

# Final Market Analysis Report

## Fulton Corridor Specific Plan

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# Table of Contents

|             |   |           |
|-------------|---|-----------|
| <b>I.</b>   | <b>PRINCIPAL FINDINGS AND RECOMMENDATIONS .....</b>                 | <b>3</b>  |
|             | Introduction.....   | 3         |
|             | Principal Findings .....  | 3         |
|             | <i>Regional Economic Context</i> .....                              | 3         |
|             | <i>Housing Market Analysis</i> .....                                | 4         |
|             | <i>Office Market</i> .....  | 4         |
|             | <i>Regional Retail/Entertainment Uses</i> .....                     | 5         |
|             | Summary of Development Program .....                                | 5         |
|             | Recommended “next steps” for the City of Fresno .....               | 5         |
|             | Indicators of success .....   | 6         |
| <b>II.</b>  | <b>REGIONAL ECONOMIC OVERVIEW .....</b>                             | <b>8</b>  |
|             | Fresno County Employment Profile .....                              | 8         |
|             | Historical Employment Trends.....                                   | 9         |
|             | Employment Centers and Commute Patterns.....                        | 13        |
| <b>III.</b> | <b>HOUSING MARKET ANALYSIS .....</b>                                | <b>16</b> |
|             | Housing Development Trends .....                                    | 16        |
|             | Market Performance.....   | 20        |
|             | <i>For-Sale Housing</i> .....                                       | 20        |
|             | <i>Rental Housing</i> .....   | 21        |
|             | Housing Market Demand.....  | 24        |
|             | Financial Feasibility of Multi-family Residential Development ..... | 25        |
| <b>IV.</b>  | <b>OFFICE MARKET ANALYSIS .....</b>                                 | <b>29</b> |
|             | Regional Employment and Commute Patterns .....                      | 29        |
|             | <i>Current Job Concentrations</i> .....                             | 29        |
|             | Downtown Fresno Office Market Conditions .....                      | 34        |
|             | <i>Rents</i> .....  | 34        |
|             | <i>Vacancy</i> .....  | 35        |
|             | <i>Completed, Planned, and Proposed Projects</i> .....              | 36        |
|             | <i>Tenant Mix</i> .....   | 36        |
|             | Opportunities and Constraints .....                                 | 37        |
|             | Office Demand.....  | 38        |
|             | <i>Projected Employment Growth</i> .....                            | 38        |
|             | <i>High-Growth Industries</i> .....                                 | 38        |
|             | <i>Office Demand</i> .....  | 39        |
| <b>V.</b>   | <b>REGIONAL RETAIL AND ENTERTAINMENT .....</b>                      | <b>43</b> |
|             | Regional Trade Area.....  | 43        |
|             | Existing Supply of Regional Retail and Entertainment Uses.....      | 43        |
|             | Regional Retail and Entertainment Market Demand.....                | 49        |
|             | Case Studies of Retail and Entertainment Districts .....            | 53        |

# I. PRINCIPAL FINDINGS AND RECOMMENDATIONS

## INTRODUCTION

Strategic Economics (SE) prepared a series of market and economic analysis to provide a solid foundation upon which to build a development program and public investment strategy for the Fulton Corridor Specific Plan Area (Plan Area). SE conducted a number of studies in order to inform the plans, including: regional demographic and economic analysis, market analysis for housing, office, and retail/entertainment uses, including case studies of retail/entertainment districts, and financial feasibility analysis. Following this section summarizing our principal findings, the report is organized into the following sections: Section II presents the regional economic context and demographics; Section III summarizes the housing market and feasibility analysis; Section IV discusses the office market potential, and Section V explores the retail/entertainment development potential.

## PRINCIPAL FINDINGS

The following summarizes the principal findings of the study.

### Regional Economic Context

**Fresno County and the greater Central San Joaquin Valley region are growing economies.** The region added approximately 120,000 jobs from 1990 to 2009, and Fresno County received approximately half of that job growth.

**The regional economy continues to shift from a resource-based to a service-based economy.** Much of the economic growth in Fresno County has occurred in mainly resident-serving sectors, while the agriculture-related industries have experienced a significant decline. In addition to larger national and structural trends, these changes have been fueled in large part by the region's expanding population, and the conversion of agricultural land to housing development.

**Downtown Fresno is one of the largest job centers in the region, holding approximately 30,000 jobs.**<sup>1</sup> However, the Plan Area's share of employment is declining, as new jobs increasingly locate in North Fresno and other suburban locations.

### Role of High-Speed Rail on Development

It is SE's understanding that the California High Speed Rail Authority is currently working with Fresno stakeholders to finalize the location of the future high-speed rail station within the Specific Plan Area. However, the nature of the transit service, including frequency of trains and connections, remains to be determined. While it is clear that the infrastructure could be a significant amenity for the Downtown and the greater region, the potential for significant growth in Fresno due to the high speed rail station depends on the extent to which future residents and employees would benefit from the lower cost of housing and labor in the city relative to other higher cost places such as San Francisco and Los Angeles. From a development perspective, the station would offer an opportunity for focused higher density, pedestrian-oriented development projects in the Plan Area. However, as pointed out by a recent University of

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<sup>1</sup> U.S. Census Bureau - Longitudinal Employer-Household Dynamics, 2008. Accessed 2010.

California Berkeley report on the topic of the high speed rail station in Fresno, “careful consideration and planning must be given to the density of development, parking management, and multimodal transit connections” to fully maximize the potential.<sup>2</sup> The findings of the market analysis shown below assume that the high speed rail station would have a modest impact on the market for housing and commercial uses, but would not transform the local development economics.

In addition to the rail station, there have also been discussions around locating a maintenance facility for the rail cars in the city of Fresno, though it is unlikely to be within the Plan Area. The economic impact of the potential maintenance facility is difficult to estimate accurately. The facility would create new jobs in Fresno, and create some ripple effects to suppliers of materials in the city and the greater Central Valley region. However, the ability of the Plan Area to capitalize on the economic activity will largely depend on the proximity of the facility’s location to existing employment nodes, and the economic benefits to suppliers of locating near the facility.

## Housing Market Analysis

Most development in Fresno in recent decades has consisted of detached single-family homes, mostly in the northern part of the city. During the housing boom, the market’s delivery of higher density units was limited to a small number of rental projects.

**There is market demand for between 4,000 and 7,000 units in the Specific Plan Area from 2010 to 2030.** This is equivalent to an average annual absorption of 150 to 250 units. The velocity of absorption of multifamily, compact housing types is likely to be slow in the near term until the housing market recovers.

**There is private development interest in building higher-density building types in the Plan Area.** However, though there has been recent development of multi-family units Downtown, the majority of the projects have received some form of subsidy from local government sources. Recent development activity in the Plan Area has been concentrated in the Cultural Arts District.

**The private market for higher density products will take time.** There are significant financial feasibility challenges to building housing in the Plan Area, due to the continued popularity and affordability of suburban detached single-family housing compared to higher cost multifamily units. In the short term, the private market is likely to deliver attached single-family and townhouse units. In the longer term, warehouse lofts and stacked flats in three- and four-story buildings may become financially feasible from the point of view of private developers. Although some of these higher-density building types have been developed in the Specific Plan Area recently, it is important to note that these projects required financial assistance from the Housing Authority and/or the Redevelopment Agency.

## Office Market

**The Plan Area continues to be an attractive location for government uses, legal firms, and medical offices.** Downtown Fresno features a stable base of office employment due to its concentration of government offices. However, the Plan Area must increasingly compete with North Fresno for new office tenants and development.

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<sup>2</sup> Elizabeth Deakin, Nicolae Duduta, Manish Shirgaokar, Gil Tal, “Transit-Oriented Development (TOD) Design Proposals for Fresno”, Global Metropolitan Studies Program, University of California, Berkeley, June 2010.

**The Plan Area’s office market faces challenges ranging from persistent high vacancy rates in inefficient, often neglected historic structures, to perceptions of being unsafe, difficult access by car, a lack of amenities, and a location distant from the homes of office workers.** The vacancy rate for historic office buildings on the Fulton Mall is estimated at 71 percent. The reuse of these buildings is challenging due to limited auto access, outdated layouts, the high cost of renovation, and market uncertainty regarding the future of the Fulton Mall.

**The Plan Area can potentially capture demand for between 1.2 million and 1.8 million square feet of new office space between 2010 and 2035, net of absorption of new and vacant spaces.** The ability of The Plan Area to be able to attract private development will depend on a host of factors such as the availability of amenities to support office workers, the improvement of circulation and access through the Fulton Mall, and the successful rehabilitation and reuse of existing vacant office buildings.

**There is potential in attracting “creative” businesses like technology, advertising, design, and other professional services firms.** These firms are often small and entrepreneurial, seek inexpensive space, and prefer the kinds of unique or raw spaces that can be provided within rehabilitated historic buildings.

### Regional Retail/Entertainment Uses

**The Plan Area has the potential to become a regional retail and entertainment destination.** Given the addition of new housing and office space in the Plan Area, as well as the considerable growth in population projected in the greater 45-minute drive time market area, there is an opportunity for the Plan Area to leverage its existing assets to draw more retail and entertainment uses.

**The Specific Plan Area has the potential for the development of between 1.3 million and 1.6 million square feet of new retail and entertainment space in the next 25 years.** The type of supportable retail includes food stores, eating and drinking places, general merchandise, and other retail. Regional retail entertainment development should be focused near existing anchors and attractors such as the ball park and historic theaters.

## SUMMARY OF DEVELOPMENT PROGRAM

The following summarizes the demand-based development program for the Specific Plan Area based on the market analysis.

| Land Use                                     | Low         | High        |
|--|-------------|-------------|
| Housing Units (number of units)              | 4,060       | 6,960       |
| Office (gross sf)                            | 2.6 million | 3.9 million |
| Regional Retail and Entertainment (gross sf) | 1.3 million | 1.6 million |

## RECOMMENDED “NEXT STEPS” FOR THE CITY OF FRESNO

SE recommends the following strategies for the City of Fresno to facilitate real estate development in the Plan Area:

**Focus on locating future compact housing types near existing job centers.** Research in other regions suggests that higher-density development located in close proximity to major employment districts commands higher values. Downtown Fresno, one of the primary job centers in the region, is a prime candidate for new compact housing development, as well as commercial development.

**Prioritize sub-areas for compact housing development.** It will be important to target the City’s efforts to specific sub-areas within the City and even within the Plan Area in order to maximize the impact of the investments, and generate a “critical mass” of activity that can spur more private sector investment.

**Make early investments in “place making” in neighborhoods that have best potential for private market activity.** Some neighborhoods will require a significant amount of “up-front” investments in the form of infrastructure improvements (sidewalks and roads), as well as enhancements like street trees and green spaces in order to “unlock” the potential for development. These investments will be more cost-effective if the City begins in areas that have the best prospects for attracting private development. For example, neighborhoods like the Cultural Arts District, which have already benefited from private sector investment, are more likely to experience increases in value over time and are good candidates for obtaining returns on investment.

**Focus on the rehabilitation or reuse of historic office buildings in order to attract new office development.** Existing historic buildings must be occupied – whether through rehabilitation or adaptive reuse to other functions – if the Plan Area is to become a vibrant urban center. Rehabilitation and reuse are made difficult by low rents and sales prices; concentrated public assistance may be necessary.

**Identify and recruit small, creative industry businesses that may be well-suited to the historic building stock in Downtown.** Small creative firms in industries like graphic design, marketing, advertising, technology, architecture, and engineering may be attracted to both historic office spaces as well as adaptive-reuse of vacant industrial buildings. The City’s economic development efforts should focus on identifying and interviewing these businesses to determine the marketability of existing office spaces to these firms.

**Allow for construction of “build-to-suit” office buildings.** The existing building stock may not meet the needs of larger office tenants due to relatively inefficient and small floor-plates of older office buildings. Despite the need to fill vacancies in those buildings, attracting large tenants might require new additions to the Plan Area’s office inventory.

**Continue to encourage government tenants to locate in the Plan Area.** Government services anchor the office market Downtown. Not only do government tenants occupy large privately- and publicly-owned buildings, but they also attract a base of related businesses such as law firms. Ongoing retention and attraction of government facilities provides a minimum base of employment to ensure the basic health of the Plan Area’s office market.

## **INDICATORS OF SUCCESS**

The following are suggested metrics that could be evaluated by the City of Fresno in order to evaluate the enhanced performance of the Specific Plan Area resulting from revitalization:

- Number of new and rehabilitated housing units
- Number of new households
- Number of new jobs
- Number of new businesses
- Increase in median household income
- Reduction in number and percentage of families living in poverty
- Reduction of number and percentage vacant housing units
- Reduction of vacant lots

- Reduction in number of substandard units
- Increase in residential rental occupancy rates
- Increase in retail occupancy rates
- Increase in office occupancy rates
- Increase in parking garage utilization rates
- Reduction in crime rates
- Increase in taxable sales in retail stores
- Increase in vehicle count on key intersections
- Increase in pedestrian foot traffic on Fulton Mall from 7 - 10 pm on Fridays and Saturdays

## II. REGIONAL ECONOMIC OVERVIEW

In order to assess the market potential of various land uses, it is important to understand the Fulton Corridor Specific Plan Area within the context of the regional economy. In this section, Strategic Economics summarizes its analysis of the employment trends in the greater Central San Joaquin Valley region and Fresno County, as well as existing job centers and commute patterns in Fresno County.

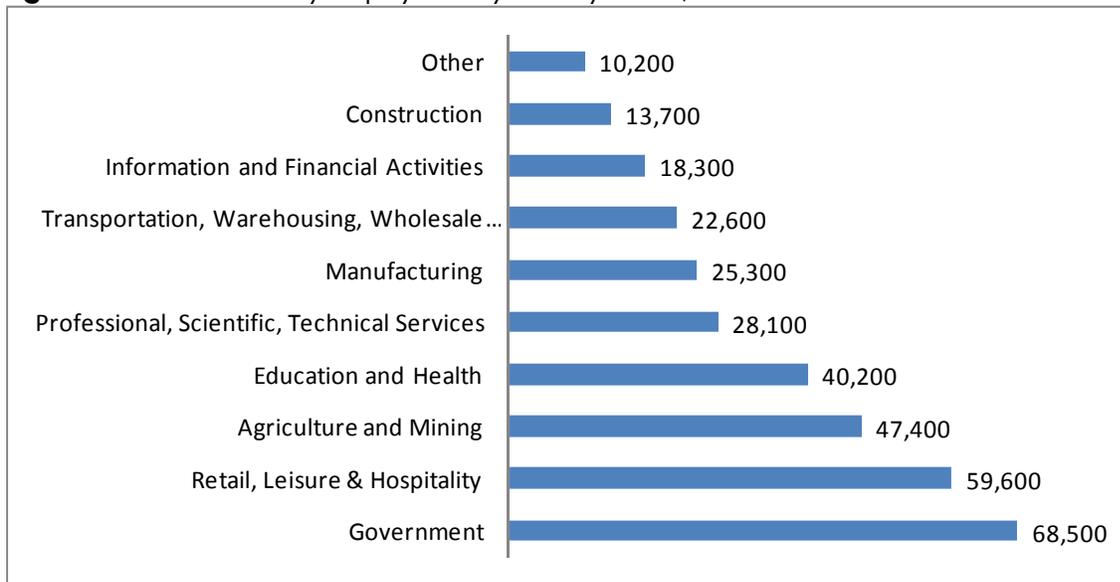
### FRESNO COUNTY EMPLOYMENT PROFILE

Over the last two decades, Fresno County's economy has shifted from being dominated by agriculture to a more service-based economy. In 2009, approximately 334,000 jobs were available in Fresno County. Of these, about 69,000 jobs were in the public sector, as shown in Figure II-1 below. The top private employment sectors in terms of total jobs include:

- Retail, Leisure & Hospitality
- Agriculture and Mining
- Education and Health Services
- Professional, Scientific, and Technical Services
- Manufacturing

Combined, these five sectors accounted for over 200,000 local jobs (60 percent) in 2009. The largest employers based in Fresno County are listed in Table II-1. They include a number of large medical and educational institutions, as well as agri-businesses and local government.

**Figure II-1:** Fresno County Employment by Industry Sector, 2009



Source: California Employment Development Department, 2010.

**Table II-1:** Largest Employers in the City of Fresno, 2008

| Company Name                                    | Total Employees | Business Type             |
|---|-----------------|---------------------------|
| Community Medical Centers                       | 7,000           | Health Services           |
| St. Agnes Medical Center                        | 6,000           | Hospitals                 |
| Zacky Farms                                     | 3,000           | Food Brokers - Wholesale  |
| Shehadey Pavilion at St. Agnes                  | 2,500           | Hospitals                 |
| California State University - Fresno            | 2,200           | Universities and Colleges |
| Foster Farms                                    | 1,800           | Poultry Farm              |
| Cargill Meat Solutions                          | 1,500           | Meat-Retail               |
| Fresno City College                             | 1,471           | Universities and Colleges |
| Fresno County Economic Opportunities Commission | 1,300           | County Government         |
| Fresno County Sheriff's Department              | 1,200           | Sheriff                   |

Source: InfoUSA, 2008; California State University Fresno, 2010.

## **HISTORICAL EMPLOYMENT TRENDS**

In order to contextualize the economic data for Fresno County, Strategic Economics also analyzed historical employment and population trends in the central San Joaquin Valley region, defined as Fresno, Madera, Kings, and Tulare Counties.

As shown in Table II-2, the total number of jobs in the central San Joaquin Valley region rose from 448,000 in 1990 to 556,000 in 2009. The four counties had a net gain of 118,000 jobs during the last two decades. Government, Education and Health Services, Retail Trade, and Professional & Business Services sectors accounted for 87 percent of the net job gains.

**Table II-2:** Employment Trends by Industry Sector in Central San Joaquin Valley Region<sup>3</sup>, 1990-2009

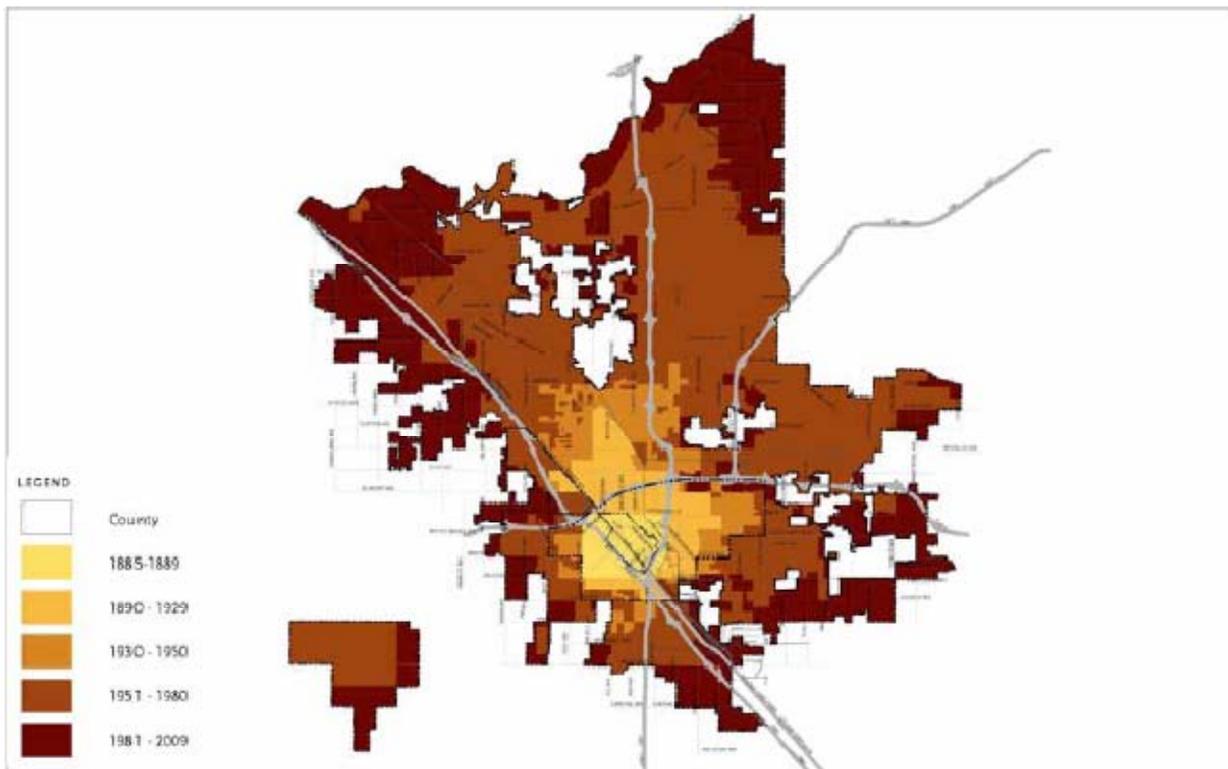
| NAICS Code(s)  | Industry Sector Name                      | Average Annual Employment |                |                |                |                | Employment Change<br>1990-2009 |              | Avg. Annual<br>Growth |
|----------------|---|---------------------------|----------------|----------------|----------------|----------------|--------------------------------|--------------|-----------------------|
|                |   | 1990                      | 1995           | 2000           | 2005           | 2009           | Number                         | Percent      | 1990-2009             |
| 11             | Agriculture                               | 95,200                    | 108,300        | 110,100        | 96,800         | 101,200        | 6,000                          | 6.3%         | 0.3%                  |
| 21, 23         | Construction, Logging, and Mining         | 22,600                    | 18,600         | 23,300         | 33,500         | 20,900         | (1,700)                        | -7.5%        | -0.4%                 |
| 31-33          | Manufacturing                             | 43,400                    | 42,900         | 45,800         | 45,900         | 44,200         | 800                            | 1.8%         | 0.1%                  |
| 22, 42, 48, 49 | Wholesale Trade, Transpo, Whsg, Utilities | 28,300                    | 30,300         | 31,700         | 33,900         | 34,400         | 6,100                          | 21.6%        | 1.0%                  |
| 44, 45, 71, 72 | Retail, Leisure & Hospitality             | 75,100                    | 82,200         | 88,300         | 95,800         | 95,900         | 20,800                         | 27.7%        | 1.3%                  |
| 51, 52, 53     | Information & Financial                   | 23,900                    | 24,400         | 26,100         | 27,400         | 26,100         | 2,200                          | 9.2%         | 0.5%                  |
| 54-56          | Prof & Business Services                  | 23,300                    | 30,600         | 37,500         | 42,100         | 40,700         | 17,400                         | 74.7%        | 3.0%                  |
| 61, 62         | Ed & Health                               | 35,600                    | 41,700         | 45,700         | 55,400         | 61,600         | 26,000                         | 73.0%        | 2.9%                  |
| 81             | Other                                     | 12,800                    | 13,400         | 14,600         | 15,200         | 14,400         | 1,600                          | 12.5%        | 0.6%                  |
| 91-94          | Government                                | 87,800                    | 96,200         | 113,500        | 120,500        | 126,600        | 38,800                         | 44.2%        | 1.9%                  |
|                | <b>Total</b>                              | <b>448,000</b>            | <b>488,600</b> | <b>536,600</b> | <b>566,500</b> | <b>566,000</b> | <b>118,000</b>                 | <b>26.3%</b> | <b>1.2%</b>           |

Source: California Employment Development Department, 2010.

<sup>3</sup> Includes Fresno, Madera, Kings, and Tulare Counties.

In Fresno County, overall employment grew by 57,000 jobs from 1990 to 2009 (Table II-3), following trends in the greater central San Joaquin Valley region. Fresno County received about half of the region's net job growth. The industry sectors that experienced the greatest job increases in Fresno County during this period included mainly resident-serving sectors: Government, Education and Health Services, Retail Trade, and Professional & Business Services. At the same time, the Agriculture industry experienced a significant decline of 5,500 jobs from 1990 to 2009. This shift from resource-based to resident-serving industries has been fueled in large part by the region's expanding population, and the conversion of agricultural land to housing development. As illustrated in Figure II-2 below, the City of Fresno has grown four-fold from 1950 to the present, driven to a large extent by the annexation of rural unincorporated areas that have been developed in order to accommodate growth.

**Figure II-2:** Fresno Urban Expansion Trends



Source: Moule Polyzoïdes

**Table II-3:** Employment Trends by Industry Sector in Fresno County, 1990-2009

| NAICS Code(s)  | Industry Sector Name                                    | Average Annual Employment |                |                |                |                | Employment Change 1990-2009 |              | Avg. Annual Growth |
|----------------|---|---------------------------|----------------|----------------|----------------|----------------|-----------------------------|--------------|--------------------|
|                |   | 1990                      | 1995           | 2000           | 2005           | 2009           | Number                      | Percent      | 1990-2009          |
| 91, 92, 93, 94 | Government  | 50,700                    | 57,600         | 65,100         | 67,000         | 68,500         | 17,800                      | 35.1%        | 1.6%               |
| 44, 45, 71, 72 | Retail, Leisure & Hospitality                           | 45,500                    | 50,600         | 56,100         | 61,000         | 59,600         | 14,100                      | 31.0%        | 1.4%               |
| 11, 21         | Agriculture   | 52,700                    | 58,200         | 55,600         | 46,400         | 47,200         | (5,500)                     | -10.4%       | -0.6%              |
| 61, 62         | Education and Health                                    | 24,900                    | 28,400         | 30,900         | 36,600         | 40,200         | 15,300                      | 61.4%        | 2.6%               |
| 54 - 56        | Professional, Scientific, Technical Services            | 16,800                    | 21,600         | 25,500         | 28,800         | 28,100         | 11,300                      | 67.3%        | 2.7%               |
| 31-33          | Manufacturing   | 24,300                    | 24,700         | 27,600         | 27,200         | 25,300         | 1,000                       | 4.1%         | 0.2%               |
| 22, 42, 48, 49 | Transportation, Warehousing, Wholesale Trade, Utilities | 20,600                    | 21,100         | 21,200         | 22,100         | 22,600         | 2,000                       | 9.7%         | 0.5%               |
| 51, 52, 53     | Information and Financial Activities                    | 17,000                    | 17,400         | 18,400         | 19,000         | 18,300         | 1,300                       | 7.6%         | 0.4%               |
| 21, 23         | Construction, Logging, and Mining                       | 15,400                    | 12,400         | 15,500         | 21,800         | 13,900         | (1,500)                     | -9.7%        | -0.5%              |
| 81             | Other   | 9,300                     | 9,800          | 10,400         | 10,800         | 10,200         | 900                         | 9.7%         | 0.5%               |
|                | <b>Total</b>  | <b>277,200</b>            | <b>301,800</b> | <b>326,300</b> | <b>340,700</b> | <b>333,900</b> | <b>56,700</b>               | <b>20.5%</b> | <b>1.0%</b>        |

Source: California Employment Development Department, 2010.

## **EMPLOYMENT CENTERS AND COMMUTE PATTERNS**

In order to understand the spatial distribution of employment within the region, Strategic Economics identified job centers and commute patterns for Fresno County using the U.S. Census Bureau's Longitudinal Employer Household Dynamics (LEHD) data. The following are the major findings of this analysis:

**Outside of the Fresno/Clovis urbanized area, Reedley, Selma, and Sanger have the highest reported job concentrations.** The majority of non-farm jobs in these and other rural Fresno cities and unincorporated places are concentrated in the Education, Health Care, Accommodations and Retail industries. These rural job centers serve local residents and drivers on Highway 99, and thus job growth is directly related to local population growth and proximity to the highway. Cities and places aligning Highway 99 have a greater share of commuters to the Fresno/Clovis urbanized area. The County's existing transportation corridors – particularly Highway 99 – facilitate a commute pattern wherein communities outside Fresno largely serve as “bedroom communities,” housing workers whose jobs are located in Fresno. The commute maps in Figure II-4<sup>4</sup> illustrate the commute patterns of two comparably sized cities: Reedley and Selma. Residents of Reedley – which is located away from the Highway 99 corridor – tend to commute more often to locations outside of the Fresno/Clovis area, compared with residents of Selma, who are located closer to the Highway 99 corridor. Twenty-five percent of Selma residents work in the City of Fresno, compared to only 14 percent of residents of Reedley.

**Industrial areas in the City of Fresno tend to draw workers from greater distances than office- or retail-based areas.** Industrial areas such as South Fresno and the Highway 99 / Shaw Ave. intersection are major regional job centers, drawing commuters from throughout Fresno and Madera Counties. There may be several factors influencing this variation in patterns:

- Fresno's industrial areas tend to be located in closer proximity to Highway 99, thus facilitating commutes to the north and south;
- Industrial jobs that do not require high education levels but can provide good wages draw from a wider labor force, and therefore have larger commute sheds.

**Downtown Fresno and the cumulative North Fresno area have the largest job concentrations in the region.** Both of these job centers hold approximately 30,000 jobs<sup>5</sup>. Fresno's major corridors (Blackstone and Shaw Avenues) account for a large share of jobs in the Fresno/Clovis area as well. The number of jobs in North Fresno job centers is growing, while the corridors have a declining number of jobs, and Downtown Fresno is stable.

**Four of the top six job center destinations are in the higher income areas of northern Fresno and Clovis.** Three of the four major office-based job centers are in northern Fresno. Downtown Fresno contains the only major concentration of office based employment with a southern location.

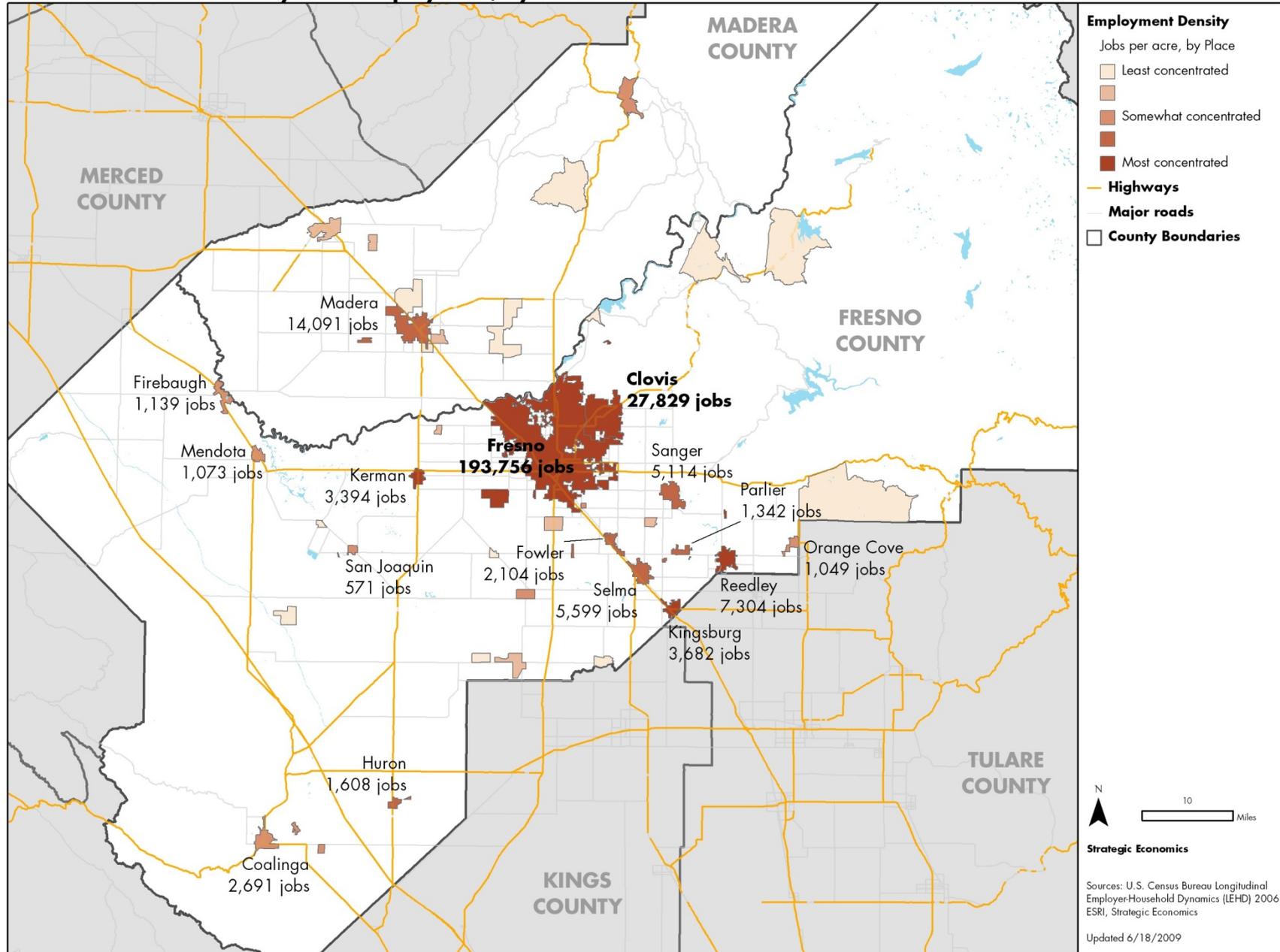
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<sup>4</sup> In these maps, the darker pink color indicates a greater concentration of workers originating from Reedley and Selma, respectively. The orange color is used to designate urbanized areas.

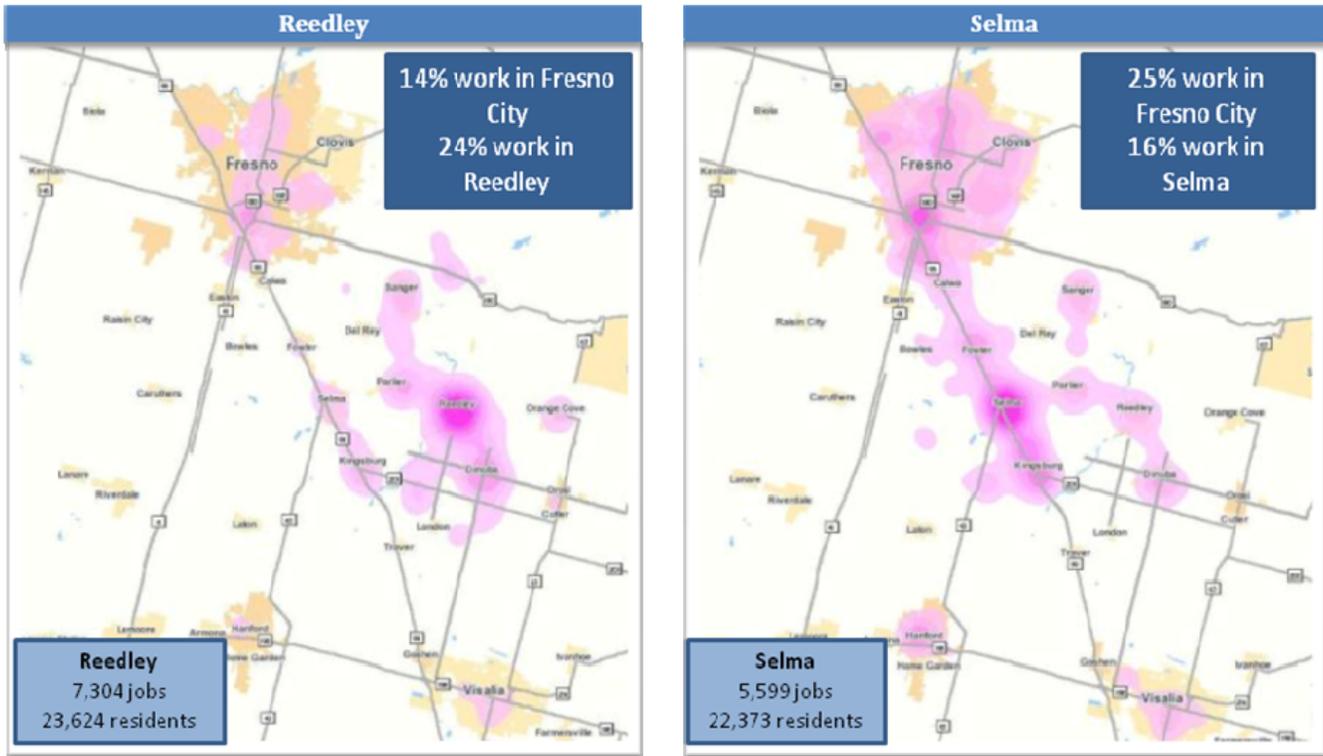
<sup>5</sup> U.S. Census Bureau - Longitudinal Employer-Household Dynamics, 2008. Accessed 2010.

**Figure II-3: Major Job Centers in Fresno and Madera Counties, 2006**

**Fresno and Madera County 2006 Employment, by Place**



**Figure II-4:** A Sample of Where Residents of Fresno Rural Cities Work



Source: U.S. Census Longitudinal Employer Household Dynamics Dataset, 2006. Available at <http://lehd.did.census.gov/led/>

### III. HOUSING MARKET ANALYSIS

This section describes regional and local housing market conditions relevant to the Plan and Area, and estimates total housing demand in the near and long term. It opens with a description of past trends in housing development in Fresno, followed by a description of current market values and recent performance. These findings are followed by a detailed examination of the potential to develop higher-density single-family and multi-family housing that is more appropriate within the Downtown Fresno context, including consideration of future market demand for housing in the Plan Area and the limitations imposed by affordability and feasibility issues.

#### HOUSING DEVELOPMENT TRENDS

The majority of Fresno’s existing housing units are located within single-family detached homes, with recent development patterns overwhelmingly focused on further single-family home development on former “greenfield” sites at the edges of the City. These development patterns contribute to increasing land area growth of the City and continued disinvestment within the Specific Plan Area.

The plan areas’ pre-war design and infrastructure makes them ideal locations for further higher-density multi-family or single-family attached development. The majority of existing housing units in these areas are located in multi-family structures, and recent development has added additional multi-family housing.

**The majority of Fresno’s existing housing stock consists of single-family detached homes.**

As shown below, over 60 percent of the City of Fresno’s housing units consist of single-family detached homes, with an even higher share in the City of Clovis and Fresno County.

**Table III-1:** Housing Composition by Number of Units, 2009

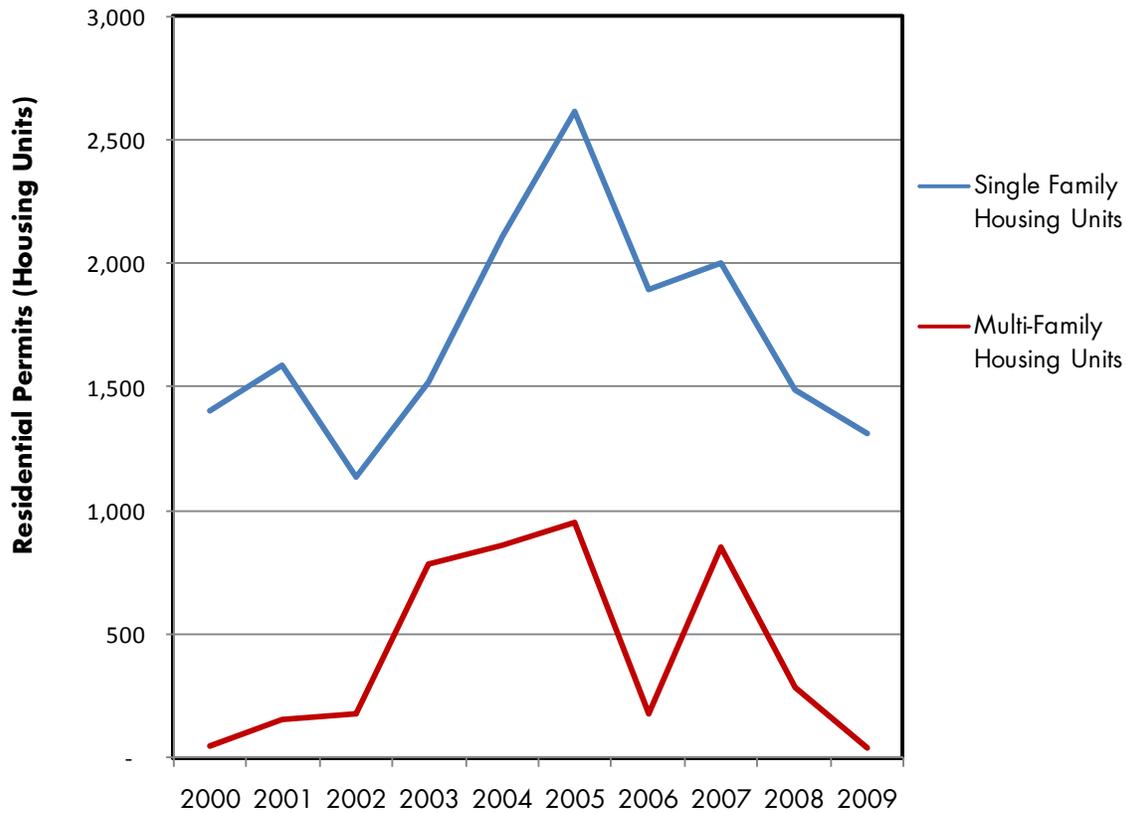
|                         | City of Fresno |       | City of Clovis |       | County Total |       |
|-------------------------|----------------|-------|----------------|-------|--------------|-------|
|                         | #              | %     | #              | %     | #            | %     |
| Single - Detached       | 100,516        | 60.5% | 24,293         | 71.4% | 206,313      | 67.0% |
| Single - Attached       | 6,028          | 3.6%  | 550            | 1.6%  | 10,083       | 3.3%  |
| Multiple - 2 to 4 units | 17,058         | 10.3% | 3,126          | 9.2%  | 25,489       | 8.3%  |
| Multiple - 5+ units     | 38,731         | 23.3% | 5,147          | 15.1% | 52,166       | 16.9% |
| Mobile Homes            | 3,923          | 2.4%  | 918            | 2.7%  | 13,995       | 4.5%  |

Source: California Department of Finance, 2009; Strategic Economics, 2010.

**Construction activity has dramatically slowed with the collapse of the housing market.**

Housing permit data shows a significant run-up in City of Fresno permits during the strong housing market that began in 2002, but permit activity begins dropping off in 2005. With the market crash, rising foreclosures, and stricter lending requirements, 2009 housing permit activity fell to approximately the same number of annual units as occurred in 2000.

**Figure III-1:** Fresno City Housing Unit Construction Permits Issued 2000 to 2009



Source: Construction Industry Research Board, 2010; Strategic Economics, 2010.

**Recent housing development in Fresno and Clovis overwhelmingly consists of single-family detached homes developed in a suburban format on large open tracts.**

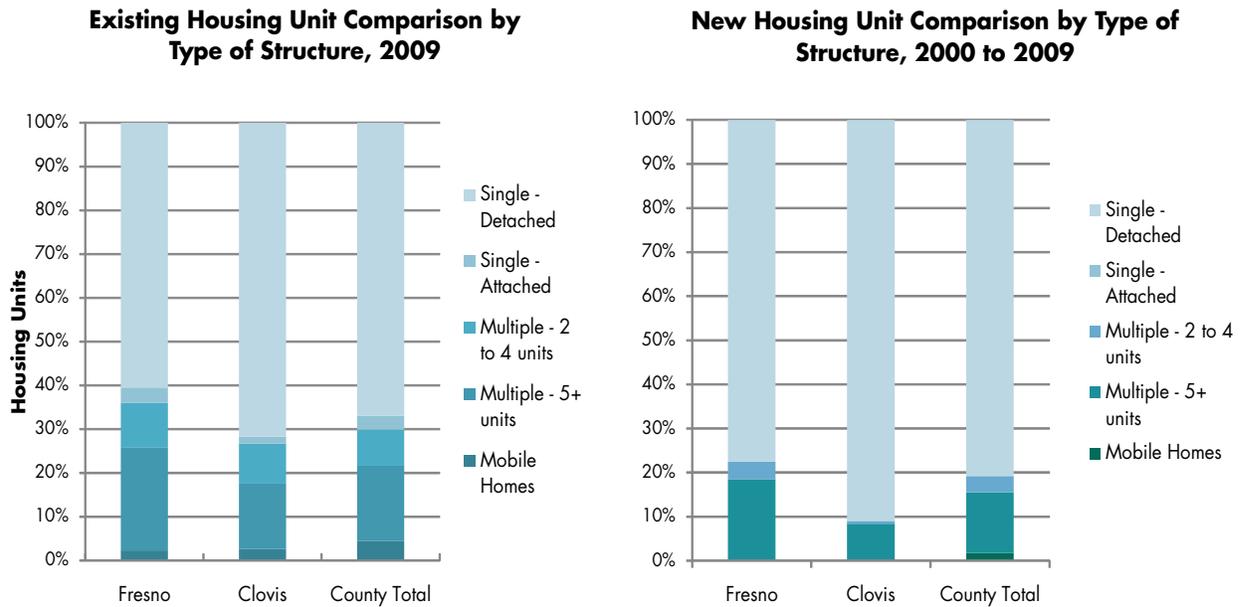
Figure III-2 below compares the overall composition of existing housing units by building type against the types of units constructed between 2000 and 2009. Nearly 80 percent of units developed during the housing boom years in the City of Fresno were single-family detached homes, thus continuing to shift the City's housing composition toward lower density single-family homes. This is in large part due to the strong market demand for traditional suburban housing types, and the relative lack of attractive urban living alternatives. Local real estate brokers and city data indicate that the single-family tract-home developments in North Fresno are the most marketable housing types.

**A large increment of additional single-family home housing development is planned for Fresno.**

Data from the Fresno Planning and Development Department shows that at least 13,000 single-family home tentative or final tract maps are currently approved in the City of Fresno, with at least an additional 3,300 in process. While not all of these units are likely to be built, these plans represent an inventory of single-family, suburban housing that could take between eight and twelve years to absorb, given historical development patterns.<sup>6</sup>

<sup>6</sup> These unit counts are preliminary estimates based on a review of recently approved projects in the City of Fresno.

**Figure III-2:** Comparison of Existing and Recently-Constructed Housing Units by Type of Structure

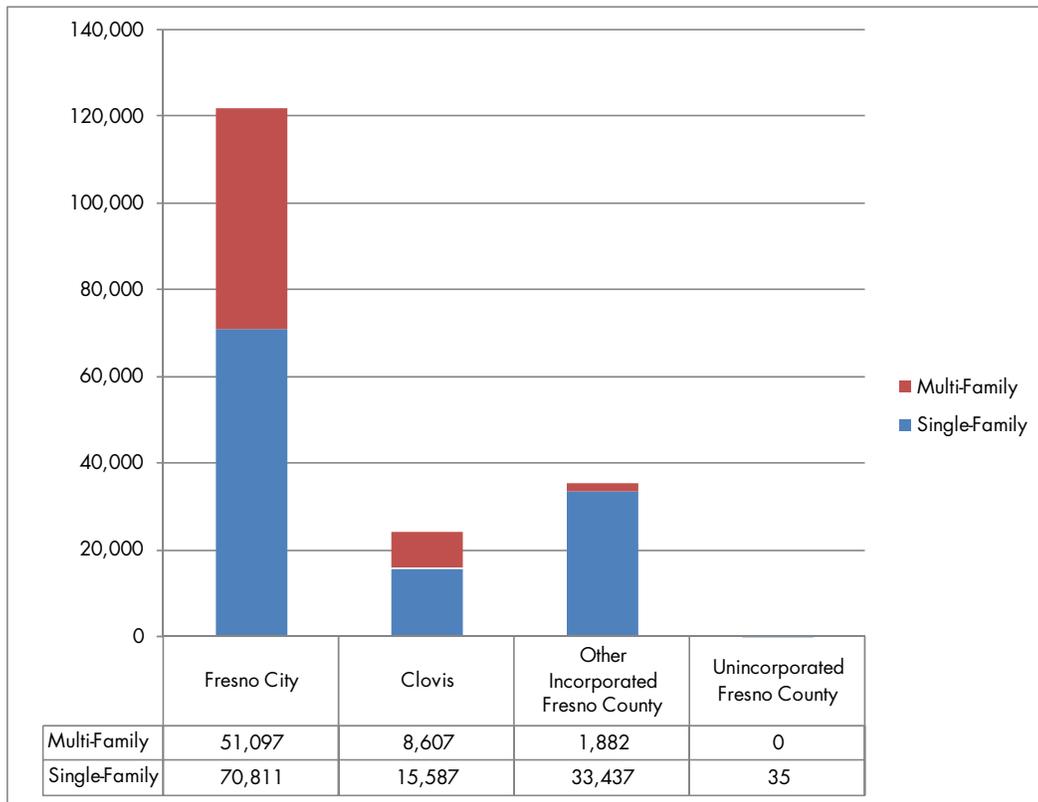


Source: California Department of Finance, 2009; Strategic Economics, 2010.

**The majority of anticipated development within the City of Fresno consists of single-family homes, but with an increasing share of multi-family construction.**

The Fresno Council of Governments anticipates that the majority of new housing unit construction between 2010 and 2035 will consist of single-family homes, as shown in Figure III-3. However, these long-term projections do anticipate a shift toward increasing levels of multifamily home construction, with a relatively high 42 percent of new units being included in multi-family dwellings, as compared to under 25 percent between 2000 and 2009. The multi-family units are projected to be accommodated primarily in Fresno, and to a lesser extent, in Clovis.

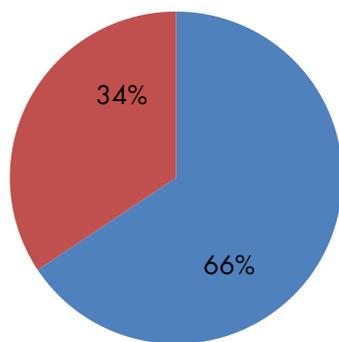
**Figure III-3:** Projected Housing Development by Number of Units and Structure Type, 2010 to 2035



Source: Fresno Council of Governments, 2010; Strategic Economics, 2010.

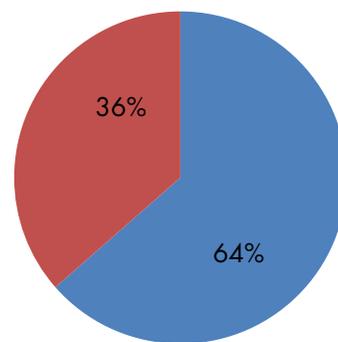
**Figure III-4:** Comparison of 2008 and Projected 2035 Fresno Housing Composition

**Housing Composition, 2008**



■ Single-Family ■ Multi-Family

**Housing Composition, 2035**



■ Single-Family ■ Multi-Family

Source: California Department of Finance, 2008; Council of Fresno County Governments, 2010; Strategic Economics, 2010.

## MARKET PERFORMANCE

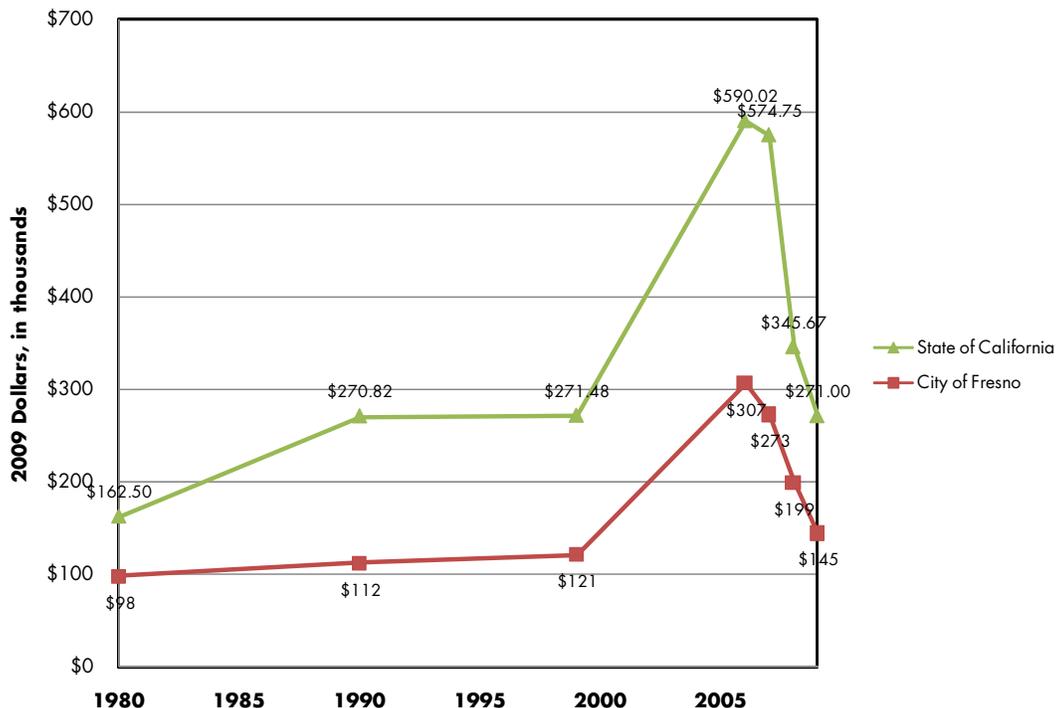
The Fresno housing market has always lagged the state, with yearly median prices generally between 40 percent and 60 percent of statewide medians. The region experienced a boom in housing construction and prices during the housing “bubble” years from 2002 to 2006, but prices and construction have since fallen to near-2000 levels. According to brokers, while Fresno was able to compete well in good economic times due to the relatively low housing prices compared with coastal cities in California, it has been hit particularly hard with the contracting economy. This is exacerbated by the substantial supply of existing and recently constructed homes in the region. Fresno’s housing market can be expected to improve with the general economy, but will likely lag the statewide housing market due to ongoing structural economic issues and the oversupply of units.

### For-Sale Housing

**As with overall California sales prices, median sales prices in Fresno have fallen by more than half from their peak.**

The city of Fresno’s median housing prices have trailed the state since at least 1980. Fresno featured slow but steady appreciation between 1980 and 2000, but prices skyrocketed during the housing bubble years. Prices have since fallen to approximately \$145,000 by 2008 – essentially continuing the slow growth of Fresno housing prices before the “bubble” formed.

**Figure III-5:** California and Fresno Median Residential Sales Prices, 1980 to 2008 (nominal dollars)



Source: Multiple Listing Service, 2008; DQ News, 2009; California CPI Index, 2010; Strategic Economics, 2010.

Condominium projects were not developed at scale in Fresno in the most recent market cycle due to a number of factors, including demographic composition favoring lower-density housing, financing

challenges associated with higher density condominium buildings, and financial feasibility constraints, which are addressed later in this report.

**Housing prices in the Specific Plan Area are less competitive than other areas in the City.**

According to real estate brokers, the Downtown and surrounding neighborhoods are among the weakest submarkets in Fresno, with depressed prices and slow sales velocity. Citywide, home sales prices per square foot are estimated at approximately \$85 to \$100, while new, high-quality projects range beyond \$125 per square foot. In contrast, the Plan Area and surrounding neighborhoods have values ranging from \$55 to \$75 per square foot. Data from Zillow.com supports these estimates. As shown below, listed homes in the Central Fresno Neighborhood, which corresponds to the Plan Area, have an average value per square foot of \$58 compared to \$113 for the city. Housing prices are more robust in Northwest and Northeast Fresno neighborhoods such as Woodward Park and Bullard.

**Table III-4:** Median Value and List Price per Square Foot, 2009

| Geography                               | Value per Square Foot |
|---|-----------------------|
| Central Fresno Neighborhood (Plan Area) | \$58                  |
| City of Fresno                          | \$113                 |

Source: Zillow.com, 2010; Strategic Economics, 2010.

## Rental Housing

The rental housing market data presented below is based on data provided from the apartment data service Realfacts, which surveys apartment complexes of 100 units or more. Projects with fewer units, including some recently developed apartment buildings, are not included in this data. Nevertheless, it does provide some context for understanding the market for rental multi-family housing in the Plan Area.

**Rental housing has experienced a more stable pattern over the last two years than the for-sale market.**

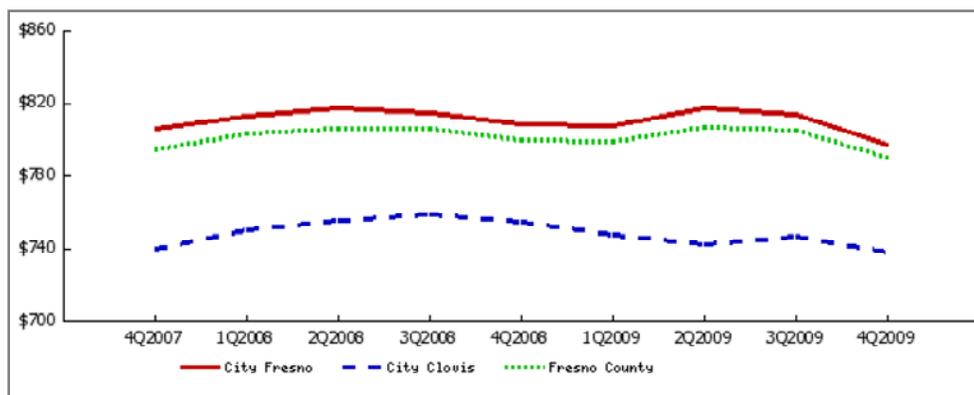
According to Realfacts, City and County rents have tracked each other closely and remained fairly stable in 2008 and 2009, although they began to decline slightly toward the end of 2009 (see Figure III-6) in response to the housing slowdown. The following tables demonstrate that rents in Fresno are comparable to rents in the County overall. The apartment vacancy rate for the units tracked was approximately eight percent in both the City and the County.<sup>7</sup>

**Table III-2:** Summary of Apartment Market Data, Fourth Quarter of 2009

| Averages              | Fresno City | Fresno County |
|-----------------------|-------------|---------------|
| Rent                  | \$797       | \$790         |
| Square Feet           | 880         | 880           |
| Price per Square Foot | \$0.91      | \$0.90        |
| Occupancy             | 92.0%       | 91.7%         |
| Year Built            | 1983        | 1983          |

Source: Realfacts, 2010; Strategic Economics, 2010.

**Figure III-6:** Rental Rates, 4th Quarter of 2007 to 4th Quarter of 2009



Source: Realfacts, 2010; Strategic Economics, 2010.

## SPECIFIC PLAN AREA DEVELOPMENT TRENDS

**The Specific Plan area includes planned and recently-constructed higher-density housing, but the number of units is small relative to the regional growth of single-family detached homes.**

Approximately 45 percent of the households in the combined Specific and Community Plan areas reside in multi-family or other non-single-family housing. These findings are logical given that the vast majority of these areas were developed between 1885 and 1929, and therefore feature compact building forms that enabled efficient pedestrian and streetcar access.

**Construction of multi-family housing is occurring in the Specific Plan Area, with a mix of new construction and rehabilitation of existing buildings.**

About 234 units have been newly completed or are in construction in the Plan Area. In addition, there are close to 475 units in planning phases.

**Development activity in the Plan Area has been concentrated in the Cultural Arts District, the CBD, and Chinatown.**

The majority of the housing units completed or in construction are located in the Cultural Arts District (approximately 200 units), and an additional 86 units are in construction in this area. The planned projects list includes a 200-unit affordable housing development in Chinatown, 175 units in the CBD, and 100 units in the Cultural Arts District. SE is not aware of any new residential development activity in other Specific Plan subareas.

**Subsidized rental projects comprise the majority of recent development in the Specific Plan area.**

Recent projects in the Specific Plan Area have overwhelmingly been brought to market as rentals rather than condominiums. Many of these have been affordable and mixed-income housing developments with contributions from the Housing Authority and/or the Redevelopment Agency. Approximately 334 units – almost entirely rental – have either been recently built or are in planning stages in the Cultural Arts District, which has been the primary recipient of new multi-family development in the Plan Area. According to the primary developers and landowners in the Cultural Arts District, new multi-family development projects have required high-cost infrastructure improvements (including streets, sidewalks, and water upgrades), which cannot be financed without participation from the public sector. Though the recently completed projects have apparently not been profitable, the developer/owner has ownership interest in many other properties in the area, and expects that as the Downtown area becomes more popular, future projects will generate higher returns.

**Table III-3:** Recently-Built, Planned, and Proposed Housing Projects in the Specific Plan Area

| Name                                | Location      | Type       | Tenure  | Status             | Units   | Income-Restricted Units | Public Assistance |
|-------------------------------------|---------------|------------|---------|--------------------|---------|-------------------------|-------------------|
| Hotel Fresno                        | CBD           | Renovation | Rental  | Planned            | 68      | N/A                     | N/A               |
| Security Bank Building              | CBD           | Renovation | Own     | Planned            | 27      | N/A                     | N/A               |
| JC Penney Building                  | CBD           | Renovation | Pending | Planned            | 66      | N/A                     | N/A               |
| Berkeley Block                      | CBD           | Renovation | Pending | Planned            | Pending | N/A                     | N/A               |
| Droge Building                      | CBD           | Renovation | Rental  | Planned            | 14      | N/A                     | Yes               |
| Chinatown Lofts                     | Chinatown     | New        | Rental  | Planned            | 200     | 200                     | Yes               |
| Iron Bird Lofts                     | Cultural Arts | New        | Rental  | Completed          | 80      | 16                      | Yes               |
| Mayflower Lofts                     | Cultural Arts | Renovation | Rental  | Under construction | 18      | 9                       | Yes               |
| Broadway Lofts                      | Cultural Arts | Renovation | Rental  | Under construction | 23      | N/A                     | Yes               |
| Fulton Village                      | Cultural Arts | New        | Rental  | Under construction | 45      | 9                       | N/A               |
| Vagabond Lofts                      | Cultural Arts | New        | Rental  | Completed          | 38      | N/A                     | N/A               |
| H Street Lofts                      | Cultural Arts | New        | Rental  | Completed          | 26      | N/A                     | N/A               |
| Factory Tire                        | Cultural Arts | Unknown    | Rental  | Planned            | 39      | N/A                     | N/A               |
| Bastian Court                       | Cultural Arts | New        | Rental  | Planned            | 61      | N/A                     | N/A               |
| L Street Homes                      | Cultural Arts | Unknown    | Pending | Planned            | Pending | N/A                     | N/A               |
| Pearl Building                      | Cultural Arts | Renovation | Rental  | Completed          | 4       | N/A                     | N/A               |
| Units completed and in construction |               |            |         |                    | 234     | 34                      |                   |
| Planned units                       |               |            |         |                    | 475     | 200                     |                   |

Source: City of Fresno, 2010; Strategic Economics, 2010

## HOUSING MARKET DEMAND

Strategic Economics estimated future housing demand in the Plan Area based on the Fresno Council of Government’s projections of household growth in the region by unit type. SE determined that there were 58,000 projected multi-family and compact<sup>8</sup> housing units in the City of Fresno from the present to 2035, accounting for 40 percent of the city’s total housing growth. SE then assigned low and high capture rates to calculate the Plan Area’s share of future multi-family and compact housing growth. The low capture rate of seven percent assumes minimal public investment in the Plan Area, restricted to project-based enhancements and subsidies. The high capture rate of 12 percent assumes a greater degree of public investment in the Plan Area, including infrastructure upgrades, place-making features, enhanced bicycle/pedestrian access and amenities, circulation/connectivity improvements, and project subsidies.

The results of the analysis show the potential for between 4,000 and 7,000 new multi-family and small-lot single-family and attached single-family units in the Plan Area by 2035. This is equivalent to an annual average absorption of 145 to 249 units per year.

**Table III-5:** Estimated Housing Demand in Plan Area, 2010-2035

|   | Multi-family and Compact Units | Share of Total Housing | Capture of MF Housing | Annual Average Absorption |
|---|--------------------------------|------------------------|-----------------------|---------------------------|
| City of Fresno                            | 58,000                         | 40%                    | 100%                  | 2,071                     |
| Fulton Corridor Specific Plan Area - Low  | 4,060                          | 3%                     | 7%                    | 145                       |
| Fulton Corridor Specific Plan Area - High | 6,960                          | 5%                     | 12%                   | 249                       |

Source: Fresno COG, Department of Finance, Construction Industry Research Board, Strategic Economics.

<sup>8</sup> Includes attached single-family, small-lot single-family, and townhouse units.

## FINANCIAL FEASIBILITY OF MULTI-FAMILY RESIDENTIAL DEVELOPMENT

Generally, the per-square-foot construction of attached housing types is more costly than single-family homes. Typically, the unit costs decline as density on the site increases, as long as the basic building construction types are the same. Higher density projects, however often require a larger upfront investment, are more difficult to finance, and are less proven in the Fresno marketplace. Therefore, it is important to test the financial feasibility of a range of compact single-family and attached multi-family housing development that is profitable to developers in order to determine the building types that should be included in the plan.

SE prepared a static pro forma analysis of four building types, including small-lot single-family units, townhouses, warehouse rehabilitation, and a four-story mixed-use building on a one-acre site, which is representative of the parcel sizes found in Downtown Fresno. The financial analysis tested overall feasibility from the perspective of the developer using a residual land value methodology. SE conducted interviews with local developers to derive key inputs such as unit sizes, parcel sizes, densities, parking ratios, and cost and revenue assumptions for the financial model. From the pro forma analysis, SE then derived the per-unit cost of constructing each building type and the likely market that it could serve (rental vs. owner).. The table below summarizes our preliminary findings.

**Table III-6:** Financial Analysis Results

| <b>Unit Type</b>        | <b>Current Market Value Per Unit</b> | <b>Development Cost per Unit</b> | <b>Per Unit Gap</b> | <b>Required Percent Increase in Revenue</b> |
|-------------------------|--------------------------------------|----------------------------------|---------------------|---|
| Small Lot Single Family | \$270,000                            | \$352,000                        | (\$82,000)          | 30%   |
| Townhouse               | \$196,000                            | \$273,000                        | (\$77,000)          | 39%   |
| Warehouse Rehab Lofts   | \$139,104                            | \$201,000                        | (\$61,896)          | 45%   |
| Multifamily Mixed Use   | \$201,816                            | \$411,000                        | (\$209,184)         | 104%  |

Source: Fregonese Associates, Strategic Economics, 2010.

The estimated development cost of a compact single-family home is approximately \$350,000 per unit, compared to \$270,000 per unit for a townhouse and \$400,000 per unit for a mixed-use four-story apartment building. While the cost of rehabilitating existing buildings can vary tremendously, the conversion of a prototypical warehouse building into loft apartments, such as those found in the Cultural Arts District, is estimated to be valued at about \$200,000 per unit (see Figure IV-12). These unit costs are significantly higher than the current market value of each unit type. The gap between revenues generated (market values) and development costs range from \$62,000 for warehouse rehab units to \$209,000 for four-story multifamily mixed-use buildings.

**Figure IV-12:** Estimated Prices per Unit of Higher Density Building Types

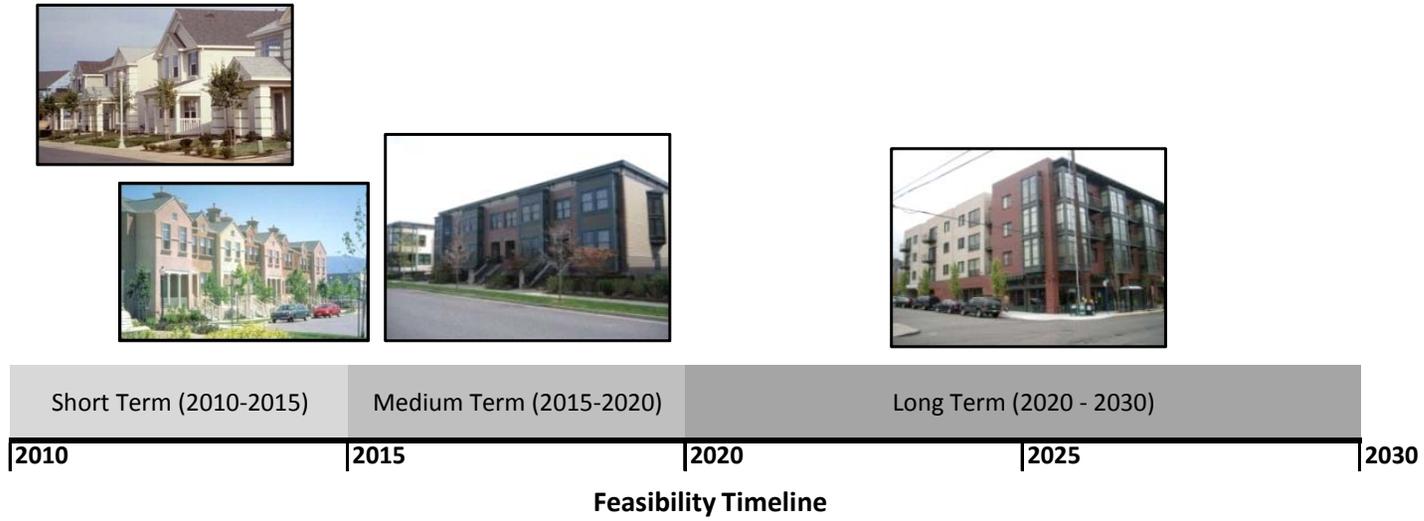


Source: Fregonese Associates, Strategic Economics, 2010.

- All of the building types tested in the pro forma analysis were found to be financially infeasible given *current* market values. The cost of development exceeded the revenues generated by the building. This finding is supported by the fact that the majority of the newly constructed multifamily units in the Plan Area have received subsidy in some form from the public sector.
- Once the housing market recovers and housing prices once more begin to appreciate, the development of more compact for-sale products, such as small-lot single-family homes and townhouses will likely become financially feasible.
- The development of market-rate higher density rental products, such as the rehabilitation of a warehouse building into loft units, or the construction of a new mixed-use four-story building, will take more time to build market support. The rents that can be currently achieved for these products are not sufficiently high to justify the higher development costs.

While there is demand for compact housing in the Plan Area, and interest from the local private development community in delivering higher-density building types, there are significant market challenges due to the continued popularity and affordability of suburban detached single-family housing compared to higher cost multifamily units (as demonstrated in the financial feasibility analysis), as well as a lack of local knowledge about how to plan for and execute these types of projects.

**Figure IV-13:** Likely Time Frame for Development of Prototypical Buildings





## IV. OFFICE MARKET ANALYSIS

Strategic Economics examined the Fresno office market to determine the Plan Area's role within the regional office-based economy, current tenant mix, future regional and local demand, and appropriate industries to target for future development and revitalization of the Specific Plan Area. This section opens with a review of Strategic Economics' regional employment analysis. Basic market condition information is then provided, followed by employment projections, a demand estimate for office space between 2010 and 2035, and a description of target industries for office space in the Plan Area.

The Plan Area features a stable base of office employment due to its concentration of government offices, but is a weaker market than north and northwest Fresno. The Plan Area faces challenges from persistent high vacancy rates in inefficient historic structures, perceptions of difficult parking, perceptions of being unsafe, and a location distant from the homes of office workers. However, there is significant opportunity to strengthen the Plan Area's position within the region as a major employment center, and add daytime population to create more vitality and support for retail and entertainment uses.

### REGIONAL EMPLOYMENT AND COMMUTE PATTERNS

The potential for growth and development of office employment in the Plan Area is contingent on the area's role within the regional economy. As a result, regional employment trends must be understood to determine the Plan Area's ability to capture future employment. This section presents Strategic Economics' findings regarding the regional economy and commute patterns, as presented in a prior memorandum and as part of a separate analysis for the Fresno Public Transportation Infrastructure Study for the Fresno Council of Governments.

#### Current Job Concentrations

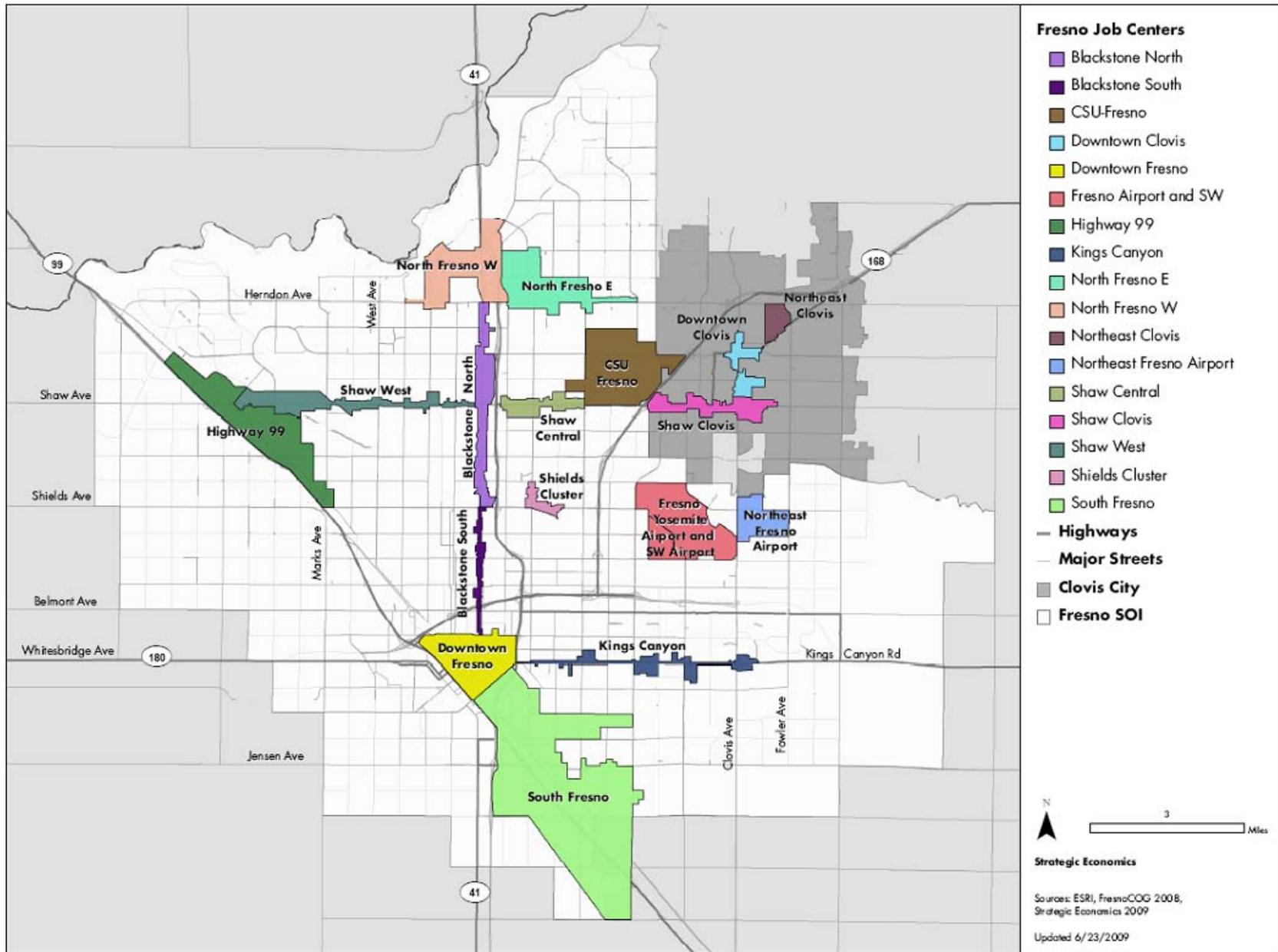
**The Plan Area is one of six major office-based job centers in the Fresno-Clovis urbanized area.**

Employment analysis shows that the Specific Plan Area (Downtown Fresno) is one of six job centers featuring a heavy concentration of office employment within the surrounding urbanized area. As shown in Figure IV-1, the other five are:

- North Fresno East
- Shaw Central
- North Fresno West
- Shaw West
- Blackstone North

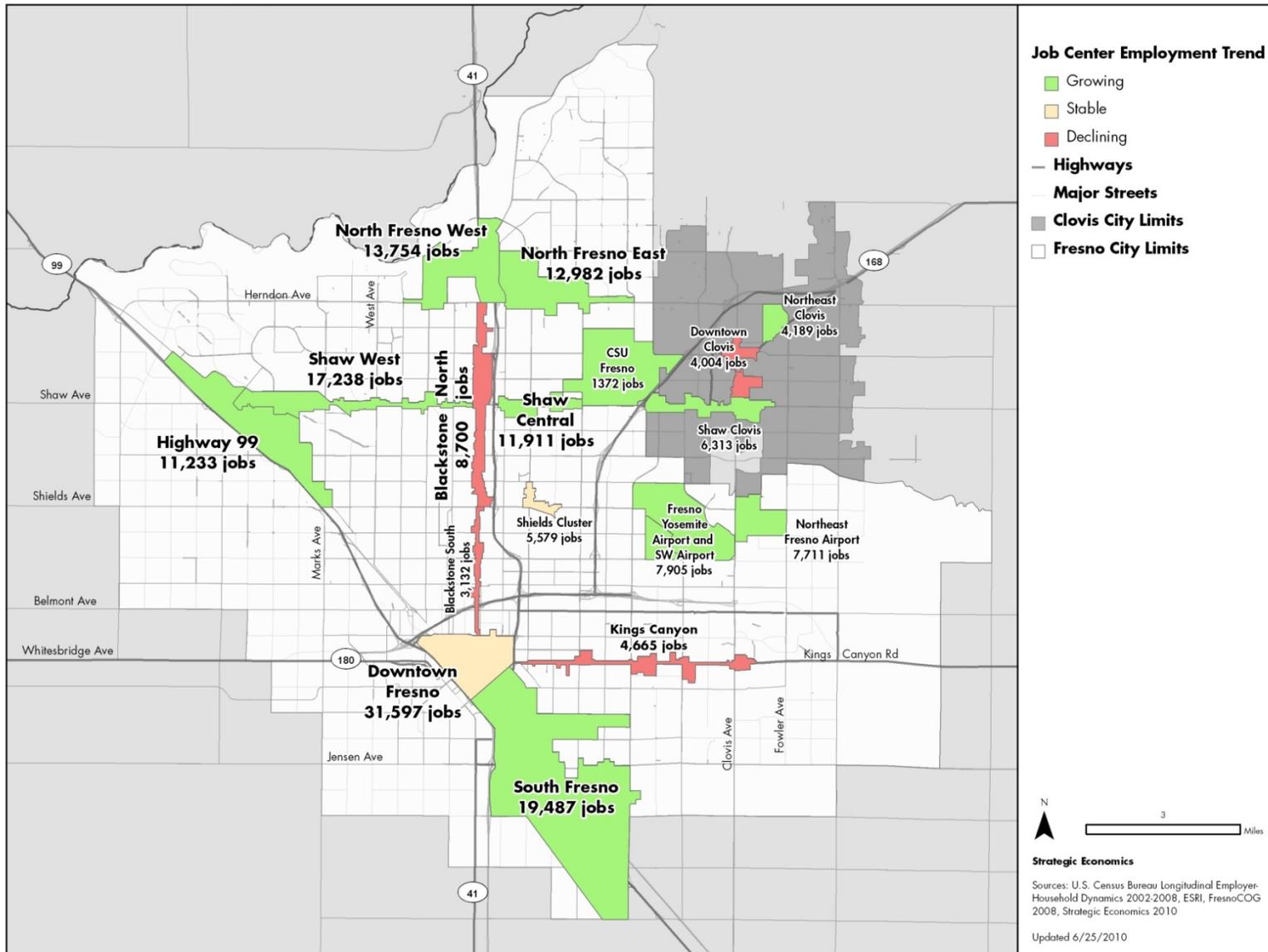
**Plan Area employment was stable from 2002 to 2008, but was the only office-based job center that did not grow** (as shown in Figure IV-2).

**Figure IV-1: Job Centers in the Fresno/Clovis Urbanized Area**



Source: IntoUSA, 2003; Dowling Associates; Strategic Economics, 2009.

**Figure IV-2:** Employment Estimates and Growth Trends for Fresno/Clovis Job Centers, 2002-2008

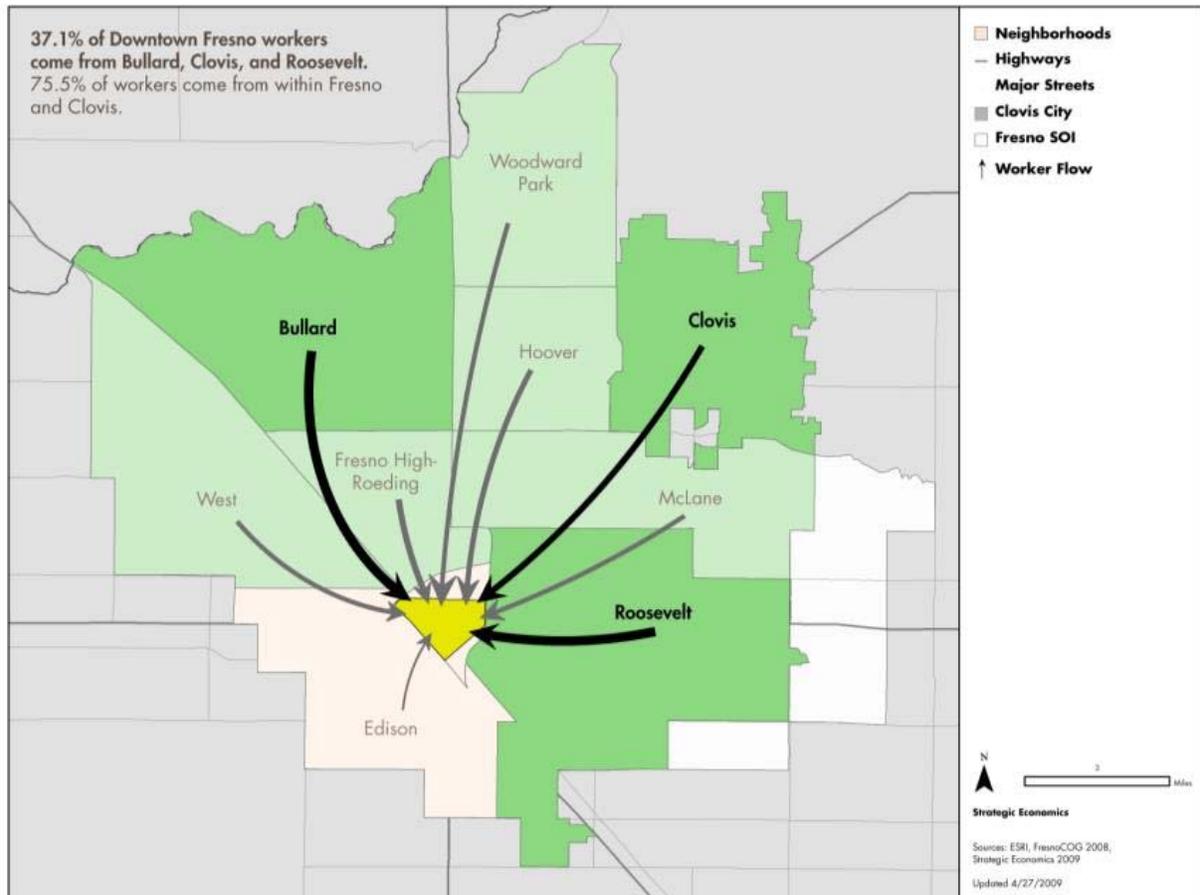


Source: U.S. Census Bureau: Longitudinal Employer Household Dynamics, 2002-2006; Strategic Economics, 2009.  
 Fresno Market and Economic Analysis

**The Plan Area draws employees from throughout the region, but the office market is weakened by its distance from the concentrations of highest-skilled workers.**

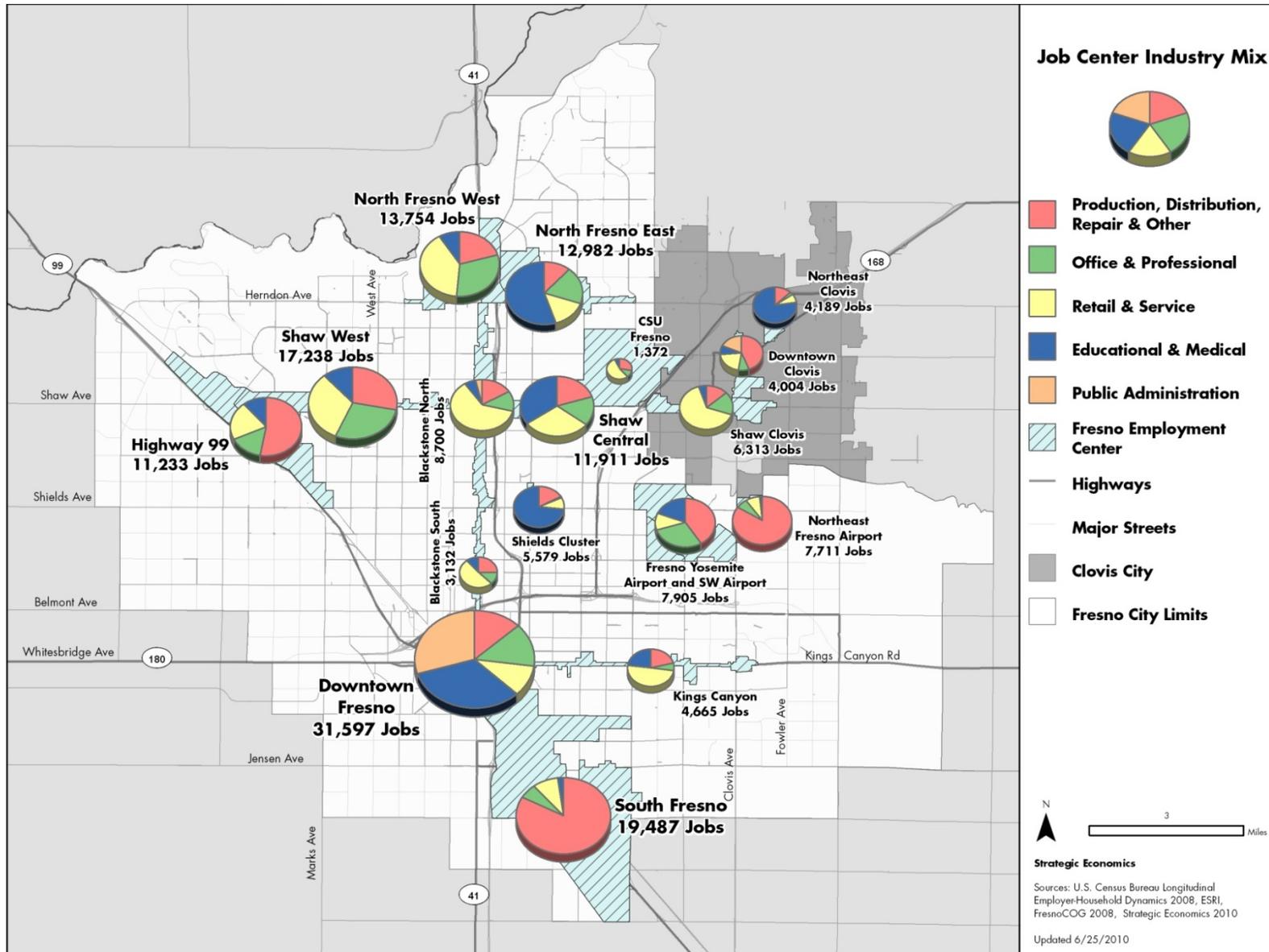
As shown below, 75 percent of Downtown Fresno employees commute from within Fresno or Clovis, and Downtown Fresno draws workers from throughout both cities. However, Downtown Fresno is distant from the highest-income, highest skill populations. 37 percent of Downtown Fresno workers come from Bullard, Clovis, or Roosevelt despite the distance many of these employees must commute. This pattern accounts for the shift of office market strength toward the north, where higher-income workers are located closer to their place of work.

**Figure IV-3:** Commute Patterns to the Downtown Fresno Job Center, 2006



Source: U.S. Census Bureau: Longitudinal Employer Household Dynamics, 2006; City of Fresno; Strategic Economics, 2009.

**Figure IV-4:** Fresno Job Centers – Employment Sector Mix, 2008



Source: U.S. Census Bureau: Longitudinal Employer Household Dynamics, 2006; Strategic Economics, 2009.

## DOWNTOWN FRESNO OFFICE MARKET CONDITIONS

### Rents

#### Rents in the Plan Area lag those of the strongest markets in North Fresno.

The Plan Area is a weaker office location for new office space, with first quarter 2010 class-A rents of \$2.07 per square foot per month and class-B rents of \$1.34 (full service gross). In contrast, the strongest office markets in North Fresno average \$2.53 for class-A space and \$2.04 for class-B, while the weakest markets rent for \$1.75 and \$1.83 respectively.<sup>9</sup> According to interviews with brokers and developers, older class B or C space in the Plan Area is renting for \$1.00 to \$1.75 on a triple-net basis (which does not include the full costs incorporated into full service gross rents), with \$1.15 about average. Class-A spaces are approximately \$1.60 to \$1.75 on a triple-net basis.

#### Downtown is able to achieve higher rents in its newer, modern buildings.

Although the Plan Area's existing buildings command lower rents, new construction is capable of achieving regionally-competitive rents. Recently-completed projects have been able to sign leases for \$2.00 per square foot, triple-net. These buildings were pre-leased to large tenants and not built on a speculative basis.

#### Extra charges for parking make the Plan Area less competitive against other locations.

Brokers report that parking costs in the Plan Area are generally \$50 to \$65 per month per parking space. Other office locations in Fresno do not charge separate fees for parking, as the landlord includes the charge in the rent. This leads to a perception among office users that it is more expensive to park in the Plan Area.

**Table IV-1:** Summary of Fresno Market Area Office Inventory, Rents, and Vacancy, First Quarter of 2010

| Submarket      | Total SF   | Share of Total | Vacant SF | Vacant % | Under Construction SF | Class A Rent* | Class B Rent* |
|----------------|------------|----------------|-----------|----------|-----------------------|---------------|---------------|
| Downtown Total | 3,131,270  | 17%            | 383,059   | 12.2%    | 105,585               | \$2.07        | \$1.34        |
| Airport        | 1,401,612  | 8%             | 159,504   | 11.4%    | -                     | -             | \$1.19        |
| Clovis         | 750,989    | 4%             | 196,132   | 26.1%    | -                     | \$1.75        | \$1.83        |
| East Shaw      | 1,400,824  | 8%             | 234,232   | 16.7%    | -                     | -             | \$1.57        |
| Midtown        | 2,343,960  | 13%            | 111,874   | 4.8%     | -                     | -             | \$1.27        |
| Northeast      | 1,233,494  | 7%             | 173,764   | 14.1%    | -                     | \$2.15        | \$1.84        |
| Northwest      | 1,631,685  | 9%             | 335,524   | 20.6%    | 42,600                | -             | \$1.82        |
| Palm Bluffs    | 1,644,563  | 9%             | 400,389   | 24.3%    | -                     | \$2.53        | \$2.04        |
| West Shaw      | 1,647,114  | 9%             | 252,676   | 15.3%    | -                     | -             | \$1.46        |
| Woodward       | 3,340,684  | 18%            | 565,297   | 16.9%    | -                     | \$2.44        | \$1.97        |
| Total          | 18,526,195 |                | 2,812,451 | 15.8%    | 148,185               | \$2.41        | \$1.72        |
| Total by Class |            |                |           |          |                       |               |               |
| Total Class A  | 2,622,367  | 14%            | 447,552   | 17.1%    | 132,185               | -             | -             |
| Total Class B  | 11,721,794 | 63%            | 2,058,401 | 17.6%    | 16,000                | -             | -             |
| Total Class C  | 4,182,034  | 23%            | 306,498   | 7.3%     | -                     | -             | -             |

\*Full service gross basis.

Note: Data does not include medical office space, and is incomplete for spaces under 5,000 square feet. Inventory only includes privately-held spaces being actively marketed, and therefore does not include all vacant Downtown buildings.

Source: Grubb & Ellis/Pearson Commercial, 2010; Strategic Economics, 2010.

<sup>9</sup> Grubb & Ellis | Pearson Commercial "Office Trends Report: First Quarter 2010"

## Vacancy

### **Office vacancy rates in the Plan Area are consistent with the greater region when vacancies in historic buildings on the Fulton Mall are excluded.**

Data from Grubb & Ellis / Pearson Commercial shows that the office vacancy rate was 12.2 percent in the first quarter of 2010 in the Plan Area, compared to nearly 16 percent for the entire region. Vacancies are higher in other locations due to the failure of the market to absorb much of the new development that was completed just before the economic downturn. Because the Plan Area received little new development, it was not affected in the same way. According to local brokers and developers, the vacancy rate in the Plan Area has remained stable because many property owners are willing to reduce rents in order to lease the buildings.

### **The vacancy rate is well over 50 percent in historic Fulton Mall office buildings due to inefficient layouts, poor condition, relatively poor accessibility, and uncertain reuse plans.**

The City of Fresno Downtown and Community Revitalization Department estimates that the seven largest historic office buildings on the Fulton Mall represent nearly 745,000 square feet of office space, of which 71 percent is vacant. Another six historic buildings adjacent to the Mall representing 573,000 square feet of space have a combined office vacancy rate of 35 percent.

These high vacancy rates are attributable to several factors:

- **Inefficient layouts in historic office buildings:** Brokers report that historic building floorplates are too small for many modern users. Each floor of a building must dedicate core space to elevators, ductwork, and utilities, plus common circulation areas for access to suites and shared restrooms. As a result, buildings with small floorplates dedicate a large percentage of area to unleaseable common space while also making it impossible for larger tenants to consolidate their operations on smaller numbers of floors.
- **Cost of rehabilitation:** The low attainable rents and difficult tenanting in historic buildings have made it difficult for owners to justify the expense of renovations and updates for office use.
- **Access and Parking:** Parking is a concern for all businesses located in Downtown Fresno, but is especially troublesome for historic buildings. Brokers and city staff report that Downtown has ample parking, but garages are not always located in close proximity to historic buildings, making it difficult for customers and visitors to find convenient parking spaces. Historic buildings along the Fulton Mall are particularly susceptible to this issue since their entrances along the mall are not visible from the street.
- **Uncertain reuse plans:** Many developers are pursuing plans for adaptive reuse of the historic buildings, converting them into housing or other commercial uses. Few projects have been completed, but proposals have been made to convert five large historic office buildings to residential use. Many of these buildings have remained vacant during the planning process.

## Completed, Planned, and Proposed Projects

Table IV-2 lists recent, planned, and proposed office projects in the Specific Plan Area. As shown, the majority of current and completed projects are renovations or adaptive reuse of existing historic buildings. The Tower at Convention Center Court, completed in 2004, is the only new construction office project in the Plan Area. The 11-story building houses federal and state employers IRS and Caltrans. There are a number of proposed renovation projects in the Plan Area, including the Hotel Virginia, the Bank of Italy, and the Met Museum, for which little information is available.

**Table IV-2:** Known Recently Built, Planned, and Proposed Office Projects in the Specific Plan Area

| Name                                 | Project Type   | Address              | Status             | Office SF |
|--------------------------------------|----------------|----------------------|--------------------|-----------|
| Bank of Italy                        | Renovation     | 1015 Fulton Mall     | Planned            | N/A       |
| Security Bank Building               | Adaptive reuse | 1060 Fulton Mall     | Under Construction | N/A       |
| Southern Pacific Depot               | Renovation     | H and Tulare         | Unknown            | N/A       |
| CA Department of Corrections         | New            | 2150 G               | Planned            | 13,000    |
| The Tower at Convention Center Court | New            | 855 M                | Completed (~2004)  | 276,714   |
| Federal Courthouse                   | New            | Tulare and P         | Completed 2006     |           |
| Met Museum                           | Unknown        | Fulton and Calaveras | Proposed           | N/A       |
| Hotel Virginia                       | Renovation     | 2125-2139 Kern Stree | Proposed           | N/A       |
| 810 Van Ness                         | Renovation     | 810 Van Ness         | Completed          | N/A       |
| Trade Center                         | Renovation     | Fulton and Tuolumne  | Under Construction | N/A       |
| County Superior Courthouse           | Adaptive reuse | 2598 Fresno Street   | Under Construction | N/A       |

Source: City of Fresno, 2010; Strategic Economics, 2010

## Tenant Mix

Based on data analysis and interviews with real estate professionals and economic development specialists, SE has identified the following target tenants for future office development in Downtown Fresno:

- Government:** The Downtown Fresno business community is anchored by the presence of government offices, with many brokers attributing improvements to the introduction of even more government users. These government offices include Federal (such as the Internal Revenue Service), State, and local facilities.
- Law offices and other government-related professionals:** Law offices value proximity to the government offices. Interviewees stated that Downtown Fresno has lost some law offices to North Fresno, especially since the freeways allow for quick access to Downtown. However, there will always be a stable base of legal offices and other professionals who value proximity to the concentration of government uses in Downtown.
- Medical:** There exists a concentration of medical and medical-related offices near the UCSF Fresno Medical Education Program and Fresno Community Regional Medical Center campus located just northeast of City Hall. There is potential for additional related administrative offices to support the medical campuses.
- Creative businesses:** Smaller “creative” businesses have begun to move into the area. Cited businesses include architecture and design firms. The “creative” business niche is still nascent in Fresno, but holds tremendous future potential since these firms are often small and entrepreneurial, seek inexpensive space, and prefer the kinds of unique or raw spaces that can be provided within rehabilitated buildings. These firms are also appealing to developers, as they are

less likely to require extensive tenant improvements once the raw core and shell are made suitable for businesses.

## OPPORTUNITIES AND CONSTRAINTS

Based on the preceding analysis, Strategic Economics has identified the following opportunities for future development of the Downtown office space:

- **Rehabilitation of existing office buildings:** The large stock of historic office buildings provides a ready-made stock of office space that can be redeployed if rehabilitated, despite the numerous challenges to rehabilitation.
- **Adaptive reuse of industrial buildings:** Central Fresno also contains a number of industrial buildings falling into disrepair. Rehabilitation of these buildings into office use may be easier than rehabilitating historic office buildings. Smaller buildings represent less space to absorb, and tenants are attracted to the easy access, high visibility/image, and unique spaces that can be created in these settings.
- **Tenanting of historic/rehabilitated buildings with small professional firms:** Smaller professional firms are best suited for much of the office space in Downtown Fresno. These firms will require smaller increments of space, and can therefore more easily make use of the inefficient historic office building designs, as well as former industrial spaces.
- **Attraction of large office users to vacant sites:** Large office tenants are unlikely to be interested in historic office spaces since they would require multiple floors due to small floorplates and inefficient designs. However, Downtown Fresno also features vacant or underutilized land that can host build-to-suit office buildings for larger tenants.

Strategic Economics also identified the following constraints on future office development:

- **Low rents:** The relatively low rents in Downtown Fresno are useful for attracting tenants and maintaining lower vacancy in active office spaces, but ultimately make it difficult for developers to profitably rehabilitate or build new office space.
- **Parking costs and access:** Brokers report that parking in Downtown Fresno is perceived as costly and inconvenient compared to other suburban locations.
- **Difficulty in filling high inventory of vacant spaces:** Historic office buildings in Downtown Fresno are estimated to include nearly 730,000 square feet of vacant office space. Much of this space is not actively being marketed for tenants as it awaits rehabilitation or conversion to other uses, but the office market in Downtown Fresno will not be truly healthy unless these spaces are occupied. As previously described, rehabilitation and tenanting of these spaces represents a major challenge.
- **Distance from other job centers and office workers:** As shown in Figures V-2 and V-3, Downtown Fresno is distant from most other office employment centers and the majority of employee home locations. Downtown Fresno will continue to attract some office users so long as government functions remain concentrated there, but the difficult location otherwise creates a barrier to tenant attraction.

## OFFICE DEMAND

### Projected Employment Growth

Strategic Economics examined recent employment growth patterns and projections from the Fresno Council of Governments to determine industries likely to have high potential for future growth. This analysis was carried out to identify growing office-based industries and to understand the extent to which those industries might be captured in Downtown Fresno. Industries were selected based on their growth between 1990 and 2009<sup>10</sup> and projected growth between 2010 and 2035<sup>11</sup>, with a focus on industries experiencing a higher rate of past and/or projected growth compared to overall growth.

Countywide nonfarm employment grew at an average annual rate of 1.29 percent between 1990 and 2009; agricultural employment shrank at an average annual rate of 0.5 percent over the same period. Services are generally increasing their share of employment, especially professional and business services, health care, and local government. Projections from the Council of Fresno County Governments indicate that Fresno and the surrounding urbanized area will retain its overall share of countywide employment in the future. However, Fresno and the surrounding area are projected to lose share in retail, services, and government while gaining in shares of employment in education and other industries.

### High-Growth Industries

Based on historical growth patterns and growth projections from the Fresno Council of Governments, Strategic Economics identified the following industries as having high potential for future growth:

- Educational Services
- State Government Excluding Education
- Administrative & Support Services
- Social Assistance
- Ambulatory Health Care Services
- Food Services & Drinking Places
- Nursing & Residential Care Facilities
- Professional, Scientific & Technical Services
- General Merchandise Stores
- Local Government
- Arts, Entertainment & Recreation
- Food Manufacturing
- Retail Trade
- Hospitals

Several of these industries are predominately office-based:

- State Government Excluding Education (involving little or no private-sector office space)
- Administrative & Support Services
- Ambulatory Health Care Services (medical office)

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<sup>10</sup> Based on data from the California Employment Development Department.

<sup>11</sup> Based on projections generated by the Council of Fresno County Governments.

- Professional, Scientific & Technical Services
- Local Government (involving little or no private-sector office space)

Employment growth among these five industries will drive significant increased demand for office space. However, employers in these sectors will exhibit demand for different types of office space and locations. The demand estimate – in the following section – takes these varying preferences into account when determining how much demand Downtown is capable of capturing.

**Table IV-3:** Projected Range of Fresno County Employment Growth for Identified Industries, 2009-2035

| Industry                                      | 2009<br>Jobs | 2035   |        | 2009-2035 Increment |        |
|---|--------------|--------|--------|---------------------|--------|
|   |              | Low    | High*  | Low                 | High*  |
| Educational Services                          | 4,400        | 8,679  | 17,448 | 4,279               | 13,048 |
| State Government Excluding Education          | 7,600        | 14,768 | 31,686 | 7,168               | 24,086 |
| Administrative & Support Services             | 14,400       | 29,773 | 46,871 | 15,373              | 32,471 |
| Social Assistance                             | 4,800        | 9,924  | 13,296 | 5,124               | 8,496  |
| Ambulatory Health Care Services               | 12,300       | 25,431 | 32,536 | 13,131              | 20,236 |
| Food Services & Drinking Places               | 21,500       | 44,453 | 48,560 | 22,953              | 27,060 |
| Nursing & Residential Care Facilities         | 6,500        | 13,439 | 13,841 | 6,939               | 7,341  |
| Professional, Scientific & Technical Services | 10,400       | 21,503 | 21,647 | 11,103              | 11,247 |
| General Merchandise Stores                    | 7,400        | 15,138 | 19,901 | 7,738               | 12,501 |
| Local Government                              | 47,800       | 93,775 | 94,563 | 45,975              | 46,763 |
| Arts, Entertainment & Recreation              | 2,900        | 5,482  | 5,996  | 2,582               | 3,096  |
| Food Manufacturing                            | 12,300       | 19,145 | 29,287 | 6,845               | 16,987 |
| Retail Trade - Residual                       | 19,700       | 40,299 | 47,721 | 20,599              | 28,021 |
| Hospitals                                     | 12,300       | 21,968 | 25,431 | 9,668               | 13,131 |

\*The high end is based on rapid continued growth in these industries matching the 1990-2009 levels; in some instances it is unlikely that the growth rates are sustainable in the high end.

Source: California Employment Development Department, 2006; Fresno Council of Governments, 2010; Strategic Economics, 2010.

## Office Demand

Strategic Economics estimated future office demand in the Fresno region based on employment growth in office-based industry sectors.

## Methodology

Strategic Economics first distributed broad Fresno COG industry projections into sub-industries based on current sub-industry distribution data from the California Employment Development Department. Office-based industries were then identified (including partial shares of some industries) and projected employment growth in those industries was multiplied by estimated square feet of office space required per employee, thus generating projected regional office demand growth.

**Table IV-4:** Fresno County Office-Based Employment Growth, 2010-2035

| Projected Employment for Target Industries    | Employment Forecasts |               |               | % Office Jobs | Net New Office Jobs |              |                       |
|---|----------------------|---------------|---------------|---------------|---------------------|--------------|-----------------------|
|   | 2010                 | 2020          | 2035          |               | 2010-2020           | 2020-2035    | Total New Office Jobs |
| Information                                   | 5,538                | 5,614         | 5,440         | 100%          | 75                  | -174         | -98                   |
| Professional, Scientific & Technical Services | 13,090               | 16,342        | 21,647        | 75%           | 2,439               | 3,978        | 6,418                 |
| Management of Companies & Enterprises         | 3,021                | 3,370         | 3,772         | 100%          | 350                 | 401          | 751                   |
| Administrative & Support Services             | 18,125               | 27,059        | 46,871        | 90%           | 8,041               | 17,831       | 25,872                |
| Federal government                            | 11,153               | 12,005        | 12,582        | 90%           | 766                 | 520          | 1,286                 |
| Finance & Insurance                           | 10,740               | 12,791        | 16,739        | 100%          | 2,051               | 3,948        | 5,999                 |
| Ambulatory Health Care Services               | 15,481               | 21,273        | 32,536        | 25%           | 1,448               | 2,816        | 4,264                 |
| Hospitals                                     | 15,481               | 18,180        | 21,968        | 10%           | 270                 | 379          | 649                   |
| State government excluding education          | 8,650                | 14,913        | 31,686        | 40%           | 2,505               | 6,709        | 9,215                 |
| Local government excluding education          | <u>19,689</u>        | <u>25,231</u> | <u>34,353</u> | <u>40%</u>    | <u>2,217</u>        | <u>3,649</u> | <u>5,865</u>          |
| <b>Total Employment</b>                       | 120,969              | 156,777       | 227,594       | 26%           | 20,161              | 40,057       | 60,219                |

SE estimated that the Specific Plan Area could capture between 17 percent of the regional office space demand (which represents its current share of the region’s supply) on the low end, and up to 25 percent of the region’s share in a more aggressive scenario. Excess vacant office space was then subtracted from this future demand estimate to generate net new space demand. These regional demand estimates were then used to gauge how much additional development could reasonably be captured in the Plan Area between 2010 and 2035.

**Table IV-5:** Fresno County Office-Based Employment Growth, 2010-2035

|   | 2010-2020 | 2020-2035  | Total      |
|---|-----------|------------|------------|
| Net New Office Jobs in Fresno Region        | 20,000    | 40,000     | 60,000     |
| Square Feet Office Space per Employee       | 275       | 275        | 275        |
| Total Office Demand                         | 5,500,000 | 11,000,000 | 16,500,000 |
| Specific Plan Capture Rate - Low            | 17%       | 17%        |            |
| Specific Plan Capture Rate - High           | 25%       | 25%        |            |
| Specific Plan Office Demand - Low           | 935,000   | 1,870,000  | 2,805,000  |
| Specific Plan Office Demand - High          | 1,375,000 | 2,750,000  | 4,125,000  |
| Existing Downtown Vacant Office Space       | 380,000   |            |            |
| Absorption of Excess Vacancies 1/           | 266,000   |            |            |
| Average Annual Absorption of Existing Space | 26,600    |            |            |
| New Construction Potential - Low            | 669,000   | 1,870,000  | 2,539,000  |
| New Construction Potential - High           | 1,109,000 | 2,750,000  | 3,859,000  |
| Average Annual Absorption - Low             | 67,000    | 125,000    | 102,000    |
| Average Annual Absorption - High            | 111,000   | 183,000    | 154,000    |

1/ Assumes that the market would absorb 70 percent of existing vacancies in Downtown Fresno in the short term.  
 Source: CBRE, Grubb and Ellis, Strategic Economics.

**Conclusions**

**Strategic Economics estimates that Downtown Fresno can potentially capture demand for between 2.5 million and 3.9 million square feet of new office space between 2010 and 2035.**

Based on Grubb & Ellis data, Downtown Fresno currently contains a leased or leasable office inventory of 3.5 million square feet, with an additional 105,000 square feet under construction. Strategic Economics estimates that there is potential to add 2.5 million to 3.9 million square feet of office space in Downtown Fresno, net of absorption of new and vacant spaces.

**Downtown can only capture future office demand if conditions improve and vacant spaces are filled or converted.**

As with all demand estimates, future local capture of the regional demand will vary dramatically based on whether local conditions are suitable to capture demand. For example, capture rates become irrelevant if policies prevent additional local office development, or if new office space is incompatible with the needs of tenants. Demand in Downtown Fresno will depend on its ability to fill or convert current vacant spaces, to address infrastructure and image issues, and to attract and retain large tenants, possibly in newer, modern office spaces.

**Downtown Fresno is hampered by its current mix of buildings.**

Downtown Fresno’s office development history – a large private boom through the 1920s and a second wave of government office development more recently – has resulted in a difficult mix of antiquated office space seeking private tenants versus newer space pursuing government tenants. Brokers emphasized repeatedly that Downtown Fresno needs modern mid-rise office space seeking private tenants if it is to compete with other areas. Before that can happen, however, the market needs to mature, with a dual-strategy to address the disparate conditions of the older and newer office spaces.

**Large tenants are likely to prefer new construction.**

Large tenants will require large amounts of space to consolidate operations, and are therefore unlikely to locate in the relatively inefficient and small floorplates of older Downtown Fresno office buildings. Despite the need to fill vacancies in those buildings, attracting large tenants might require new additions to the Downtown Fresno office inventory.

**High vacancy rates in historic office buildings are a drain on the health of the Downtown Fresno office market and must be addressed through rehabilitation or adaptive reuse.**

Historic office buildings in Downtown Fresno feature a vacancy rate of over 50 percent, with over 700,000 square feet of vacant inventory. Much of this space is not being actively marketed and is therefore not included in broker vacancy calculations, but the impact on the vitality of Downtown is severe. These spaces must be occupied – whether through rehabilitation or adaptive reuse to other functions – if Downtown Fresno is to become a vibrant urban center. Rehabilitation and reuse are made difficult by low rents and sales prices; concentrated public assistance may be necessary.

**Small, creative industry businesses are well-suited to the antiquated building stock in Downtown.**

Small office-based businesses are more flexible in their space requirements since they do not require large increments of consolidated and efficient office space. These businesses can potentially occupy historic office building space in Downtown Fresno; for example, interviewees cited small law firms successfully using these spaces while also enjoying easy access to the adjacent government facilities. “Creative” businesses – such as computer graphics, digital-focused marketing services, architects, and small engineering services – may be attracted to both historic office spaces as well as adaptive-reuse of vacant industrial buildings. The base of such businesses is small in the region – no more than a few thousand employees according to InfoUSA data – but Downtown Fresno has appealing urban assets, and the Professional, Scientific, and Technical Services sector is projected to continue growing.

**Government tenants provide a source of stability for the Downtown office market and should continue to be pursued for new projects.**

Government services anchor the Downtown Fresno office market. Not only do government tenants occupy large privately- and publicly-owned buildings, but they also attract a base of related businesses such as law firms. Ongoing retention and attraction of government facilities provides a minimum base of employment to ensure the basic health of the Downtown Fresno office market.

## V. REGIONAL RETAIL AND ENTERTAINMENT

Strategic Economics examined the regional entertainment and retail environment to determine the Plan Area’s ability to become a destination for the region’s households. The recent construction of a 12,000-seat AAA baseball stadium has successfully attracted sports fans from the greater region to the Plan Area, but the nearby businesses have not benefited significantly. In this section, Strategic Economics explores the market demand for regionally supported retail and entertainment uses in the Plan Area.

### REGIONAL TRADE AREA

For the purposes of this study, Strategic Economics defined the market area for regional entertainment and retail uses as a 45-minute drive time from the center of the Plan Area. The trade area extends along Highway 99 and encompasses the cities of Fresno, Chowchilla, Clovis, Madera, Sanger, Selma, Dinuba, Visalia, Hanford, Parlier, Fowler, Kingsburg, Reedley, Kerman, Mendota, San Joaquin, Lemoore, and Tulare. It also includes unincorporated areas of Fresno, Kings, Madera, and Tulare counties.

According to the demographic analysis of the market area, there is a population of nearly 1.3 million and 392,000 households within a 45-minute drive of the Plan Area. The population is projected to grow rapidly to over two million by 2035. Households are projected to nearly double to 653,000 in 2035.

**Table V-1:** Current and Projected Population and Households within 45-Minute Drive Time of Plan Area

|                         | 2008      | 2015      | 2020      | 2035      | Growth Rate<br>2008-2035 |
|-------------------------|-----------|-----------|-----------|-----------|--------------------------|
| Households              | 392,495   | 457,966   | 492,359   | 653,643   | 1.9%                     |
| Population              | 1,274,922 | 1,471,725 | 1,574,309 | 2,049,263 | 1.8%                     |
| Average Household Size* | 3.25      | 3.21      | 3.20      | 3.14      | -0.1%                    |

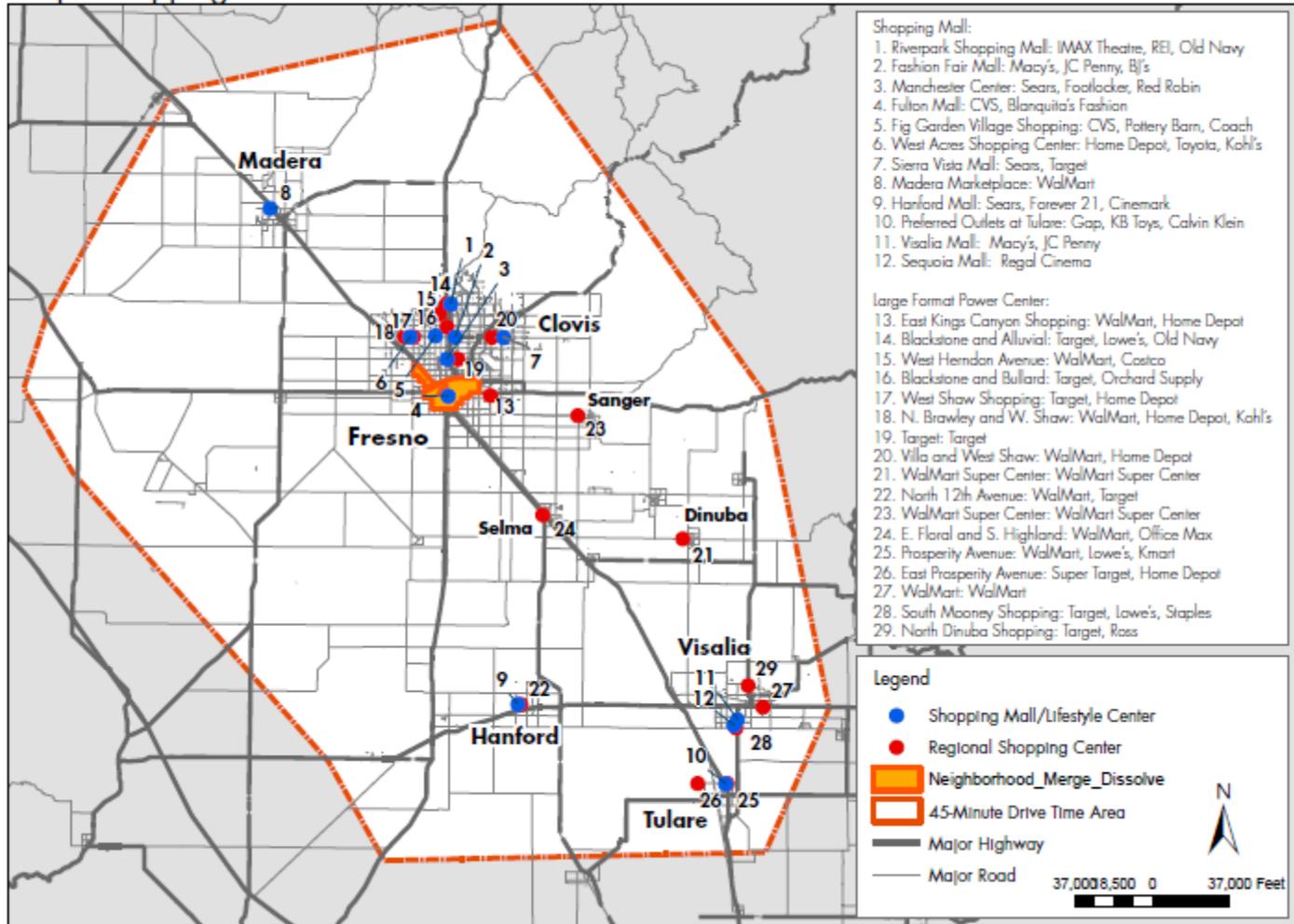
Source: Claritas, Fresno Council of Governments, Strategic Economics.

### EXISTING SUPPLY OF REGIONAL RETAIL AND ENTERTAINMENT USES

Strategic Economics inventoried and mapped the existing supply of entertainment and retail establishments in the 45-minute drive time trade area, which included major shopping centers, sports venues, movie theaters, live entertainment theaters, and museums. The maps on the following pages do not include a comprehensive inventory of all entertainment, retail, and cultural centers in the region, but they do help to show the general spatial patterns of these uses. As shown, currently the combined Specific Plan and Community Plan Areas have a dearth of shopping centers and movie theaters. However, the Specific Plan Area does contain Chukchansi Park, a number of live entertainment theaters (many of them in historic theater buildings), and several small museums. There is no significant clustering of entertainment and retail uses anywhere else in the region. Given the addition of new housing and office space in the Plan Area, as well as the considerable growth in population projected in the greater 45-minute drive time market area, there is an opportunity for the Plan Area to leverage its existing assets and draw more retail and entertainment uses to support the ball park and theaters.

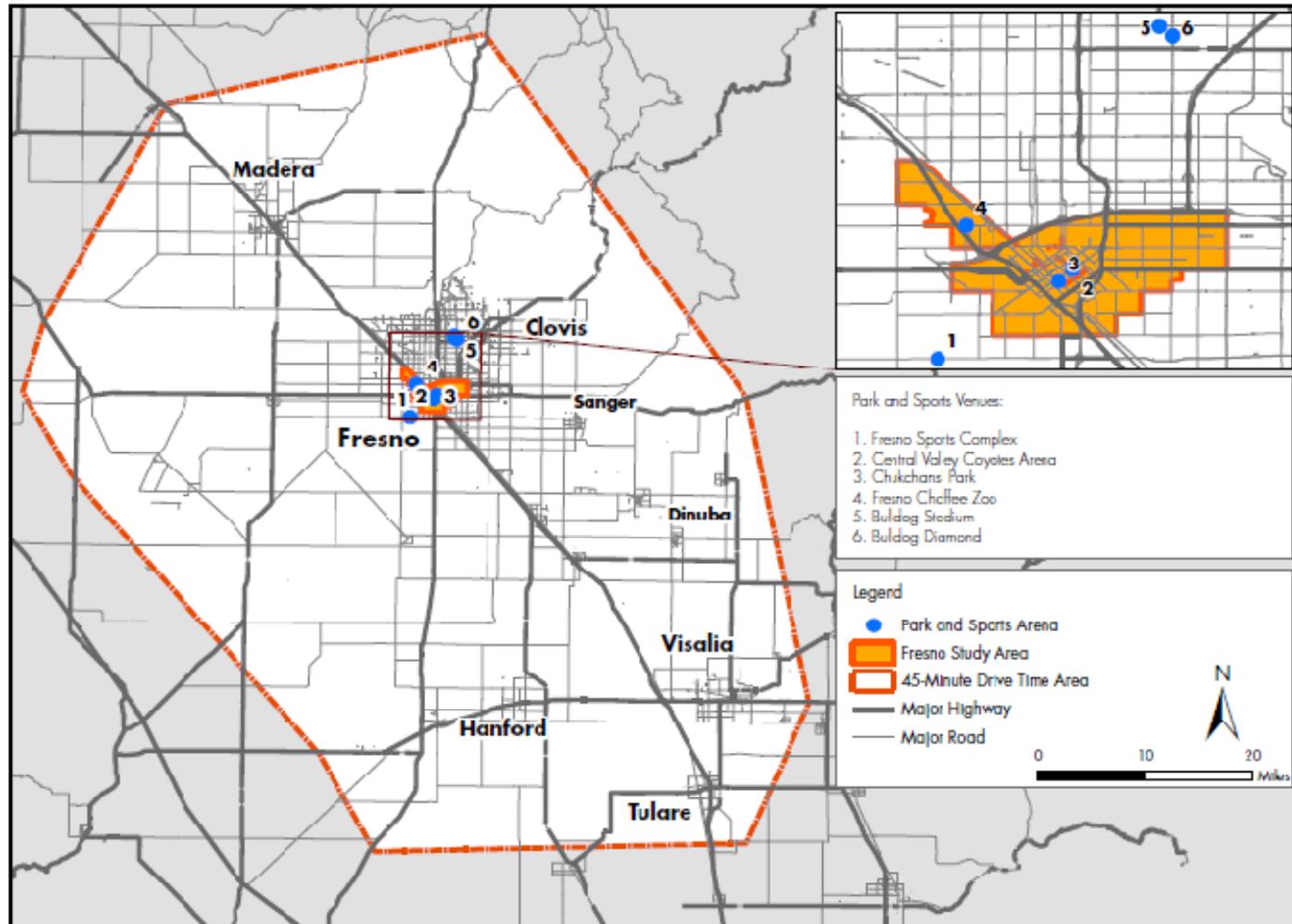
**Figure V-1:** Retail and Shopping Centers in Trade Area

Major Shopping Centers within a 45-minute Drive Time of Downtown Fresno



**Figure V-2:** Sports Venues in Trade Area

Sports Venues Within a 45-minute Drive Time of Downtown Fresno



Source: Strategic Economics, 2010; US Census; ESRI

Note: Other shopping centers not mapped include the Madera Speedway, Selland Arena, Savemart Center, Recreation Ballpark.

**Figure V-3: Movie Theaters in Trade Area**

Movie Theaters Within a 45-minute Drive Time of Downtown Fresno

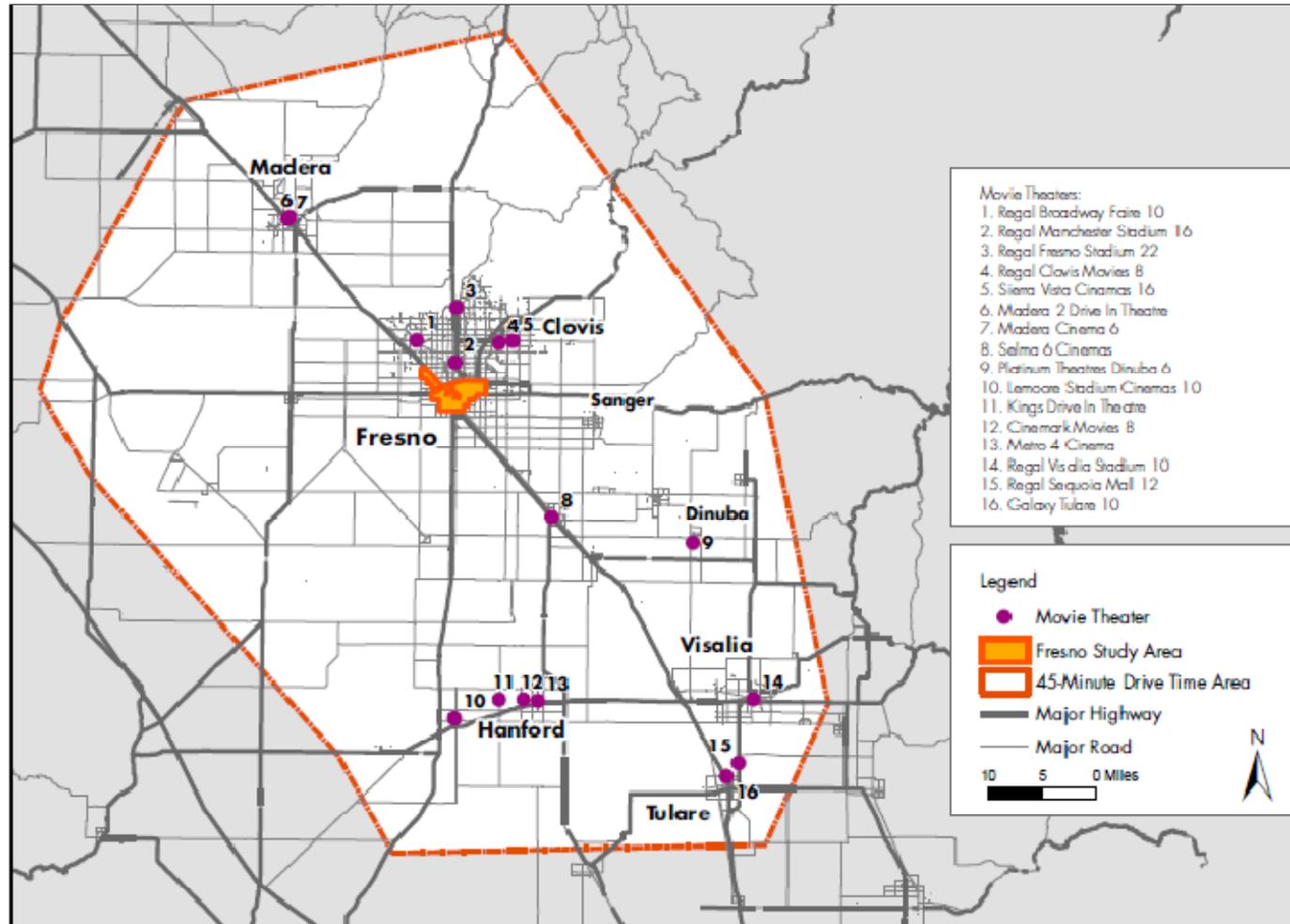
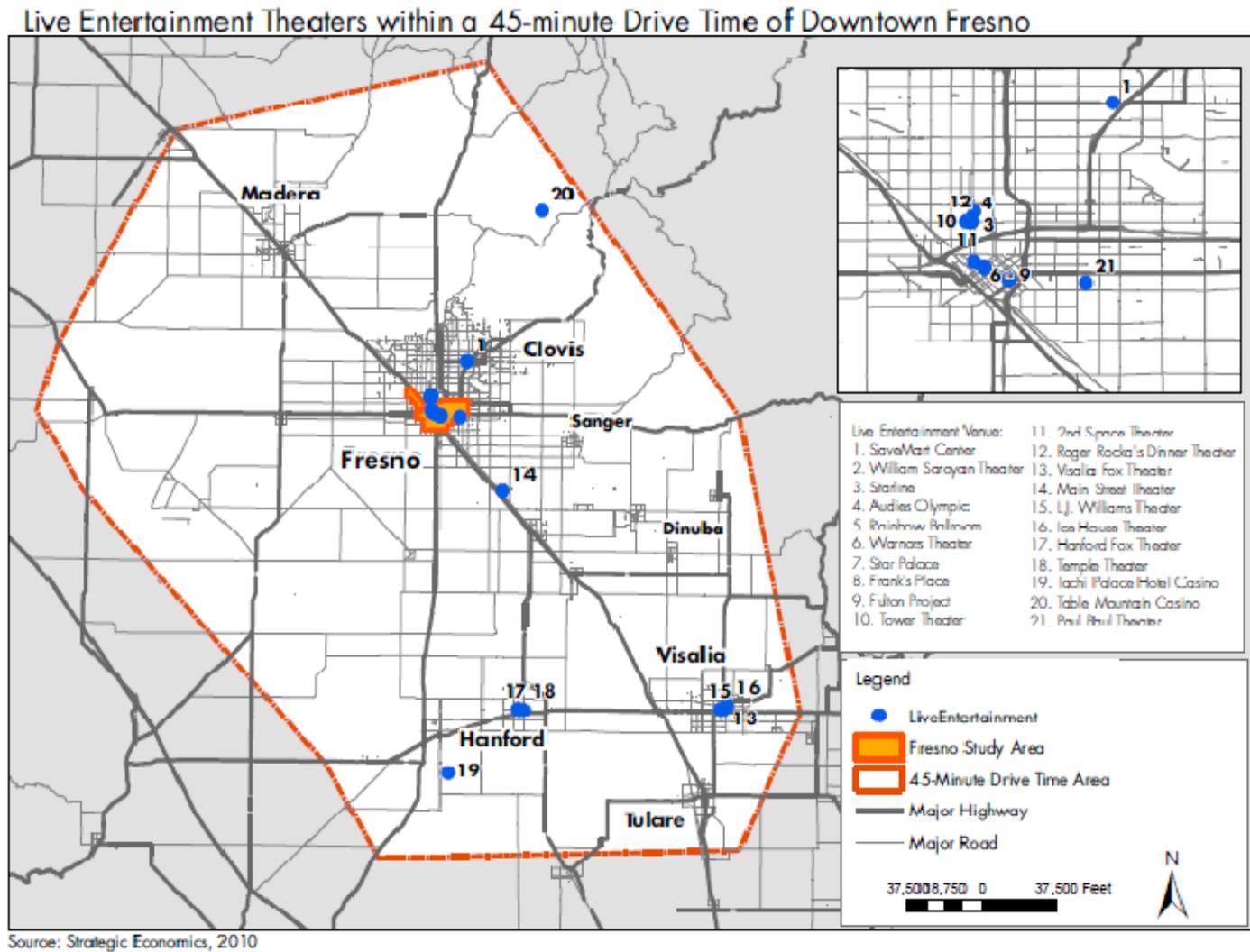


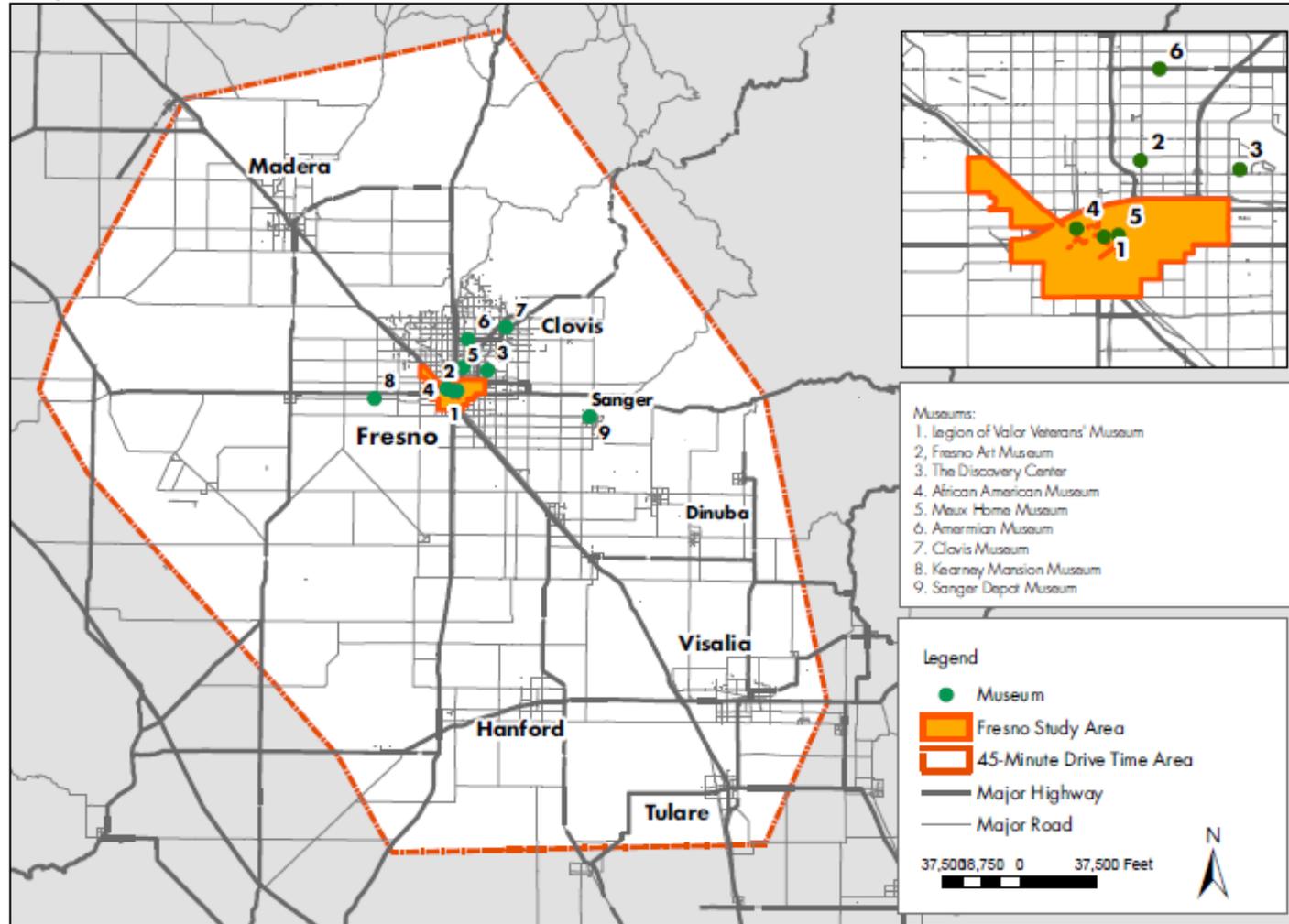
Figure V-4: Live Entertainment Theaters in Trade Area



Note: Other live entertainment venues not mapped include: Crest Theater, Chukchansi Casino, Liberty/Hardy's Theater, and the Reedley Opera House.

Figure V-4: Museums in Trade Area

Major Museums within a 45-minute Drive Time of Downtown Fresno



Note: Other museums in the region not mapped here include: Arte Americas, Clark Center for Japanese Art, ImagineU Children's Museum, Tulare County Historical Museum, Reedley Museum, and Madera County Museum.

## REGIONAL RETAIL AND ENTERTAINMENT MARKET DEMAND

In order to determine the potential for the development of new retail and entertainment uses in the Plan Area, Strategic Economics conducted the following steps in the analysis:

- Estimated household spending in the market area – Based on the State Board of Equalization’s (SBOE) reported sales in the four counties within the market area (Fresno, Kings, Madera, and Tulare), SE estimated average retail sales per household. The data was adjusted to reflect the non-taxable spending in food and prescription drugs that are not reflected in SBOE data.

**Table V-2:** Taxable Sales per Household by County, 2008

| Type of Business               | Fresno   | Kings    | Tulare   | Madera   | Average 4-County Region |
|--------------------------------|----------|----------|----------|----------|-------------------------|
| Apparel stores                 | \$ 1,207 | \$ 867   | \$ 1,155 | \$ 265   | \$ 1,083                |
| General merchandise stores     | \$ 5,006 | \$ 4,933 | \$ 5,241 | \$ 2,448 | \$ 4,833                |
| Food stores                    | \$ 6,833 | \$ 8,232 | \$ 7,431 | \$ 8,082 | \$ 7,208                |
| Eating and drinking places     | \$ 3,279 | \$ 2,901 | \$ 2,761 | \$ 2,038 | \$ 3,006                |
| Home furnishing and appliances | \$ 1,044 | \$ 452   | \$ 767   | \$ 276   | \$ 858                  |
| Building materials             | \$ 2,008 | \$ 1,441 | \$ 1,960 | \$ 1,471 | \$ 1,903                |
| Motor vehicles and parts       | \$ 4,936 | \$ 3,467 | \$ 3,694 | \$ 3,193 | \$ 4,347                |
| Service stations               | \$ 3,754 | \$ 3,717 | \$ 3,578 | \$ 5,584 | \$ 3,868                |
| Other retail stores            | \$ 4,308 | \$ 3,242 | \$ 3,556 | \$ 2,968 | \$ 3,912                |

Source: BOE, 2008; Claritas 2009; Strategic Economics, 2010

- Calculated buying power in the market area - The per household retail spending was then multiplied by the current and projected households in the market area to calculate future buying power by retail store category. This was then translated into net new buying power in the short term (2008-2015) and long term (2015-2035).

**Table V-3:** Buying Power in 45-Minute Trade Area in 2008, 2015, and 2035

| Retail store                           | 2008            | 2015            | 2035            |
|--|-----------------|-----------------|-----------------|
| Apparel stores                         | \$425,052,654   | \$495,954,228   | \$707,862,954   |
| General merchandise stores             | \$1,896,955,878 | \$2,213,380,578 | \$3,159,102,241 |
| Food stores                            | \$2,828,955,184 | \$3,300,843,489 | \$4,711,210,610 |
| Eating and drinking places             | \$1,179,862,352 | \$1,376,671,142 | \$1,964,887,978 |
| Home furnishing and appliances         | \$336,909,555   | \$393,108,282   | \$561,073,530   |
| Building materials                     | \$746,938,053   | \$871,532,226   | \$1,243,915,951 |
| Motor vehicles and parts               | \$1,706,163,847 | \$1,990,763,183 | \$2,841,366,051 |
| Service stations                       | \$1,518,303,522 | \$1,771,566,522 | \$2,528,512,189 |
| Other retail stores                    | \$1,535,517,527 | \$1,791,651,936 | \$2,557,179,593 |
| Households within 45 Minute Drive Area | 392,495         | 457,966         | 653,643         |

Source: Claritas, 2010; Council of Fresno County Governments, 2010; California State Board of Equalization, 2010; Strategic Economics, 2010

**Table V-4:** Incremental Buying Power in 45-Minute Trade Area, 2008-2035

| Retail store                   | 2008-2015       | 2015-2035       | 2008-2035       |
|--------------------------------|-----------------|-----------------|-----------------|
| Apparel stores                 | \$70,901,574    | \$211,908,726   | \$282,810,300   |
| General merchandise stores     | \$316,424,700   | \$945,721,663   | \$1,262,146,362 |
| Food stores                    | \$471,888,305   | \$1,410,367,121 | \$1,882,255,426 |
| Eating and drinking places     | \$196,808,790   | \$588,216,836   | \$785,025,626   |
| Home furnishing and appliances | \$56,198,727    | \$167,965,248   | \$224,163,975   |
| Building materials             | \$124,594,173   | \$372,383,726   | \$496,977,899   |
| Motor vehicles and parts       | \$284,599,336   | \$850,602,868   | \$1,135,202,204 |
| Service stations               | \$253,263,000   | \$756,945,667   | \$1,010,208,666 |
| Other retail stores            | \$256,134,409   | \$765,527,657   | \$1,021,662,066 |
| Total                          | \$2,030,813,012 | \$6,069,639,511 | \$8,100,452,523 |

Source: Claritas, 2010; Council of Fresno County Governments, 2010; California State Board of Equalization, 2010; Strategic Economics, 2010

- Estimated supportable retail space – Using an estimate of the sales per square foot for new stores and restaurants, SE calculated the amount of supportable retail space in the trade area from 2008 to 2035.

**Table V-5:** Average Sales per Square Foot by Retail Store Type

| Retail store                   | Sales per Sq. Ft. |
|--------------------------------|-------------------|
| Apparel stores                 | \$320             |
| General merchandise stores     | \$245             |
| Food stores                    | \$400             |
| Eating and drinking places     | \$330             |
| Home furnishing and appliances | \$330             |
| Other retail stores            | \$300             |

Source: Urban Land Institute, Dollars and Cents of Shopping Centers/The SCORE 2008; Strategic Economics, 2010

**Table V-6:** Estimate of Incremental Supportable Retail Space in Trade Area, 2008-2035

|                                   | 2008-2015        | 2015-2035         | 2008-2035         |
|-----------------------------------|------------------|-------------------|-------------------|
| Apparel stores                    | 221,600          | 662,200           | 883,800           |
| General merchandise stores        | 1,291,500        | 3,860,100         | 5,151,600         |
| Food stores                       | 1,179,700        | 3,525,900         | 4,705,600         |
| Eating and drinking places        | 596,400          | 1,782,500         | 2,378,900         |
| Home furnishing and appliances    | 170,300          | 509,000           | 679,300           |
| Other retail stores               | 853,800          | 2,551,800         | 3,405,500         |
| <b>Total for Above Categories</b> | <b>4,313,300</b> | <b>12,891,500</b> | <b>17,204,700</b> |

Source: Strategic Economics, 2010

- Applied capture rates to estimate the Plan Area's potential – SE estimated the Plan Area's potential to capture the regional demand through the use of capture rates (see Table V-7). Low capture rates assume modest investments in public infrastructure and amenities, and a low degree of household and job creation in the study area. High capture rates assume intensification of day-time and evening population in the study area, improvements in the pedestrian realm, enhanced safety, and other amenities, as well as concerted efforts by the Redevelopment Agency and the City of Fresno to provide incentives to retail and mixed-use projects. Categories such as eating and drinking and "other" retail, which includes specialty stores, were assigned higher capture rates as these are the types of entertainment retail uses most likely to be attracted to the Downtown area, especially given the existing entertainment attractions such as Chukchansi Park. Comparison goods retail, such as apparel and home furnishings were given lower capture rates on the basis that these types of retail uses would be less competitive in the Downtown area compared to other shopping districts.
- Based on this methodology, SE estimates that the Specific Plan Area has the potential for the development of between 1.3 million and 1.6 million square feet of new retail and entertainment space in the next 25 years (see Table V-8). The type of supportable retail includes food stores, eating and drinking places, general merchandise, and other retail.

**Table V-7:** Specific Plan Area’s Estimated Capture Rates of Regional Retail Entertainment Demand, 2008-2035

|                                | Capture Rate - Low |           | Capture Rate - High |           |
|--------------------------------|--------------------|-----------|---------------------|-----------|
|                                | 2008-2015          | 2015-2035 | 2008-2015           | 2015-2035 |
| Apparel stores                 | 3.0%               | 4.0%      | 4.0%                | 5.0%      |
| General merchandise stores     | 5.0%               | 6.0%      | 6.0%                | 7.0%      |
| Food stores                    | 5.0%               | 7.0%      | 7.0%                | 8.0%      |
| Eating and drinking places     | 12.0%              | 13.0%     | 15.0%               | 15.0%     |
| Home furnishing and appliances | 2.0%               | 3.0%      | 3.0%                | 4.0%      |
| Other retail stores            | 10.0%              | 12.0%     | 12.0%               | 13.0%     |

Source: Strategic Economics, 2010

**Table V-8:** Estimate of Supportable Retail Entertainment Space in Specific Plan Area, 2008-2035

| Retail Category               | Low Capture Rate |                  |                  | High Capture Rate |                  |                  |
|-------------------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
|                               | 2008-2015        | 2015-2035        | Total            | 2008-2015         | 2015-2035        | Total            |
| Apparel stores                | 6,600            | 26,500           | 33,100           | 8,900             | 33,100           | 42,000           |
| General merchandise stores    | 64,600           | 231,600          | 296,200          | 77,500            | 270,200          | 347,700          |
| Food stores                   | 59,000           | 246,800          | 305,800          | 82,600            | 282,100          | 364,700          |
| Eating and drinking places    | 71,600           | 231,700          | 303,300          | 89,500            | 267,400          | 356,900          |
| Home furnishing and appliance | 3,400            | 15,300           | 18,700           | 5,100             | 20,400           | 25,500           |
| Other retail stores           | 85,400           | 306,200          | 391,600          | 102,500           | 331,700          | 434,200          |
| <b>TOTAL</b>                  | <b>290,600</b>   | <b>1,058,100</b> | <b>1,348,700</b> | <b>366,100</b>    | <b>1,204,900</b> | <b>1,571,000</b> |

Source: State Board of Equalization; City of Fresno Department of Finance; ULI Dollars and Cents; Strategic Economics.

## **CASE STUDIES OF RETAIL AND ENTERTAINMENT DISTRICTS**

Strategic Economics conducted research of various retail and entertainment districts in the country in cities facing economic challenges similar to Fresno. The research was narrowed down to the two districts most analogous to Fresno: Bricktown in Oklahoma City and Playhouse Square Center in Cleveland. The following summarizes the background, historical context, public investments, outcomes, and lessons learned from these case studies.

### **Bricktown - Oklahoma City, Oklahoma**

The Bricktown neighborhood of Downtown Oklahoma City demonstrates the ability of careful public investments to accelerate and reinforce burgeoning private economic activity. The neighborhood's story also holds both positive and negative lessons regarding the need for comprehensive investment strategies, close collaboration between the private and public sectors, patience, and a long-term land use and business perspective.

### **Background and History**

The Bricktown neighborhood of Oklahoma City lies immediately east of the central business district across a series of railroad tracks. Bricktown's early existence revolved around those tracks in the late-19<sup>th</sup> and early-20<sup>th</sup> centuries, when the neighborhood's brick, multi-story warehouse and manufacturing buildings were constructed. Bricktown went into steep decline after World War II, resulting in near total abandonment and accelerating demolitions by the late 1970s.

Three investors noticed the potential of the area's historic buildings and kicked off the first revitalization efforts in the early 1980s. Despite purchasing and renovating two buildings, their efforts were doomed by the 1982 collapse of the regionally-dominant oil and gas industry. A group of additional investors subsequently purchased the buildings in the mid-1980s and moved their offices into them while seeking additional tenants. Over time a handful of clubs and restaurants were attracted to the area, but the greatest success occurred when a Spaghetti Warehouse restaurant opened and drew consistent crowds. Further businesses were drawn to Bricktown and a nightlife scene began to grow; overall, however, the area remained fairly sleepy outside of the nightlife, lacking critical mass of any particular use or any housing.

Bricktown's slow renaissance was about to receive a major boost from an effort to jump-start the region's economy. In 1992 Mayor Ron Norick and other civic and business leaders recognized that the region needed major upgrades to its quality-of-life amenities to compete for new businesses and diversify the economy. Mayor Norick and the Chamber of Commerce spearheaded a task force that identified nine major civic development projects, including two in Bricktown: a minor-league baseball park and a scenic and recreational canal. All nine projects – called “Metropolitan Area Projects Plan,” or “MAPS” – were placed on the ballot as a single package in December 1992; citizens approved the projects and a five year, one percent sales tax increase originally designed to raise \$254 million. The sales tax ultimately received a six month extension, resulting in \$309 million of direct revenues and \$54 million in interest. The final MAPS project was completed in 2004, without any lasting debt incurred by the City.

### **Investments and Outcomes**

In 1998 the Bricktown ballpark was the first MAPS project completed, at a cost of \$34.2 million. The Bricktown Canal – which, similar to the San Antonio Riverwalk, runs alongside buildings, includes adjacent walkways and parks, and is navigable by water taxis – was then opened in 1999, with a construction cost of \$26.1 million. Both projects have been tremendous successes in drawing visitors to Bricktown, resulting in an explosion of entertainment and nightlife uses. As described by the City in *Brownfield Renewal*, properties adjacent to the canal experienced a 400 percent increase in value, and

\$150 million of additional investment has poured into the area. The area has attracted the headquarters of Sonic Corporation, a Bass Pro Shop, and a multi-screen theater.

Bricktown became part of the catalyst for Downtown Oklahoma City's revitalization by drawing residents and tourists alike, but in many ways it still has a long way to go before becoming a complete and sustainable neighborhood. Certainly there has been significant private sector investment, but the area's longtime near-total focus on entertainment uses put it in danger of suffering a catastrophic collapse if popularity of this sole use waned. Fortunately, the amount of office space has increased – especially with Sonic's relocation – and residential conversions began to occur in the middle of the decade. A great deal of time may be necessary to develop a comprehensive neighborhood, but Bricktown today is leaps and bounds greater than what it was just twenty years ago.

## **Lessons Learned**

*Public sector investment must leverage and complement existing private sector activity.*

The introduction of the ballpark to Bricktown drew additional visitors and the canal added a unique feature, but both of these uses complemented the area's growing reputation as an entertainment destination. These uses complemented the existing direction of private sector investments in entertainment, and they also concentrated both a nighttime use (ballpark) and all-day use (canal) in one location. This provided large crowds for ballgames and consistent, smaller crowds for the canal throughout the day and night.

*Public sector investment must be geographically concentrated for maximum effect.*

MAPS was successful in restoring activity to ghost-quiet Downtown Oklahoma City by concentrating most of its investments in the Downtown area. Further, the two investments focused on popular entertainment – the ballpark and canal – were co-located to complement each other and create a more distinct district in Bricktown.

*Planning of public investments must consider long-term sustainability.*

Bricktown took a long time to develop housing and a greater concentration of office uses. The area still lacks significant retail and is primarily an entertainment destination. The public investments under MAPS were generally successful – especially in light of previous conditions – but did little to help diversify uses within Bricktown. Any neighborhood overly-dependent on a single use runs the risk of total failure if popularity fades, and will have difficulty maintaining a vibrant street environment. Fortunately, the upgrades made by MAPS have now positioned Bricktown to continue diversifying and growing over the coming decades.

## Playhouse Square Center – Cleveland, Ohio

Cleveland, Ohio's Playhouse Square Center (PSC) is a success story of revitalizing a historic Downtown theater district and, in the process, revitalizing the surrounding neighborhood. PSC is the United States' second-largest performing arts center, with over 10,000 seats in eight theaters located within three blocks of each other and over 1,000 performances annually. Yet thirty years ago, all but one of the theaters were shuttered, and several were threatened by imminent demolition. This brief case study examines the history of these theaters, including the techniques used to restore both the theaters and the surrounding neighborhood.

### **Background and History**

The five main theaters of today's Playhouse Square Center were constructed between 1921 and 1922 in Downtown Cleveland along Euclid Avenue – the City's main street – between East 14<sup>th</sup> and East 17<sup>th</sup> Streets. As was common in that time, the five theaters were ornately decorated palaces, showing a mix of motion pictures, vaudeville, and other live entertainment. The theaters largely transitioned to showing motion pictures over the next thirty years.

Cleveland's population peaked near one million residents in the 1950s, but began suffering significant population losses due to suburban growth and job losses. Theater patronage declined as Downtown lost regional primacy as an entertainment and shopping destination, resulting in the closure of the four largest theaters over a 14 month period in 1968 and 1969; vandalism and neglect rapidly took a toll.

In 1970 Ray Shepardson of the Cleveland Board of Education visited the closed State Theater while searching for a conference venue. Impressed by the theater's potential and grandeur, Shepardson embarked on a mission to save the theaters of Playhouse Square. These efforts commenced in 1970 with the creation of the Playhouse Square Foundation – a non-profit entity dedicated to saving, maintaining, and operating the theaters – formed in collaboration with civic leaders and the Cleveland Junior League.

The foundation struggled to bring intermittent performances to the theaters in the early 1970s, but the greatest success was preservation of the privately-held theaters themselves. Demolition of the two largest theaters was narrowly averted in 1972 when the Cleveland Junior League committed \$25,000 to preservation. In 1973 the foundation signed long-term leases on three theaters. Survival was further assured when, in 1978, advocacy by then-mayor Dennis Kucinich successfully diverted \$3.1 million in City money for demolition of two theaters to Cuyahoga County for purchase and renovation instead.

The Playhouse Square Foundation began major renovations in the early-1980s, thanks to \$40 million in contributions cobbled together from public, business, citizen, and non-profit sources. The process did not occur quickly; it wasn't until 2008 that all theaters were renovated and owned by the foundation, now called the Playhouse Square Association (PSA). Along the way, the PSA acquired and renovated numerous office properties near the theaters, helped implement a business improvement district, and attracted an adjacent hotel and corporate-sponsored park.

### **Lessons Learned**

*Dedicated and passionate private stakeholders provide focus, organization, and low-cost labor to create early successes.*

Like any successful startup organization, PSC was the result of the early passion and dedication of a small group of individuals operating on a miniscule budget cobbled together from multiple public and private sources. A core group of such people can be immensely helpful when launching a new venture, especially one unlikely to grow quickly or be profitable.

*The creation of a dedicated organization can reduce the likelihood of failure through distraction.*

PSC was solely focused on the revitalization of Playhouse Square, and therefore not subject to competing priorities for funding and attention.

*Public sector assistance must be strategically applied and include a public sector champion.*

Public sector participation was instrumental in the revitalization of Playhouse Square, including dedications of operating funds and, most significantly, the 1978 purchase of the building housing the two largest theaters. However, public sector participation was very strategic, with little involvement in day-to-day management, and major infusions of funding only when critical to the theaters' and organization's survival. Further, a public sector champion or champions are required to navigate the political environment to deliver assistance.

*Development of major public amenities can take a very long time.*

The revitalization of Playhouse Square is not – and may never be – “finished.” The five largest theaters were operational and in relatively good repair by the late 1990s, but that process alone took nearly thirty years. This long process required patience and support from the public, non-profit, and for-profit sectors, and may have only been possible based on the leadership of a non-profit organization; it is unlikely that a for-profit lead would have been able to raise ongoing capital and sustain years of losses while revitalizing the theaters.