered a desirable community because of its location as a gateway to Sonoma County's wine country and to the Pacific Ocean coast and has benefited from its proximity to major tourist attractions and recreational amenities as well as upscale but growth- constrained communities elsewhere in Sonoma and Marin Counties. Petaluma has experienced moderate population and employment growth over the last seven years, as shown in **Table 2**.

Petaluma has historically exceeded a 1.0 jobs-to-household ratio which suggests an adequate job presence and employment opportunity relative to its population. However, many of the Petaluma residents work elsewhere, while many jobs in Petaluma are staffed by non-resident employees. Specifically, less than 30 percent of Petaluma residents work in Petaluma, while many residents commute to Santa Rosa, Rohnert Park, and Marin County. The majority of employment in Petaluma is in Manufacturing, Retail Trade, Health Care and Social Assistance categories, with other significant employment in Food Services, Education, and Construction (see **Table 3**). It is worth noting that despite the overall employment growth between 2002 and 2008, employment in the manufacturing sector, the City's largest industry, has declined.

Petaluma's mean household income of approximately \$91,000 in 2008 was the highest in the County, reflecting the City's relative affluence and disposable expenditure potential. Income and employment play an important role in consumer demand for retail goods. For example, higher-income households typically demand more and different types of retail goods and services than lower-income households. Additionally, employment growth can have an independent effect on the type and amount of retail goods demanded through increased employee and business-to-business purchases. The trade area population outside of the City's boundary is assumed to have similar mean household income to the citywide population.

Projected Trends

Petaluma's population and employment growth are expected to contribute to future retail demand. As shown in **Table 4**, population and employment in Petaluma are projected to continue moderate growth over the next 15 years based on ABAG Projections 2009. Citywide population is forecasted to grow by 5,800 residents, an average annual growth rate of 0.6 percent while employment is forecasted to grow by 5,600 jobs, an average annual growth rate of 1.1 percent. The trade area population is projected to grow by 6,900 residents. Projected growth rates are generally consistent with historic population and employment growth in the City. This analysis assumes that a portion of employment from non-residents would be similar to historic trends.

This analysis assumes real mean household income in Petaluma and the broader trade area will remain constant (adjusted for inflation) during the forecast period. This is a conservative estimate since ABAG projects that the City will experience a gradual increase in real income. We assume real mean incomes remain constant because of the minimal income growth (and for

Table 2
Petaluma and Trade Area Demographic Trends (2000-2009)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*	2000-2009 Growth**			
											Total	% Change	Average	Avg. Annual Growth Rate
Petaluma														
Population (1)	55,475	55,763	55,842	56,073	56,362	56,449	56,653	57,187	57,739	58,170	2,695	4.9%	56,571	0.5%
Households (1)	20,243	20,399	20,550	20,700	20,875	21,055	21,232	21,546	21,683	21,652	1,409	7.0%	20,993	0.8%
Employment	na	na	23,333	24,169	23,067	24,211	23,880	24,122	23,932	27,641	4,308	18.5%	24,294	2.4%
Trade Area (2)														
Population	66,077	66,420	66,514	66,789	67,134	67,237	67,480	68,116	68,774	69,286	3,209	4.9%	67,383	0.5%
Households	24,182	24,368	24,549	24,728	24,937	25,152	25,363	25,739	25,902	25,865	1,683	7.0%	25,078	0.8%
Employment (3)	na	na	23,333	24,169	23,067	24,211	23,880	24,122	23,932	27,641	4,308	18.5%	24,294	2.4%

* Estimated for items for which data is not available.

** Reflects 2002 through 2009 average for employment.

(1) Estimates are as of January 1 of the following year.

(2) Area covers unincorporated county communities outside of the City. The population and household is estimated based on the Census 2000 data.

(3) Because of the rural nature of unincorporated areas around Petaluma, it is assumed that no significant employment exists outside of the City's boundary.

Sources: CA Department of Finance, ABAG Projections 2009, Census 2000, and Economic & Planning Systems, Inc.

Table 3
Petaluma Employment Distribution (2002-2008)
Deer Creek Village Urban Decay Analysis; EPS #20078

Employment Category	2002		2008		2002-2008 Growth
	#	%	#	%	
Manufacturing	4,948	21.2%	3,955	16.5%	-993
Retail Trade	2,808	12.0%	2,793	11.7%	-15
Health Care and Social Assistance	2,484	10.6%	2,701	11.3%	217
Accommodation and Food Services	1,852	7.9%	2,244	9.4%	392
Educational Services	2,101	9.0%	1,988	8.3%	-113
Construction	1,569	6.7%	1,931	8.1%	362
Professional, Scientific, and Technical Services	1,031	4.4%	1,573	6.6%	542
Wholesale Trade	1,189	5.1%	1,236	5.2%	47
Other Services (excluding Public Administration)	911	3.9%	1,065	4.5%	
Administration & Support, Waste Management and Remediation	873	3.7%	956	4.0%	83
Finance and Insurance	701	3.0%	748	3.1%	47
Arts, Entertainment, and Recreation	467	2.0%	610	2.5%	143
Public Administration	409	1.8%	568	2.4%	159
Transportation and Warehousing	497	2.1%	536	2.2%	39
Other (1)	<u>1,493</u>	<u>6.4%</u>	<u>1,028</u>	<u>4.3%</u>	<u>-465</u>
TOTAL	23,333	100%	23,932	100%	445

(1) Includes information, real estate and rental and leasing, management of companies and enterprises, agriculture, forestry, fishing and hunting, and utilities.

Sources: US Census Bureau, Economic & Planning Systems, Inc.

Table 4
Petaluma and Trade Area Population and Employment Projections (2010-2035)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	2010	2012*	2015	2020	2025	2010-2025		
						Total	% Change	Avg. Annual Growth Rate
Petaluma								
Population	58,600	59,470	60,800	62,600	64,400	5,800	9.9%	0.6%
Households	21,620	21,897	22,320	22,920	23,650	2,030	9.4%	0.6%
Employment	31,350	31,636	32,070	33,970	36,900	5,550	17.7%	1.1%
Non-Resident Employment (1)	23,513	23,727	24,053	25,478	27,675	4,163	17.7%	1.1%
Trade Area (2)								
Population	69,799	70,836	72,420	74,564	76,708	6,908	9.9%	0.6%
Households	25,827	26,158	26,663	27,380	28,252	2,425	9.4%	0.6%
Employment (3)	31,350	31,636	32,070	33,970	36,900	5,550	17.7%	1.1%
Non-Resident Employment (3)	23,513	23,727	24,053	25,478	27,675	4,163	17.7%	1.1%

* Estimate reflects the first year of the Project occupancy; based on the average annual rate of growth between 2010 and 2015.

(1) Assumes that 75% of employees live in the trade area based on the residency of citywide workers' trends over the last 7 years.

(2) Area covers unincorporated county communities outside of the City. The population and household is estimated based on the Census 2000 data.

(3) Because of the rural nature of unincorporated areas around Petaluma, it is assumed that no significant employment exists outside of the City's boundary.

Sources: ABAG Projections 2009, Census 2000; and Economic & Planning Systems, Inc.

some periods and locations negative growth) that has occurred coincident with the national economic downturn. To the extent that household incomes increase, trade area residents' disposable expenditures also increase which would improve retail performance.

Petaluma Retail Market Review

Current Market Conditions

Petaluma's retail market consists of approximately 2.5 million square feet of space with relatively diversified retail options and several retail clusters. The majority of retail in the trade area is located within Petaluma although limited retail options are available in adjacent unincorporated communities. Retail sales in Petaluma have generally followed the broader economic trends with the sales peaking in 2005 and declining since. The City's share of the broader countywide sales has remained relatively stable ranging between 13.3 and 14.4 percent over a 12-year period. This trend, illustrated in **Table 5**, suggests that Petaluma has a well-established stabilized retail market that has experienced similar trends to the broader regional retail sales during the last economic cycle.

Long-term trends notwithstanding, recent economic downturn has resulted in the weakening of retail market performance in Petaluma with decreases in rental rates and increased vacancies. Based on the data from Terranomics Retail Market Reports, annual lease rates in Petaluma have decreased from about \$36 per square foot in 2007 to \$22 per square foot by the end of 2009 while vacancy rates in the City have increased from 2 percent to 12.0 percent during this time period.² Some of the vacancy increase in the City is attributed to the recent closures of Home Depot Yardbirds, Mervyn's, and Shoe Pavilion.

Despite the weakening trends, the City's performance has been relatively strong compared to Sonoma County as a whole, with the City historically supporting generally similar lease rates but lower vacancy rates, as shown in **Table 6**. It is worth noting that the City's lease rates have historically exceeded the countywide average but have recently matched it. The relative strength in the City's retail sector is due to relatively high incomes of Petaluma residents, above-average performance of downtown retail, and lack of new retail construction in recent years, which has limited the retail space supply. The key retail clusters in the City are shown in **Figure 2** and described below:

- *Downtown:* Petaluma's historic downtown offers a cluster of ground floor retail in a mixed-use walkable setting located along the riverfront. It contains small shops, galleries, antique stores, and restaurants. It has relatively low retail vacancies despite the broader economic conditions because of its well-diversified tenant mix and regional tourist draw.

² Terranomics market reports are based on larger retail centers that make up a portion of the overall retail space. Because Petaluma has stronger retail performance in downtown, which is excluded from the market reports, the trends are likely to show a lower level of performance relative to the all-inclusive citywide average.

Table 5
Petaluma's Sales Share in Sonoma County
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SBE Expenditures (in \$1,000s)												
Petaluma	\$662,587	\$726,250	\$833,488	\$979,770	\$939,723	\$922,657	\$927,744	\$979,562	\$1,016,393	\$1,064,296	\$1,054,042	\$977,480
Sonoma County	\$4,989,888	\$5,383,612	\$6,017,754	\$6,823,544	\$6,819,365	\$6,702,865	\$6,796,205	\$7,189,087	\$7,622,099	\$7,894,595	\$7,877,195	\$7,369,109
Petaluma as % of Sonoma County	13.3%	13.5%	13.9%	14.4%	13.8%	13.8%	13.7%	13.6%	13.3%	13.5%	13.4%	13.3%

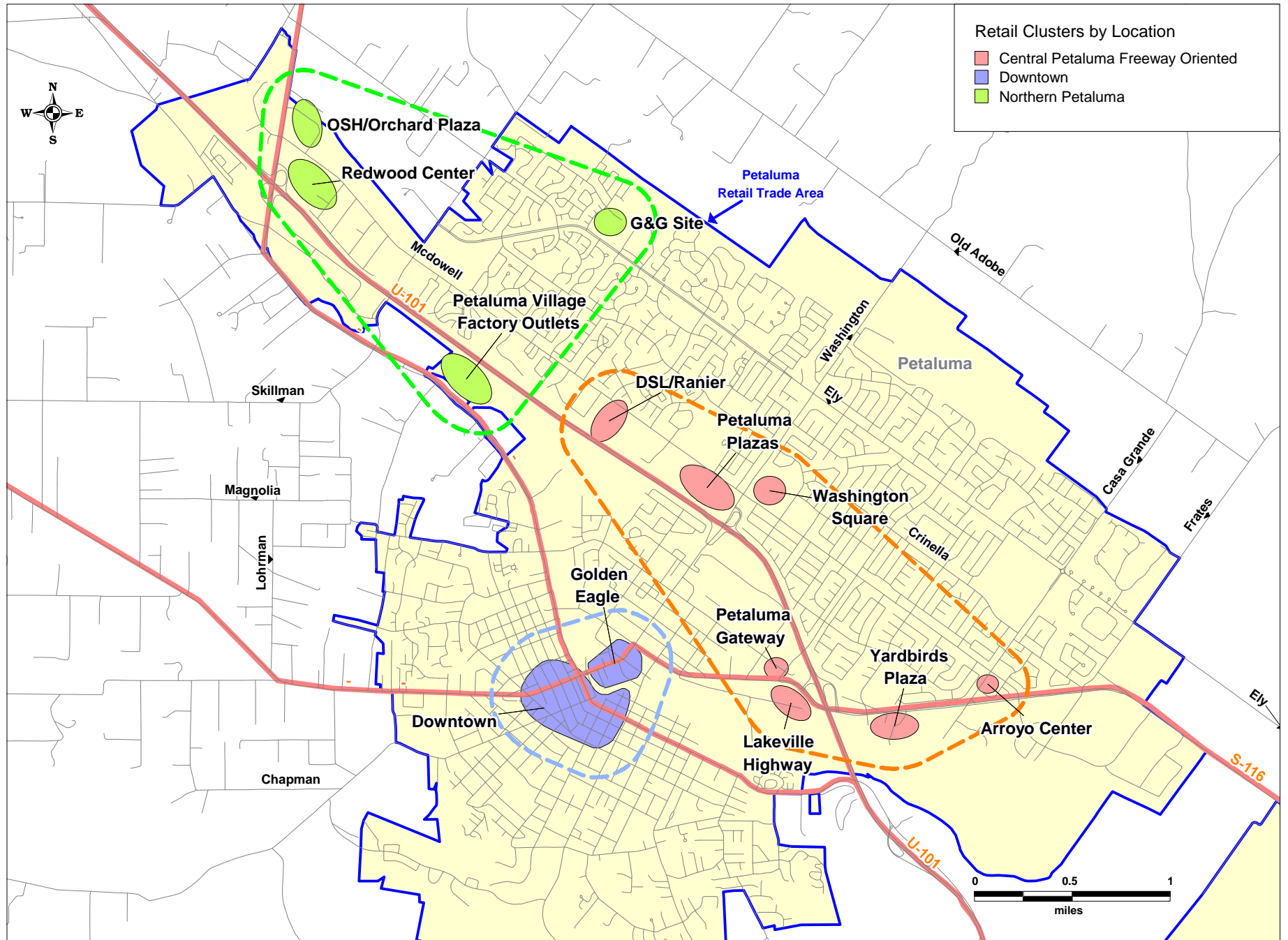
Source: CA State Board of Equalization; Economic & Planning Systems, Inc.

Table 6
Petaluma Retail Vacancy Rates (2007-2009)
Deer Creek Urban Decay Analysis; EPS #20078

Item	2007		2008		2009	
	Mid-Year	Year End	Mid-Year	Year End	Mid-Year	Year End
Petaluma						
Annual Rent Per Sq.Ft. (NNN)	\$35.40	\$36.26	\$29.97	\$22.58	\$21.47	\$22.31
Vacancy	2.2%	1.8%	2.2%	8.3%	9.0%	12.0%
Sonoma County						
Annual Rent Per Sq.Ft. (NNN)	\$26.13	\$29.57	\$26.84	\$27.19	\$21.15	\$22.90
Vacancy	3.3%	2.9%	5.3%	7.1%	9.3%	13.1%

Sources: Terranomics Retail Market Reports and Economic & Planning Systems, Inc.

**Figure 2:
Petaluma Retail Trade Clusters**



- *Central Petaluma Freeway-Oriented Retail:* a cluster of strip center format retail centers is located in central Petaluma along Highway 101. The shopping centers in this cluster include Washington Square, Petaluma Plaza and Petaluma Plaza North located on the east side of Highway 101 and Petaluma Gateway and Lakeville Highway shopping centers (as well as a recently approved East Washington Square Project) located on the west side of Highway 101. These centers have experienced increased vacancies in recent years, partially attributed to the closure of Mervyns located in Washington Square.
- *Northern Petaluma:* a cluster of retail is also located in the northern part of the City along Highway 101. It includes Redwood Center on the east side of the Highway and visitor-oriented factory outlets on the west side.

Future Supply

EPS gathered information on anticipated future retail supply within major retail development in the trade area based on data from the City, as summarized in **Table 7**. EPS understands that the precise levels and retail tenants for the area have yet to be determined; therefore, this report does not differentiate between types of retail. Instead, retail supply is calculated by estimating the volume of sales contributed to existing supply and is then compared to projected trade area demand for retail sales. The analysis assumes negligible new retail supply will be developed in the unincorporated areas of the Trade Area. Future retail projects are distinguished by their status as one of the following categories in the development approval process:

1. *Newly Constructed/Leasing.* Projects recently constructed are developments that have been partially leased up and will likely to be fully leased within the next several years. There are currently several projects in this category within the trade area combining for about 40,000 square feet of retail space. This space is assumed to be part of the existing market supply in 2012.
2. *Approved.* Projects approved by the City are expected to be developed and enter the market. There are currently several approved projects within the trade area, including East Washington Place.³ These projects combine for 375,000 square feet of retail space and are assumed to enter the market between 2012 and 2015.⁴
3. *Proposed.* Proposed projects include applications that have been submitted to the City and are currently being reviewed by staff. These projects are usually more speculative given the uncertainty associated with approvals with this category reflecting reasonably foreseeable development with sufficient information available to permit factual evaluation. A recently proposed Haystack Landing mixed-use project is the only project included as proposed, as it

³ East Washington Place is a large mixed-use project planned for 380,000 square feet of space that includes a region-serving retail center anchored by a Target store and office space.

⁴ About ½ of mixed-use projects' space is assumed as retail space.

Table 7
Petaluma Commercial/Retail Space Pipeline*
Deer Creek Village Urban Decay Analysis; EPS #20078

Project Status	Address	Project Name	Acres	Retail Square Feet
Deer Creek Village Project	McDowell Blvd. and Rainier Avenue	Deer Creek Village	36.55	282,048
Approved				
	East Washington and Ellis Streets (1)	East Washington Place	33.7	362,000
	300 N. Water St./Poultry St. along Petaluma River (2)	Water Street North	2.4	2,500
	414 Petaluma Blvd. North (2)	North River Landing	3.9	<u>10,300</u>
	Subtotal			374,800
Proposed				
	215 Weller Street (2)	Haystack Landing Mixed-Use	4.1	18,000
Total Retail Pipeline				674,848
Newly Constructed/Leasing				
	Lakeville and Lindberg	Lindberg Circle	1.1	14,900
	Casa Grande Road at Lakeville	Park Square	2.97	<u>26,000</u>
	Subtotal			40,900

* It is assumed that no significant retail projects are in the pipeline in the Trade Area outside the City of Petaluma boundary.

(1) Includes a 139,000 square-foot Target anchor.

(2) For mixed-use projects with the retail space unidentified, 1/2 of total space is assume to be retail.

Sources: City of Petaluma Planning Department; and Economic & Planning Systems, Inc.

will likely get its approval given the City's track record of approving similar mixed-use development projects. The retail portion of this project, estimated at 18,000 square feet, is assumed to enter the market by 2015.⁵

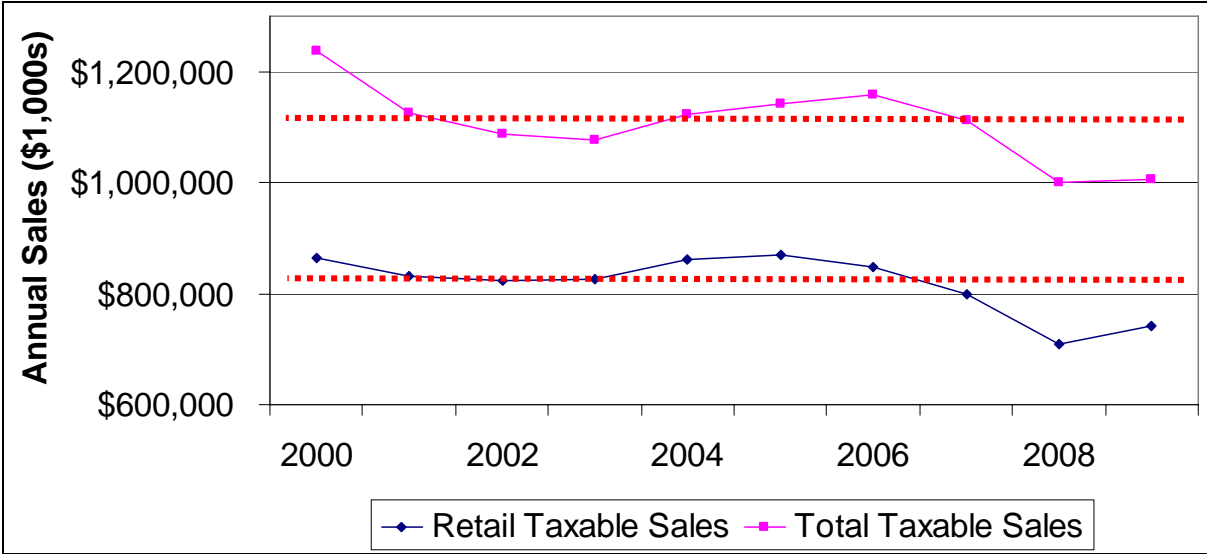
- 4. *Deer Creek Village.* Although this is a sub-component of "proposed," the Deer Creek Village project is evaluated separately since it is the focus of this analysis. The retail component within Deer Creek Village is projected to increase retail space in Petaluma by 282,000 square feet and will likely enter the market by 2012.

The urban decay analysis presented in the subsequent chapter evaluates the impact of new retail assuming the Deer Creek Village Project and other approved and proposed projects represent the only new retail added to the trade area through 2025. Based on EPS research and information provided by the City staff, there is approximately 675,000 new square feet of retail projected to enter the market, including 282,000 square feet within Deer Creek Village.

Trade Area Sales Flow

EPS has projected retail demand in Petaluma based on historic retail sales trends. The City's retail sales have grown through 2005 and have decreases since, as shown in **Figure 3** and **Table 8**. Because of the recent recession causing a significant turbulence in the retail market, using the most recent data may result in overly pessimistic retail sales that may rebound in the future given a likely economic recovery over the next few years. As a result, a 10-year average of retail sales between 2000 and 2009 is used in this analysis to provide a proxy for long-term retail sales under normalized market conditions, as shown in red dashed lines in **Figure 3**.

Figure 3: Petaluma Taxable Sales Trend (2010 dollars)



⁵ Ibid.

Table 8
Petaluma Historic Sales Trends (constant 2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*	2000-2009 Growth			Avg. Annual Growth Rate
											Total	% Change	Average	
Total Retail Taxable Sales (\$1,000s)	\$865,011	\$830,201	\$821,986	\$824,968	\$861,351	\$869,303	\$847,651	\$798,810	\$708,508	\$741,503	(\$123,508)	-14.3%	\$816,929	-1.7%
Trade Area Per Capita Taxable Retail Sales	\$13,091	\$12,499	\$12,358	\$12,352	\$12,830	\$12,929	\$12,561	\$11,727	\$10,302	\$10,702	(\$2,389)	-18.2%	\$12,135	-2.2%
Total Taxable Sales (\$1,000s) (1)	\$1,238,017	\$1,126,762	\$1,088,530	\$1,075,583	\$1,121,948	\$1,141,735	\$1,158,399	\$1,110,874	\$999,112	\$1,004,568	(\$233,449)	-18.9%	\$1,106,553	-2.3%

*Estimated for items where data is not available.

(1) It is assumed that the difference between total and retail taxable sales is mostly attributed to business-to-business sales.

Sources: CA Board of Equalization, and Economic & Planning Systems, Inc.

Total sales typically include four major expenditure sources:

1. Resident households.
2. Workers who live elsewhere (non-residents).
3. Visitors, such as tourists, through commuters, and other non-residents.
4. Business-to-business purchases.

The difference between total taxable sales and retail taxable sales is attributable to business-to-business, internet, and other non-site based sales. For simplification purpose, this analysis assumes the business-to-business sales are excluded from retail taxable sales as a result.

EPS has formulated an approach to estimate average household expenditure, non-resident worker expenditure, and visitor expenditure in the trade area based on the City's 10-year taxable sales average that reflects normalized market conditions. Employee expenditure is based on an average taxable spending of \$10 per day reflective of typical lunch and gasoline expenditures, while average household and visitor expenditure is based on the remainder of the retail taxable sales (net of employee expenditure) divided by a number of the trade area households. While detailed information for the trade area spending from visitors alone is not available, this approach implies that future household and visitor expenditures per household will be proportional to population growth. These per-employee and per-household estimates are shown in **Table 9** and are assumed to be fixed going forward (i.e., the total will increase in proportion to the trade area population and employment growth respectively).

Retail Leakage Analysis

To better illustrate the types of retail offered in Petaluma relative to the purchases of local residents, **Table 10** illustrates the major retail categories and the amounts supplied based on 2008 sales data and retail expenditure patterns from State Board of Equalization (SBE) and Bureau of Labor Statistics (BLS). These calculations illustrate the concept of "retail leakage" and "retail capture" in the trade area by showing how much of a particular category is in demand based on the income and demographic characteristics of local residents and whether the retail sector is meeting this demand. Non-retail expenditures, such as business-to-business and internet sales, are excluded from this analysis.⁶

A strong retail presence in the trade area is confirmed by the net capture of \$61.7 million in retail expenditures. This capture is attributed to Food Stores, Auto Dealers and Supplies, and General Merchandise retail categories. These retail categories combined capture \$136.2 million in demand beyond that generated by the trade area residents. It is worth noting that the trade area capture is heavily attributed to the presence of the strong auto dealer cluster that has a strong regional capture of spending.

⁶ These sales typically do not require any retail space and are assumed to mostly attribute to business-to-business sales, rather than resident, employee, or visitor expenditures.

Table 9
Trade Area Annual Expenditures (constant 2010 dollars)*
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	Total
Total Taxable Sales	\$1,106,552,855
Total Retail Taxable Sales (1)	\$816,929,280
(less) Non-Resident Employee Sales	
Total Employment (2002-2009 average)	24,294
Non-Resident Employment	18,221
Average Annual Taxable Retail Expenditure per Employee (2)	\$2,360
Total Non-Resident Employee Sales	\$43,001,044
Retail Expenditure Attributed to Households and Visitors	\$773,928,236
Trade Area Households	25,078
Trade Area Avg. Expenditure per Household (3)	\$30,860

23 *Note: 2000 through 2009 trend is assumed to reflect a normalized expenditure period based on the last 10 years of historic data.

- (1) Reflect exclusion of point-of-contact and business-to-business sales that do not require retail space.
- (2) Assumes \$10 daily expenditure per employee during 5 business days per week less 10 days holidays and 15 days of vacation/sick time per year.
- (3) Reflects an average level of households and visitors expenditures per household; household and visitor expenditures are not separated because they are assumed to grow at the same rate in the future.

Source: Economic & Planning Systems, Inc.

Table 10
Trade Area Retail Leakage Analysis (2010 dollars)*
Deer Creek Village Urban Decay Analysis; EPS #20078

Category	HH Demand for Expenditure \$1,000s	Actual Retail Sales \$1,000s	Net Capture/(Leakage) \$1,000s
Capture			
Food Stores (1)	\$115,963	\$167,539	\$51,576
Auto Dealers and Supplies	\$149,199	\$216,205	\$67,007
General Merchandise	<u>\$34,389</u>	<u>\$52,005</u>	<u>\$17,616</u>
Total Capture	\$299,551	\$435,749	\$136,198
Leakage			
Apparel	\$65,881	\$62,403	(\$3,478)
Service Stations	\$95,227	\$94,502	(\$725)
Restaurants (2)	\$129,939	\$87,226	(\$42,713)
Building Materials and Construction (3)	<u>\$68,108</u>	<u>\$40,511</u>	<u>(\$27,597)</u>
Total Leakage	\$198,046	\$127,737	(\$74,513)
Citywide Total			\$61,685

* Note: excludes non-retail sales.

(1) It is assumed that taxable sales generated by food stores are roughly 1/3 of total sales given no tax on food expenditures.

(2) Eating and drinking places.

(3) Actual retail sales are decreased by \$11 million to reflect a recent closure of the 38,000 square foot Yardbirds store.

Sources: Bureau of Labor Statistics, State Board of Equalization, and Economic & Planning Systems, Inc.

Petaluma's retail cluster experienced retail leakage in four expenditure categories that include Apparel, Service Stations, Restaurants, and Building Materials and Construction. These categories account for \$74.5 million in the trade area leakage. The leakage in building materials and construction reflects the recent closure of Home Depot Yardbirds in Petaluma, which created an opportunity to capture additional demand for home improvement sales through the addition of Lowe's.

Comparing sales per household in Petaluma to California average also shows that the trade area's expenditures per household exceed the State average, as shown in **Table 11**. Detailed per-household expenditure comparison by category generally confirms the leakage analysis results, as trade area expenditures generally exceed the State average with the exception of General Merchandise, Eating and Drinking Places (Restaurants), Building Materials and Construction, and Service Stations. It should be noted that Petaluma's average household income exceeds the State average, which may partially account for retail sales that exceed the State average.

While household expenditures comprise the majority of retail demand, retail demand is also driven by employee and tourist/visitor sales, as noted above. The sales in these two categories are estimated to add an additional 10 to 20 percent to the overall expenditure demand. To the extent that non-resident employee and tourist/visitor demand would be factored, the overall retail leakage in the trade area would be reduced. This concept is illustrated in **Table 12**, where the trade area's net capture has been reduced from \$61.7 million based on household expenditure demand to a net leakage of \$35.9 million based on this comprehensive approach.

Table 11
Household Spending by Category Compared to State Average, 2008
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	Trade Area		California		Difference
	Total Sales in \$1,000s	Sales per HH	Total Sales in \$1,000s	Sales per HH	
Households (1)	25,902		12,733,414		
Apparel Stores	\$62,403	\$2,409	\$22,609,628	\$1,776	\$634
General Merchandise Stores	\$52,005	\$2,008	\$57,674,210	\$4,529	(\$2,522)
Food Stores (2)	\$167,539	\$6,468	\$62,800,613	\$4,932	\$1,536
Eating & Drinking Places	\$87,226	\$3,367	\$53,203,340	\$4,178	(\$811)
Building Materials and Construction	\$40,511	\$1,564	\$44,816,543	\$3,520	(\$1,956)
Motor Vehicles and Parts	\$216,205	\$8,347	\$55,747,186	\$4,378	\$3,969
Service Stations	<u>\$94,502</u>	<u>\$3,648</u>	<u>\$53,166,385</u>	<u>\$4,175</u>	<u>(\$527)</u>
Total	\$720,391	\$27,812	\$350,017,905	\$27,488	\$324

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(1) Based on Table 2.

(2) It is assumed that taxable sales generated by food stores are roughly 1/3 of total sales given no tax on food expenditures.

Source: CA State Board of Equalization; U.S. Census; DOF; Economic & Planning Systems, Inc.

Table 12
Adjusted Retail Leakage Analysis in the Trade Area (2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	Total (\$1,000s)	Distribution
Demand for Retail		
Non-Resident Employees (1)	\$43,001	7%
Households (2)	\$497,597	83%
Visitors/Tourism (3)	<u>\$58,800</u>	<u>10%</u>
Citywide Total	\$599,398	100%
Actual Retail Sales (4)	\$563,486	na
Net Leakage	(\$35,912)	na

- 27
- (1) Based on per capita sales estimated in Table 9.
 - (2) Based on the BLS sales estimated in Table 10.
 - (3) A proxy is based on the outlet retail space of 196,000 square feet assumed to generate an average of \$300 per square foot in sales. While local residents and employees also shop in outlets, the expenditure is assumed to equal the expenditure of visitors/tourists elsewhere in the City.
 - (4) Net of non-retail sales that are assumed to be attributed to business-to-business sales.

Sources: Bureau of Labor Statistics, State Board of Equalization, and Economic & Planning Systems, Inc.

4. URBAN DECAY ANALYSIS

This chapter defines urban decay, describes the analysis methodology and assumptions, and evaluates the potential impact of the retail portion of Deer Creek Village and other known major retail projects on the trade area retail market. The results of this analysis are used to evaluate the degree to which the potential impacts might result in the physical deterioration of the environment within the trade area and examine whether local retail has the potential to start an economic chain reaction that leads to physical deterioration and urban decay.

Urban Decay Description and Assumptions

Urban decay is a physical effect that can result from extended vacancy, deferred maintenance, and abandonment. In its study entitled *Supercenters and the Transformation of the Bay Area Grocery Industry: Issues, Trends, and Impacts*, the Bay Area Economic Forum describes the process as follows:

“Vacant buildings, along with their large parking lots, can attract litter, graffiti, and vandalism, as well as loiterers and homeless population. A decaying building both worsens its own prospects for refurbishment and weakens the vitality both of the buildings around it.”

The primary impetus of urban decay often stems from financial conditions faced by the individual property owners; if a landlord is unable to collect rent on a vacant property with minimal likelihood that it can be re-leased, s/he may lose the incentive to maintain it. The effect can spread to adjacent properties and become a self-fulfilling prophecy as customers start to avoid an area and other property owners or tenants perceive an area as no longer vital or safe. Urban decay can be reinforced by a reduction in the fiscal resources of local governing entities because of declining sales and property revenue.

The urban decay process generally takes a number of years to fully materialize and is reinforced by declining economic conditions in a broader area. It is generally not the result of a single property standing vacant for one or two years in an otherwise vibrant market.

It is worth noting that a declining regional mall known as a “grayfield”) can pose a particularly high risk for urban decay if not promptly re-leased. Not only are these facilities bigger and thus generally more difficult to quickly re-lease or reuse compared to small “infill” sites, they are also more visually significant and thus provide a more widespread signal of decay and negative business climate. In contrast, a number of smaller parcels with varied building types often have a better chance of being adapted and re-leased.

Given the multi-faceted nature of urban decay, its prospects for likelihood can be difficult to predict or quantify with precision. This analysis focuses on three indicators to assess its probability:

- 1. Existing Condition of Retail Sector:** All other things being equal, a weak or faltering retail sector will be more susceptible to urban decay. Conversely, a new competitive retail project is less likely to precipitate urban decay if existing market conditions are strong. As described

in **Chapter 3**, the Petaluma retail market is currently in the midst of an economic slump that has put the retail sector in a relatively vulnerable position.

- 2. Incidence, Duration, and Size of Sales Shift and/or Vacancies:** Urban decay is more likely if a new competitive project results in a relatively large and prolonged shift in retail sales away from existing establishments or high and extended periods of vacancy. Although there is no absolute rule, generally speaking, a shift in retail sales away from existing establishments within a Trade Area of greater than 10 percent and lasting three to five years may be large enough to lead to the physical abandonment of buildings. Most establishments can usually withstand a temporary sales shift of 5 to 7 percent over a three- to five-year timeframe, as this is equivalent to a typical business cycle downturn. Likewise, market-wide vacancy rates of greater than 10 percent and lasting longer than five years can be difficult to sustain. Since the sales shift or vacancy impacts are not likely to be distributed equally across all businesses in a trade area, the incidence of these impacts may also be relevant. For example, if the total sales shift is likely to be focused on several large properties then the potential for urban decay may exist even if the total sales shift is within the thresholds described above.
- 3. Attributes and Reuse Options of Affected Properties:** The type, location, and parcel configuration of affected properties as well as the range of potential reuse options will also play a role in their susceptibility to urban decay. As noted above, an abandoned “ghost box” poses a particularly strong risk for urban decay because of the difficulty in finding an appropriate replacement tenant. Given the size and configuration of the big box center, finding viable replacement uses can be difficult and prolonged.

Potential Urban Decay Impacts

Methodology

The proposed Deer Creek Village retail will potentially capture retail sales from three major sources:

1. Demand that has been historically “leaked” to establishments outside the trade area
2. New demand from households, employment, and visitor growth
3. Demand historically captured by existing establishments in the trade area

The economic impact of the Deer Creek Village Project will depend upon the degree to which these three sources of demand are captured. To the extent that the Project captures newly created demand, or demand currently leaking outside the trade area, the retail market impact on existing establishments will be minimized. However, negative retail market impacts may result if the Project captures sales from within the trade area that formerly were captured by existing establishments. It is likely that a portion of the trade area residents will continue to shop elsewhere; however, this leakage is assumed to be generally offset by expenditures of non-trade area residents who would potentially be attracted to Petaluma by Lowe’s or other components of the Project.

For the purposes of this analysis, the retail component of the Deer Creek Village Project is assumed to enter the market by 2012. Given the current leakage in the trade area, the Project is likely to capture additional trade area expenditures currently captured by other jurisdictions. Deer Creek Village is assumed to capture all of the existing leakage in Apparel and Building Materials and Construction as a result of Lowe's sale projections exceeding the current leakage total. In addition, the Project is estimated to capture a portion of the leakage in restaurants. While specific restaurant tenants have not been identified, restaurant and dining space within the Project is estimated to capture about 18 percent of the existing trade area leakage in this expenditure category based on an assumed share of restaurants and eating places as a portion of the overall retail mix within the Project and likely sales rates.

New household and employment growth will result in the increase of demand for retail expenditures. This analysis assumes that Deer Creek Village will capture a portion of this demand. The Project will not likely capture any additional sales in restaurants beyond the share of existing leakage estimated in this analysis. The Project is also not likely to capture any sales from auto dealers or service stations given a lack of auto dealerships or gas stations within the Project. As a result, the Project is estimated to capture about 45 percent of retail spending resulting from new household and employment growth in the trade area.

In addition to the Deer Creek Village Project capturing a share of existing leakage and demand from new growth, it is also assumed to be delivered at the time when the market recovery would result in the stabilization in retail expenditures to normalized levels. As a result, the analysis assumes that a large share of existing and currently vacant retail, including newly constructed retail space, would be absorbed by 2012 because of increased retail spending, decreasing the City's retail vacancy rate. Furthermore, retail demand would be enhanced by household, employment, and visitor growth. These factors are estimated to increase the overall retail market demand and provide additional support for the retail included in the Project, as shown in **Table 13**.

Project-Specific Impacts

As a first step, EPS has evaluated the retail market impact of the Deer Creek Village Project independently from other retail projects in the pipeline. The retail portion of the Deer Creek Village Project will contribute a significant amount of additional retail space to the retail trade area. As additional square footage enters the market, an anticipated sales shift from existing retailers to new retail space is likely to occur. Consequently, a number of existing retail properties, especially those that would compete directly with the tenants in the Project, would face competitive pressures and the potential for a reduction of sales and/or increased vacancies.

The retail in Deer Creek Village is expected to contribute approximately 282,000 square feet of retail space and approximately \$83.8 million in annual retail sales to the trade area. This represents an estimated 10.5 percent increase over existing normalized supply (measure in terms of sales). Of Deer Creek's projected sales, it is estimated that about \$43.6 million or 52 percent would represent net new sales by 2012, that is, sales from existing leakage and new household and employment growth over the next two years. The remaining \$40.3 million or 48 percent of sales would attribute to a shift from existing establishments in the trade area. However, because of continued population and employment growth, the share of net new sales

Table 13
Potential Deer Creek Impacts Over Time (constant 2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	2012	2015	2020	2025
Deer Creek Sales (1)	\$83,832,640	\$83,832,640	\$83,832,640	\$83,832,640
(Less) Leakage (2)				
Apparel	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)
Service Stations (3)	\$0	\$0	\$0	\$0
Restaurants (4)	(\$7,656,250)	(\$7,656,250)	(\$7,656,250)	(\$7,656,250)
Building Materials and Construction	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>
Subtotal	(\$38,731,021)	(\$38,731,021)	(\$38,731,021)	(\$38,731,021)
(less) Expenditures From Household and Employment Growth				
New Households	331	836	1,553	2,425
New Non-Resident Employment	215	540	1,965	4,163
Retail Sales Expenditures (5)				
New Households \$30,860 per household	(\$10,223,696)	(\$25,805,657)	(\$47,924,791)	(\$74,836,405)
New Non-Resident Employment \$2,360 per employee	<u>(\$506,290)</u>	<u>(\$1,274,400)</u>	<u>(\$4,637,400)</u>	<u>(\$9,823,500)</u>
Total Retail Sales Expenditures	(\$10,729,986)	(\$27,080,057)	(\$52,562,191)	(\$84,659,905)
Project Share (6)	(\$4,828,494)	(\$12,186,026)	(\$23,652,986)	(\$38,096,957)
Deer Creek Capture of Existing City Retail Sales	\$40,273,125	\$32,915,593	\$21,448,633	\$7,004,662
Net New Sales	\$43,559,515	\$50,917,047	\$62,384,007	\$76,827,978
Net New Sales as % of Total Sales	52.0%	60.7%	74.4%	91.6%

(1) Based on sales per square foot of retail estimated in Table 1.

(2) Assumes that apparel and home improvement sales will offset the existing leakage while restaurant sales will reduce the City's leakage in restaurant spending.

(3) Because Deer Creek does not include a gas station, the Project is not expected to reduced the existing leakage of servise station sales in the trade area.

(4) Restaurant leakage is based on the lesser of the citywide retail leakage or the restaurant sales and 1/2 of inline shop sales, which is a conservative approach.

(5) Based on per capita sales estimated in Table 9.

(6) Assumed to capture 45% of total retail sales based on Deer Creek Village's share of the overall new retail space in the trade area's pipeline; approximately equivalent to the full capture in apparel, food stores, general merchandise, and building materials and construction sales.

Sources: City of Petaluma and Economic & Planning Systems, Inc.

generated by the Project would increase over time. Specifically, the net new share of the sales would grow to \$62.4 million or 74 percent of the total by 2020 and to \$76.8 million or 92 percent by 2025.

Based on the methodology and assumptions described above, the impact of the Deer Creek Village project on the trade area retail sales through 2025 is estimated in **Table 14**. As shown, while the Project would capture a portion of new demand, it would also result in a sales shift from existing establishments in the trade area. This shift of 4.6 percent of the retail inventory initially would decrease over time to 0.8 percent by 2025. This relatively modest and declining impact is not likely to create conditions conducive to urban decay. In other words, property owners and tenants are likely to have an economic incentive to maintain their businesses (and properties) with the expectation that longer-term market trends are likely to be favorable.

Cumulative Impacts (*without East Washington Place*)

Because the East Washington Place Project is the largest retail project in the City's pipeline, its impacts are evaluated as a separate scenario. Without the East Washington Place Project, there are about 313,000 square feet of retail approved and proposed in the trade area, including the Deer Creek Village Project. The retail space in Deer Creek makes up about 90 percent of the overall retail space in the pipeline. The cumulative impact of the retail in the pipeline on the existing space in the trade area is shown in **Table 15**.

Based on the City's feedback, approved space is assumed to enter the market by 2012 along with the Deer Creek Village Project, while proposed space is assumed to enter the market by 2015. New retail sales are assumed to generate an average of \$330 per square foot in sales, which would result in \$10.2 million in new sales by 2015.⁷ Combined with the Deer Creek Village Project, new space would result in \$94.0 million in retail sales.

New retail space in the pipeline combined with the Deer Creek Village Project would allow for a higher capture of existing leakage and new demand from household and employment growth relative to the Project-specific scenario. Because other new retail in the pipeline will likely diversify the overall retail base, this analysis assumes the new retail space will capture a portion of existing leakage in restaurants beyond what Deer Creek Village would be able to capture in isolation. The combined new retail space would also capture a larger share of demand from household and employment growth, assumed at 50 percent relative to 45 percent in the Project-specific scenario. The additional demand capture is reflective of a larger and more diversified retail base that would likely stimulate additional retail expenditures across various segments of the market.

The cumulative effect of the new retail space in the pipeline and the Deer Creek Village Project increases the net new estimate sales from \$43.6 million estimated under the Project-specific scenario to \$46.9 million in 2012 and further from \$76.8 million to \$86.9 million by 2025. However, the cumulative projects' share of existing sales relative to the trade area total also increases. In 2012, it is 4.7 percent relative to 4.6 percent in the Project-specific scenario.

⁷ It is assumed that sales rate will remain constant in real terms.

Table 14
Potential Deer Creek Impacts Over Time (constant 2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	2012	2015	2020	2025
Deer Creek Sales (1)	\$83,832,640	\$83,832,640	\$83,832,640	\$83,832,640
(Less) Leakage (2)				
Apparel	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)
Service Stations (3)	\$0	\$0	\$0	\$0
Restaurants (4)	(\$7,656,250)	(\$7,656,250)	(\$7,656,250)	(\$7,656,250)
Building Materials and Construction	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>
Subtotal	(\$38,731,021)	(\$38,731,021)	(\$38,731,021)	(\$38,731,021)
(less) Expenditures From Household and Employment Growth				
New Households	331	836	1,553	2,425
New Non-Resident Employment	215	540	1,965	4,163
Total Retail Sales Expenditures (5)	(\$10,729,986)	(\$27,080,057)	(\$52,562,191)	(\$84,659,905)
Project Share (6)	(\$4,828,494)	(\$12,186,026)	(\$23,652,986)	(\$38,096,957)
Deer Creek Capture of Existing City Retail Sales	\$40,273,125	\$32,915,593	\$21,448,633	\$7,004,662
Net New Sales	\$43,559,515	\$50,917,047	\$62,384,007	\$76,827,978
Trade Area Retail Sales (7)	\$873,985,795	\$881,343,327	\$892,810,287	\$907,254,258
Required Sales Shift From Existing City Retail	4.6%	3.7%	2.4%	0.8%

(1) Based on sales per square foot of retail estimated in Table 1.

(2) Assumes that apparel and home improvement sales will offset the existing leakage while restaurant sales will reduce the City's leakage in restaurant spending.

(3) Because Deer Creek does not include a gas station, the Project is not expected to reduced the existing leakage of service station sales in the trade area.

(4) Restaurant leakage is based on the lesser of the citywide retail leakage or the restaurant sales and 1/2 of inline shop sales, which is a conservative approach.

(5) Based on per capita sales estimated in Table 9.

(6) Assumed to capture 45% of total retail sales based on Deer Creek Village's share of the overall new retail space in the trade area's pipeline.

(7) Based on the Petaluma sales average between 2000 and 2009 with the addition of sales from the recently developed retail space and the Project's share of net new sales.

Sources: City of Petaluma and Economic & Planning Systems, Inc.

Table 15
Cumulative Impacts of the New Retail in the Pipeline *without* East Washington Place (constant 2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	2012	2015	2020	2025
Deer Creek Sales (1)	\$83,832,640	\$83,832,640	\$83,832,640	\$83,832,640
Pipeline				
Retail Square Footage (2)	12,800	30,800	30,800	30,800
Additional Sales (3)	\$4,224,000	\$10,164,000	\$10,164,000	\$10,164,000
(Less) Leakage (4)				
Apparel	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)
Service Stations	(\$725,317)	(\$725,317)	(\$725,317)	(\$725,317)
Restaurants (5)	(\$9,768,250)	(\$12,738,250)	(\$12,738,250)	(\$12,738,250)
Building Materials and Construction	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>
Subtotal	(\$41,568,338)	(\$44,538,338)	(\$44,538,338)	(\$44,538,338)
(less) Expenditures From Household and Employment Growth				
New Households	331	836	1,553	2,425
New Non-Resident Employment	215	540	1,965	4,163
Retail Sales Expenditures (6)	(\$5,364,993)	(\$13,540,028)	(\$26,281,096)	(\$42,329,952)
New Projects' Capture of Existing City Retail Sales	\$41,123,309	\$35,918,274	\$23,177,207	\$7,128,350
Net New Sales	\$46,933,331	\$58,078,366	\$70,819,433	\$86,868,290
Trade Area Retail Sales (7)	\$877,359,611	\$888,504,646	\$901,245,713	\$917,294,570
Required Sales Shift From Existing City Retail	4.7%	4.0%	2.6%	0.8%

(1) Based on sales per square foot of retail estimated in Table 1.

(2) It is assumed that approved projects would be developed by 2012 and the proposed projects would be approved by 2015.

(3) Reflect an average sales rate of \$330 per square foot.

(4) Assumes that apparel and home improvement sales will offset the existing leakage while restaurant sales will reduce the City's leakage in restaurant spending.

(5) Restaurant leakage is based on the lesser of the citywide retail leakage or the sum of Deer Creek Village restaurant sales and 1/2 of inline shop sales and 1/2 of additional sales from retail in the pipeline outside of Deer Creek Village.

(6) Based on per capita sales estimated in Table 9; the projects combined are assumed to capture 50% of demand from new growth.

(7) Based on the Petaluma sales average between 2000 and 2009 with the addition of sales from the recently developed retail space and the Project's share of net new sales.

Sources: City of Petaluma and Economic & Planning Systems, Inc.

The share decreases over time to 0.8 percent by 2025. This means that if Deer Creek Village as well as the approved and entitled projects are developed, the space will create a potential reduction in sales of approximately 4.7 percent from existing businesses in 2012 and 0.8 percent in 2025.

The above analysis suggests that while the impact of Deer Creek Village retail would be slightly more significant when viewed in the context of other approved and proposed projects in the trade area (excluding East Washington Place), the Project is unlikely to result in conditions consistent with urban decay. Again, property owners and tenants are likely to have an economic incentive to maintain their businesses (and properties) with the expectation that longer-term market trends are likely to be favorable.

Cumulative Impacts (*with* East Washington Place)

East Washington Place is the largest retail project in the City's pipeline and is planned for 362,000 square feet of retail space, including a 139,000-square foot Target anchor. If it is developed along with all other retail projects in the City's pipeline, the projects will add an additional 675,000 square feet of retail space to the trade area. This represents an estimated 26 percent increase over existing normalized supply (measure in terms of sales). The cumulative impact of this space on the existing retail in the trade area is shown in **Table 16**.

This analysis utilizes similar absorption assumptions as the previous scenario with the addition of the initial 200,000 square feet of the East Washington Place retail by 2012 and the remaining 162,000 square feet by 2015. New retail sales, including those at East Washington Place, are assumed to generate an average of \$330 per square foot, which would result in \$129.6 million in new sales by 2015. Combined with the Deer Creek Village Project, new space would generate \$213.5 million in retail sales.

The amount of new retail space in the pipeline would enable the combined projects to capture a higher portion of existing leakage and new demand from household and employment growth relative to the other two scenarios. It is assumed that the cumulative impacts of all retail in the pipeline will result in the full capture of existing leakage in restaurants, which would eliminate any leakage of sales from the trade area. In addition, the combined new retail space would also capture full demand from household and employment growth. The additional demand capture is reflective of a more diversified retail base, including addition of the Target store, and would likely stimulate additional retail expenditures across various market segments.

The inclusion of the East Washington Square Project in the cumulative effect of new retail space in the pipeline results in the highest net new sales estimate of \$85.2 million by 2012 increasing to \$101.6 million by 2015 and to \$159.2 million by 2025. However, the cumulative projects' share of existing sales relative to the trade area total also increases significantly. In 2012, this share is 7.5 percent and increases to 12.0 percent by 2015 based on the development timetable provided by the City. The cumulative projects' share reduces thereafter to 9.0 percent by 2020 and to 5.5 percent by 2025 but still significantly above those estimated in the other scenarios. This means that if Deer Creek Village as well as East Washington Square and all other approved and entitled projects would be developed, the space will create a potential reduction in sales of

Table 16
Cumulative Impacts of the New Retail in the Pipeline with East Washington Place (constant 2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	2012	2015	2020	2025
Deer Creek Sales (1)	\$83,832,640	\$83,832,640	\$83,832,640	\$83,832,640
Pipeline				
Retail Square Footage (2)	212,800	392,800	392,800	392,800
Additional Sales (3)	\$70,224,000	\$129,624,000	\$129,624,000	\$129,624,000
(Less) Leakage (4)				
Apparel	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)	(\$3,478,165)
Service Stations	(\$725,317)	(\$725,317)	(\$725,317)	(\$725,317)
Restaurants (5)	(\$42,712,937)	(\$42,712,937)	(\$42,712,937)	(\$42,712,937)
Building Materials and Construction	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>	<u>(\$27,596,606)</u>
Subtotal	(\$74,513,024)	(\$74,513,024)	(\$74,513,024)	(\$74,513,024)
(less) Expenditures From Household and Employment Growth				
New Households	331	836	1,553	2,425
New Non-Resident Employment	215	540	1,965	4,163
Retail Sales Expenditures (6)	(\$10,729,986)	(\$27,080,057)	(\$52,562,191)	(\$84,659,905)
New Projects' Capture of Existing City Retail Sales	\$68,813,630	\$111,863,559	\$86,381,424	\$54,283,711
Net New Sales	\$85,243,010	\$101,593,081	\$127,075,216	\$159,172,929
Trade Area Retail Sales (7)	\$915,669,290	\$932,019,361	\$957,501,495	\$989,599,209
Required Sales Shift From Existing City Retail	7.5%	12.0%	9.0%	5.5%

(1) Based on sales per square foot of retail estimated in Table 1.

(2) It is assumed that 200,000 of the East Washington Place Project and all other approved projects would be developed by 2012, while the remainder of the East Washington Place Project and all proposed projects would be developed by 2015.

(3) Reflect an average sales rate of \$330 per square foot.

(4) Assumes that home improvement sales will offset the existing leakage in building materials while restaurant sales will reduce the City's leakage in restaurant spending.

(5) Restaurant leakage is based on the lesser of the citywide retail leakage or the sum of Deer Creek Village restaurant sales and 1/2 of inline shop sales and 1/2 of additional sales from retail in the pipeline outside of Deer Creek Village.

(6) Based on per capita sales estimated in Table 9; the projects combined are assumed to capture 100% of demand from new growth.

(7) Based on the Petaluma sales average between 2000 and 2009 with the addition of sales from the recently developed retail space and the Project's share of net new sales.

Sources: City of Petaluma and Economic & Planning Systems, Inc.

approximately 12 percent from existing businesses in 2015 and 5.5 percent in 2025. This suggests that the cumulative impact of these retail projects could result in conditions consistent with urban decay in the 2015 to 2020 time frame. After 2020 the potential for urban decay under this scenario declines significantly.

Urban decay is by no means guaranteed under this scenario. The retail sector is inherently very competitive and dynamic with tenants constantly adapting their formats products to meet changing consumer preferences and other market trends. By way of example, there are a variety of options that may be available to existing property owners that could help mitigate against the increase in Trade Area competitive supply, including (1) identifying and establishing innovative retail niches that successfully attract increased demand from outside the Trade Area and/or (2) transitioning their properties to other non-retail uses that are more viable from a market and financial perspective.

It is also important to note that the outcome described above assumes that the East Washington Place project is fully built out by 2015 and Deer Creek is built out by 2012. To the extent that this development schedule is extended for either project, the conditions conducive to urban decay are likely to diminish. Conversely, these conditions may be exacerbated if the development schedules for either project are accelerated. Finally, to the degree that either project generates sales levels below those assumed in this analysis, their competitive impacts would be reduced proportionately.

5. PETALUMA SALES TAX ESTIMATE

This chapter estimates the potential net new sales tax revenue to the City of Petaluma from new retail supply, including the portion attributable to the Deer Creek Village project. The sales tax forecast is projected for the City's General Fund and reflects a scenario when all space in the City's retail pipeline is developed, including the Deer Creek Village and East Washington Square Projects. The estimates are provided for 2015 and exclude additional retail sales that are merely transferred or captured from existing retail establishments.

As described in the previous chapter, the forecast assumes that retail space currently in the pipeline would capture all existing leakage in the trade area of about \$74.5 million in sales. Deer Creek Village is estimated to account for about \$31.1 million or 42 percent of this amount based on its share of the retail space in the pipeline, as shown in **Table 13**. New retail space is also assumed to capture all of new demand generated by new population and employment growth estimated at \$27.1 million by 2015. The Project is estimated to capture \$11.3 million or 42 percent of this total based on its share of the retail space total.

This analysis assumes that all sales are taxable with the exception of food stores, where 30 percent of the sales are taxable based on the broader average. As a result, the total taxable sales in the City are estimated at \$97.2 million, with Deer Creek Village retail supporting \$40.6 million or 42 percent of this total, as shown in **Table 17**. Because the City's General Fund receives a 1.0 percent share of taxable sales, it is estimated to increase its sales tax from new retail by \$972,000 a year by 2015, with the Project supporting approximately \$406,200 in annual sales.

To the extent that other planned or approved projects do not move forward, the potential increase in citywide sales tax attributable to Deer Creek Village would be higher. For example, if East Washington Place is not developed, EPS estimates the Deer Creek Village would generate about \$487,300 per year in new sales tax to the City, as shown in **Table 18**.

Table 17
Estimated Sales Tax Forecast to Petaluma General Fund in 2015 with East Washington Place (constant 2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	Trade Area Total	Deer Creek Plaza Share (1)	Deer Creek as % of Trade Area Total
Base Sales (2)	\$816,929,280	na	na
Net New Retail Sales (2015)			
Capture of Existing Leakage	\$74,513,024	\$31,142,197	42%
Retail Spending From New Growth	<u>\$27,080,057</u>	<u>\$11,317,920</u>	42%
Total New Retail Sales	\$101,593,081	\$42,460,117	42%
New Taxable Sales (3)	\$97,184,539	\$40,617,598	42%
Petaluma General Fund Share	\$971,845	\$406,176	42%

(1) It is assumed that Deer Creek would capture a share of net new retail spending based on its proportion of the overall retail square footage.

(2) It is assumed that an average of 2000 to 2009 sales reflect a normalized expenditure trend.

(3) Based on 30% of sales generated by food stores assumed as taxable.

Sources: Economic & Planning Systems, Inc.

Table 18
Estimated Sales Tax Forecast to Petaluma General Fund in 2015 *without* East Washington Place (constant 2010 dollars)
Deer Creek Village Urban Decay Analysis; EPS #20078

Item	Trade Area Total	Deer Creek Plaza Share	Deer Creek as % of Trade Area Total
Base Sales (1)	\$816,929,280	na	na
Net New Retail Sales (2015)			
Capture of Existing Leakage (2)	\$44,538,338	\$38,731,021	87%
Retail Spending From New Growth (3)	<u>\$13,540,028</u>	<u>\$12,207,008</u>	90%
Total New Retail Sales	\$58,078,366	\$50,938,029	88%
New Taxable Sales (4)	\$55,558,107	\$48,727,618	88%
Petaluma General Fund Share	\$555,581	\$487,276	88%

(1) It is assumed that an average of 2000 to 2009 sales reflect a normalized expenditure trend.

(2) Deer Creek is assumed to capture the leakage in the building materials and construction and apparel categories and a portion of leakage in the restaurants category. The remainder of the service stations and restaurants leakage is assumed to be captured by other new projects, such as East Washington Place.

(3) It is assumed that Deer Creek would capture a share of net new retail spending based on its proportion of the overall retail square footage.

(4) Based on 30% of sales generated by food stores assumed as taxable.

Sources: Economic & Planning Systems, Inc.