

APPENDIX D

Dorsey Marketplace Economic Analysis



DRAFT MEMORANDUM

Date: July 26, 2016
To: Tom Last, Community Development Director City of Grass Valley
Katherine Waugh, DUDEK
From: Sally Nielsen
Subject: **Dorsey Marketplace Economic Analysis**

This memorandum provides economic analysis to determine the impact of the proposed Dorsey Marketplace on the Grass Valley retail market. This is one of two economic analyses of the proposed project. The second analysis describes fiscal impacts on the City of Grass Valley, construction period impacts, and longer-term on-going economic impacts associated with the proposed project and with the general plan land use change.

The analysis presented here evaluates the proposed supply of retail space (amount of space and types of retailers) in the context of existing retail market conditions and conditions in the relatively near term future based on increases in housing units and households in the market area (i.e., demand—including the demand represented by the proposed project's residential component) and any expected increases in competitive retail supply in the market area. The analysis addresses the related questions of 1) whether the project would fill gaps in local retail supply and therefore reduce the substantial leakage of retail spending out of Grass Valley and 2) whether the project retail development would have a negative impact on the economic health of the Downtown Business District.

The memorandum begins with an overview of approach, data sources, and definitions. This is followed by description and analysis of the existing retail market context for Grass Valley and the greater western Nevada County retail market area. That analysis includes presentation of household retail spending factors used to evaluate spending potential represented by the proposed project and by other increases in households and population in the market area. Detailed evaluation of retail sales drivers and trends in Grass Valley's Downtown Business District completes the context discussion. The Dorsey Marketplace project description then fleshes out the planning parameters for the project with estimates of types of retail tenancies and associated retail sales, employment estimates, household occupancy, apartment rents, household incomes, and retail spending estimates. Lastly, consideration of potential increases in retail spending potential due to other new development in the market area and other potential future retail supply completes the context for analysis of project implications.

APPROACH, SOURCES, AND DEFINITIONS

The approach to this analysis is to use detailed evaluation of retail spending and sales in Grass Valley, project assessment, and conservative projections of market area growth to develop conclusions about the implications of the proposed project. The approach evaluates the scale and characteristics of the proposed project against a backdrop of western Nevada County retail strengths and weaknesses and distinguishes the proposed project from Downtown Grass Valley's retail niche.

The analysis is not a market or feasibility analysis of the proposed project. The analysis assumes the project is feasible from the developer's perspective.

The analysis is based on assumptions and estimating factors derived from the best available current information. Furthermore, the analysis necessarily uses economic data that reflects recent trends in retailing. Such data may not fully account for significant changes in shopping behavior enabled by on-line retailing. Industry analysts and planners have numerous opinions about the future of retailing—the implications of omni-channel retail for the shopping experience and the role of the physical store as one of those channels. The longer term evolution of the retail landscape may have implications for developments such as Dorsey Marketplace, but that question is beyond the scope of this effort.

Assessing the city and regional retail market context is a key component of the quantitative analysis. Retail *capture* and *leakage* are the indicators used to identify retail strengths and weaknesses. Capture represents the ability of local businesses to attract spending from households living in the market area and, to a lesser extent, from local businesses and employees. Leakage refers to market area retail spending potential that is not captured by local establishments.

One approach to the capture and leakage evaluation is a per capita approach. Dividing aggregate sales data for a specific geographic area by the household population in that same geographic area provides one means of evaluating the relative strengths and weaknesses of that geographic area, compared to county or state norms (established by comparable per capita averages). Multi-county regional averages and statewide averages in particular can be said to represent a norm or baseline for a relatively self-sufficient retail market, i.e., one in which demand is adequately served by supply.

The other approach compares spending potential to local sales. The household spending analysis develops estimates of per-household retail spending based on estimates of household income and survey data describing the amount of money households spend every year on different types of retail and other goods and services. Comparing these estimates of potential to reported sales at local establishments generates a differential identified as either capture or leakage.

With the exception of convenience retail, there are reasons why retail market areas are not in perfect balance. Some market area household spending is expected to occur outside of the local market area where people work and where they travel, particularly eating and drinking out, specialty shopping, and sales at gasoline stations (auto and related category). Households are more likely to look outside a local market area for "big ticket" items such as auto sales and furniture and appliance sales. On the demand side, visitor spending can be a substantial

component of reported sales in the eating and drinking out category and in specialty stores in some locations, so sales in those categories are expected to be greater than what would otherwise be the case based solely on local household demand.

The retail sales analysis conducted for the Dorsey Marketplace economic impact analysis assessment is based on data from the State of California Board of Equalization (SBOE), reporting taxable retail sales for Nevada County unincorporated areas and cities and reports compiled by Hinderliter de Lamas for the City of Grass Valley showing sales tax revenue (converted to taxable sales for the purposes of this analysis) for the City and separately for the Downtown Assessment District, also referred to as the Downtown Business District. In addition, information on total retail sales at the county and state levels from the 2012 Economic Census (Retail Trade and Accommodation and Food Services) is used to develop factors converting taxable sales to total sales. Estimates of household retail spending potential are based on U.S. Bureau of Labor Statistics Consumer Expenditure Survey data for the western region of the United States—data indicating the percentage in income devoted to retail spending and the distribution of that spending by retail category.

Some of the analysis is based on taxable sales data for which the SBOE prepares detailed annual reports for the state, counties and cities in the state. Comparison of spending potential to market area sales uses an estimate of *total* sales, accounting for the fact that many grocery store sales and drugstore sales are exempt from state sales tax. Reported taxable sales data are adjusted to account for the fact that only about 30 percent of food and beverage store sales are taxable and about 36 percent of health and personal care store sales are taxable (the primary exempted items in this large category are prescription medicines, candy, and snack food).

The economic assessment uses retailing categories to describe market orientation and the trends for different types of retail business activity. Similar categories and definitions are used routinely in retail analysis. This analysis focusses on retail and food services business activities—establishments for which sales data are a robust indicator of market strengths and weaknesses.¹

- ♦ **Comparison retail** includes goods for which shoppers are willing to spend time comparing selection, price, and service. Items in the comparison category include clothing and accessories, appliances, furniture, electronic equipment, sporting goods, toys, office supplies, hardware, garden supplies, jewelry, and gifts. These items are found in department stores, home improvement stores, off-price superstores, variety stores, and in small and large format specialty stores.
- ♦ **Convenience retail** includes goods that consumers need immediately and frequently. These are generally the items that are found in supermarkets, drugstores, and neighborhood shopping centers.

¹ Taxable sales in California are also reported for businesses in the “all other outlets category” which includes a variety of types of retail and commercial activity such as beauty salons, repair shops, contractors, print shops, insurance and real estate companies, designers, travel agents, manufacturers, wholesalers, and lodging, as well as amusement and entertainment establishments such as movie theatres and bowling alleys. Business-to-business sales are a substantial component of the taxable sales in some of these types of establishments. These types of retail spending and sales are not included in the Dorsey Marketplace analysis. Although personal service businesses and small offices may likely locate in some of the Dorsey Marketplace commercial space, taxable sales are not relevant indicators for the economic analysis of this type of activity.

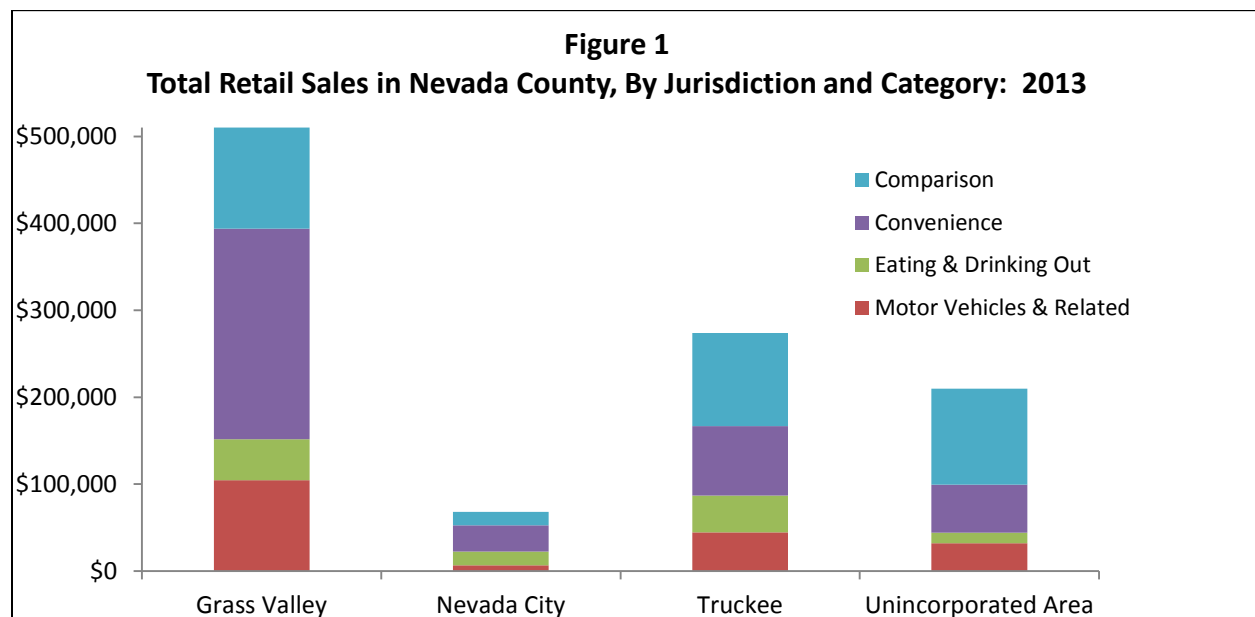
- ♦ **Eating and Drinking** covers sales of food away from home. This category includes sales at full-service restaurants, bars, take-out and drive-through establishments, coffee houses, and cafés.
- ♦ **Auto-related sales** includes sales of new and used vehicles, auto supplies, and service station sales.

In today's retailing environment, the distinction among categories is often blurred as large retail development formats have enabled the combination of comparison and convenience shopping under one roof or within one large typically highway-oriented center. Nevertheless, the categories remain a useful way to describe and classify trends in sales and in retail spending patterns.

GRASS VALLEY RETAIL CONTEXT

County retail activity is concentrated in Grass Valley

Grass Valley captures more retail sales than any other part of Nevada County, but substantial local market area retail spending (demand) is lost to retail locations outside Nevada County. In 2013, although Grass Valley's 13,000 residents represent only 13 percent of the population in Nevada County, Grass Valley accounted for half of retail sales in the county—\$543 million in retail and food services sales out of almost \$1.1 billion countywide. (**Figure 1 and Table 1**) This pattern has persisted for a number of years, because Grass Valley is an employment center, a center for medical and education services, a retail location serving the greater western Nevada County market area, and a significant visitor destination. Grass Valley retail locations dominate across all retail sales categories: 39 percent of comparison retail sales in the county, 60 percent of convenience store sales, 40 percent of sales at food services establishments and drinking places, and 56 percent of sales at motor vehicle and parts dealers and gasoline stations.



Sources: State of California Board of Equalization, U.S. Census Bureau, and Hausrath Economics Group

Table 1
Nevada County Total Retail and Food Services Sales by Jurisdiction, 2013
(dollars in thousands)

Retail Category	Grass Valley	Nevada City	Truckee	Subtotal Cities	Unincorporated area	Total
Comparison	\$148,781	\$15,469	\$107,144	\$271,393	\$110,675	\$382,069
Convenience ^a	242,352	30,047	79,555	351,954	55,180	407,135
Eating & drinking out	46,977	15,822	42,586	105,385	12,044	117,430
Motor vehicles and related	104,492	6,625	44,435	155,552	31,951	187,503
Total	\$542,602	\$67,963	\$273,720	\$884,285	\$209,851	\$1,094,136

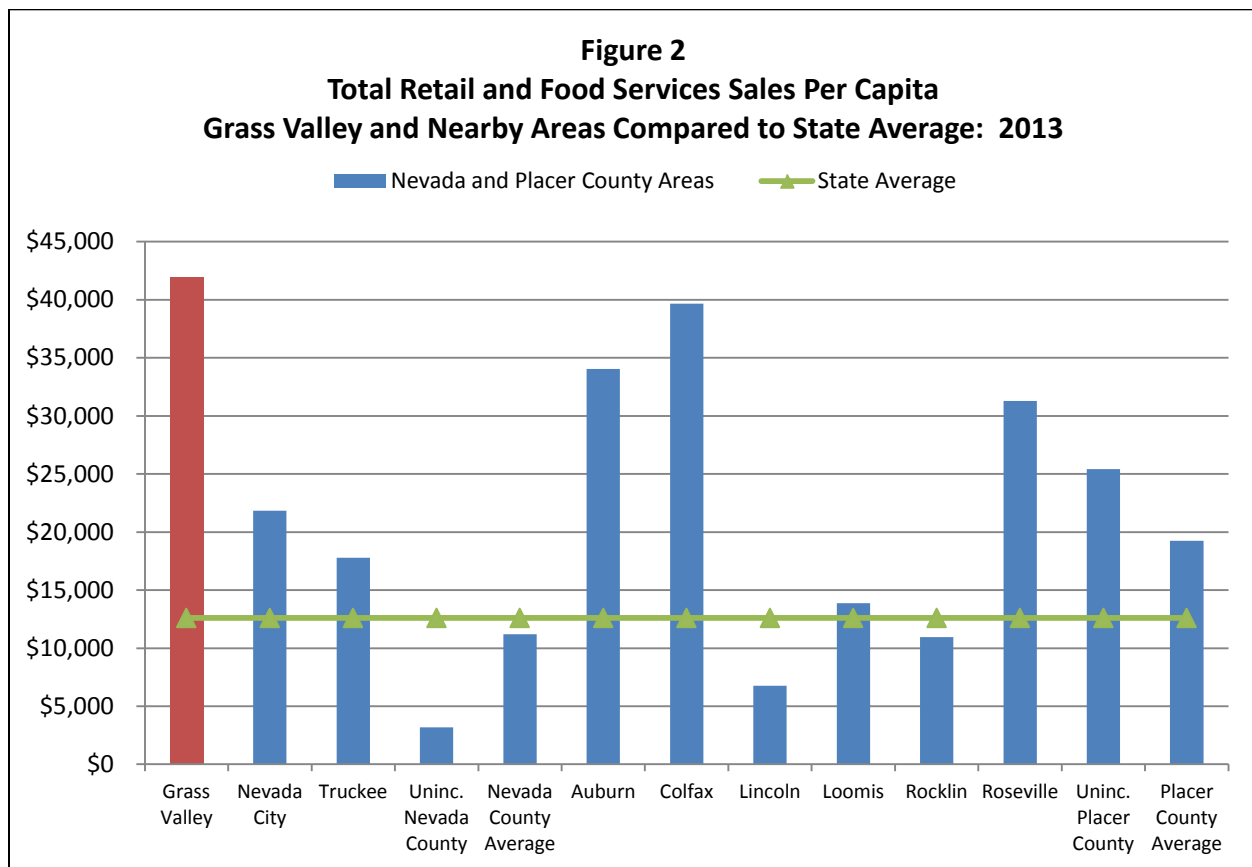
Notes:

a. Total sales in grocery stores and drug stores estimated from reported taxable sales based on conversion factors derived from comparison of taxable sales (SBOE data) to total sales reported in the 2012 Economic Census, Census of Retail Trade. The comparison indicates 30 percent of sales in food and beverage stores are taxable and 36 percent of sales in drugstores are taxable.

Sources: California State Board of Equalization, *Taxable Sales in California During 2013, Fifty-Third Annual Report*; U.S. Census Bureau, *2012 Economic Census*; and Hausrath Economics Group.

Per capita analysis highlights retail strengths and weaknesses

At almost \$42,000 per capita in 2013, per-capita sales in Grass Valley (total sales in retail and food services establishments divided by total population) are more than three times higher than the statewide average of \$12,600 for sales for all retail and food services. **(Figure 2)** Among neighboring jurisdictions, none show higher per-capita sales. Per-capita retail sales in Grass Valley are higher than per-capita retail sales in Auburn (\$34,000) and in Roseville (\$31,000)—the latter city known as the retail location of choice for a large regional market area. Per-capita sales in Colfax are also high. The Colfax population base at about 2,000 residents is lowest of all nearby areas. In addition to substantial highway commercial development, large retail establishments in town (building materials and auto parts and supplies) serve a larger foothills market area.



Sources: State of California Board of Equalization, U.S. Census Bureau, and Hausrath Economics Group

Comparing actual Grass Valley sales by category to Grass Valley resident demand (estimated generally based on state per-capita averages by category) suggests where the strengths and weaknesses of the city's current retail market lie. **(Table 2)** The greatest amount of capture from outside the city falls in the food and beverage stores and building materials/garden supplies stores categories. Grass Valley establishments in these categories clearly draw on the spending from the greater western Nevada County market area. Health and personal care stores, food services and drinking places, home furnishings and appliances, and the "other retail" category (including sporting goods, music, book, office supply, gift and other specialty stores) also show substantial capture beyond the typical demand that might be expected from Grass Valley residents alone. The City's highway interchanges and gasoline stations also attract significant regional and visitor spending. By this analysis, only the clothing and accessories stores category is not meeting Grass Valley resident needs; *potential* taxable sales (based on statewide per capita averages) are more than double the reported sales at Grass Valley clothing and accessories establishments.

Table 2
Retail Sales Capture and Leakage Analysis for the City of Grass Valley, 2013

Retail Category	Per capita taxable sales – California ^a	Potential taxable sales in Grass Valley ^b	Actual taxable sales in Grass Valley ^c	Capture / (Leakage)	Percent capture
	(dollars in thousands)				
	A	B	B - A	B / A	
Clothing and Accessories Stores	\$915	\$11,843	\$5,820	(\$6,023)	49%
General Merchandise Stores	1,348	17,444	37,251	19,807	214%
Health and Personal Care Stores (estimate)	296	3,831	23,821	19,990	622%
Food and Beverage Stores	663	8,577	52,855	44,278	616%
Food Services and Drinking Places	1,645	21,292	46,977	25,685	221%
Home Furnishings and Appliance Stores	666	8,619	19,013	10,394	221%
Bldg. Matrl. and Garden Equip. and Supplies	778	10,067	53,399	43,332	530%
Motor Vehicles and Parts Dealers	1,781	23,059	45,099	22,040	196%
Gasoline Stations	1,490	19,285	59,393	40,108	308%
Other Retail	964	12,479	33,298	20,819	267%
Total Retail and Food Services	\$10,545	\$136,495	\$376,926	\$240,431	276%
All Other Outlets	4,832	62,542	150,248	87,706	240%
Total All Outlets	\$15,377	\$199,037	\$527,174	\$328,137	265%
Grass Valley 2013 population ^d		12,944			

Notes:

a. California State Board of Equalization, *Taxable Sales in California During 2013, Fifty-Third Annual Report*, Table 1.

b. Statewide per capita sales by type of category multiplied by Grass Valley population.

c. California State Board of Equalization, *Taxable Sales in California During 2013, Fifty-Third Annual Report*, Table 5 with estimate for Health and Personal Care Stores using county total for that category allocated to jurisdictions based on detail from the 2012 Census of Retail Trade. "All Other Outlets" includes an estimate for the unallocated taxable sales not reported in SBOE Table 5.

d. State of California, Department of Finance, E-5. Population and Housing Estimates for Cities, Counties, and the State, January 1, 2011-2016, with 2010 Benchmark, May 2016

Sources: California State Board of Equalization, *Taxable Sales in California During 2013, Fifty-Third Annual Report*; U.S. Census Bureau, *2012 Economic Census*; and Hausrath Economics Group.

The analysis above substantiates Grass Valley as the retail center for a broader market area than just the households living in the city proper. The shopping centers in the Glenbrook Basin, as well as the Pine Creek Shopping Center, the K-Mart Shopping Center, and the Hills Flat district, offer a full range of convenience and general consumer shopping options for the western Nevada County market area: groceries, full service drugstore/pharmacies, hardware, building materials and garden supplies, office and electronics supplies, sporting goods, beauty supplies, apparel, pet food and supplies, and auto supply outlets. The shopping centers provide a typical mix of anchor stores and smaller spaces occupied by retail shops (both national chains and independents), personal service establishments, and small offices, along with pads for restaurants, coffee shops, or fast food operations, financial services, and telecommunications outlets, for example.

Furthermore, as discussed in more detail below, Downtown Grass Valley offers specialty retail and eating and drinking establishments that attract locals as well as Gold Country visitors.

Comparing market area spending potential to sales indicates where the gaps are

The appropriate market area lens takes in the greater western Nevada County area, including Nevada City and surrounding unincorporated areas with the exception of Lake of the Pines, where residents are more likely to use nearby Auburn and North Auburn in Placer County as their shopping destination of choice. There are about 78,000 people living in this larger western Nevada County market area; Grass Valley residents account for 16 percent of the total. Not only does this market area represent a larger pool of households (about 32,000 households, of which 6,000 live in Grass Valley), the households in the areas surrounding Grass Valley have higher incomes on average than do Grass Valley households, further increasing the retail spending potential. The average annual household income in Grass Valley is about \$47,000, while the average annual household income in the greater western Nevada County market area (including Grass Valley) is \$73,500.

Table 3 presents the retail spending potential in Grass Valley and the retail spending potential in the greater western Nevada County market area (including Grass Valley). Grass Valley households generate about \$124 million per year in retail spending, and the western Nevada County market area generates about \$853 million per year in retail spending. Grass Valley household spending potential is 15 percent of that total.

Table 4 compares this market area household retail spending potential to *total* retail and food services sales in Grass Valley and Nevada City (including estimates of non-taxable sales), to indicate how well local establishments are meeting market area demand and help identify options for increasing the retail supply in the city. Nevada City retail sales are counted in the market area supply estimates to present a more complete comparison of market area demand to market area supply. Because Nevada City sales account for only about 10 percent of market area sales, retail sales patterns in Grass Valley determine the conclusions of the market area analysis. After adjusting for non-taxable sales in some retail categories, total retail sales in Grass Valley and Nevada City retail store and food service establishments total about \$611 million in 2013 (the most recent year for which annual sales data are available).

Table 3

Household Retail Spending: Grass Valley and the Western Nevada County Market Area, 2013

	Grass Valley		Western Nevada County market area ^a	
	Households ^b	5,994	32,239	
Average Household Income ^c		\$46,946		\$73,500
Retail spending percent of income (rounded) ^d		44%		36%
Total annual retail spending		\$20,656		\$26,460

	Grass Valley	Western Nevada County	Grass Valley	Western Nevada County market area
Distribution by category (rounded) ^d				
Comparison	29%	31%	5,990	8,203
Convenience	26%	28%	5,371	7,409
Eating & drinking out	12%	13%	2,479	3,440
Motor vehicles, parts, service stations	33%	28%	6,817	7,409
Total	100%	100%	\$20,656	\$26,460

	Grass Valley	Western Nevada County market area
Estimated Household Spending by Category		
Comparison	\$35,905,916	\$264,445,262
Convenience	32,191,511	238,853,785
Eating & drinking out	14,857,620	110,896,400
Motor vehicles, parts, service stations	40,858,456	238,853,785
Total	\$123,813,503	\$853,049,232

Notes:

a. The western Nevada County market area is defined to include tabulations from two Census County Divisions (CCD) excluding counts for the Lake of the Pines Census Designated Place (CDP). The Grass Valley CCD includes the city of Grass Valley and the Nevada County CCD includes the city of Nevada City. Counts for the Lake of the Pines CDP are subtracted from the combined counts for the CCDs. Analysis of 2010 Census counts and American Community Survey 2014 5-year estimates indicates that 80 percent of county households live in western Nevada County, excluding Lake of the Pines.

b. Household count for Grass Valley and Nevada County are from the California Department of Finance Report E-5. Population and Housing Estimates for Cities, Counties, and the State, January 1, 2011-2016, with 2010 Benchmark, May 2016. The household count for the western Nevada County market area is estimated from the county total assuming 80 percent of county households live in the market area (as defined in note a. above).

c. U.S. Census Bureau, *American Community Survey 2010-2014 5-year estimates*.

d. U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey 2013-2014*, September 2015. Table 3133, Western region by income before taxes: Average annual expenditures and characteristics.

Sources: State of California Department of Finance, U.S. Census Bureau, U.S. Bureau of Labor Statistics, and Hausrath Economics Group.

Table 4

Western Nevada County Market Area Household Retail Spending Compared to Grass Valley and Nevada City Retail Sales, 2013

Retail Category	Household retail spending - Western Nevada County market area ^a	Total retail sales in City of Grass Valley and Nevada City ^b	Capture or (Leakage)
Comparison	\$264,445,000	\$164,250,000	(\$100,195,000)
Convenience	\$238,854,000	\$272,399,000	\$33,545,000
Eating & drinking out	\$110,896,000	\$62,799,000	(\$48,097,000)
Motor vehicles, parts, service stations	\$238,854,000	\$111,117,000	(\$127,737,000)
Total	\$853,049,000	\$610,565,000	(\$242,484,000)

Notes:

a. Excludes Lake of the Pines. See notes in Table 3.

b. California State Board of Equalization, *Taxable Sales in California During 2013, Fifty-Third Annual Report*, Table 5 with estimate for Health and Personal Care Stores using county total for that category allocated to jurisdictions based on detail from the 2012 Census of Retail Trade. Taxable sales converted to total sales assuming 30 percent of food and beverage store sales are taxable and about 36 percent of health and personal care store sales are taxable.

Sources: State of California, Board of Equalization, U.S. Census Bureau, 2012 Economic Census, and Hausrath Economics Group.

Overall, this comparison indicates substantial leakage of retail spending outside the market area. Key conclusions from the market area spending and sales analysis are as follows:

- ♦ Grass Valley is indeed the convenience retail center for the western Nevada County market area: household retail spending and local retail sales are most closely in balance for this category that includes grocery stores and drugstores.
- ♦ Motor vehicle and service station spending shows the most total leakage to establishments outside the market area. Although, as noted above, Grass Valley captures some visitor-related highway commercial spending, it is also the case that this is the category of household spending most likely to follow household place of work and travel patterns. Typically, for this retail category, there are locations where motor vehicle sales outlets traditionally cluster that attract shoppers from a large market area. Auburn and Roseville in Placer County are such locations in this case.
- ♦ A similar story applies to the spending potential in the eating and drinking out category. Work and travel mean a substantial portion of this type of household spending is naturally expected outside the market area. Nevertheless, leakage of about \$50 million annually—about 40 percent of spending potential—indicates that the market could support additional local supply, especially considering that significant local sales are generated by visitors from outside the market area.
- ♦ The Table 4 analysis indicates roughly \$100 million annually in net total leakage of market area spending on comparison goods. This large category represents spending/sales for clothing; furniture and appliances; home electronics, household

goods and supplies, building materials and garden supplies; sporting goods; books, toys, and music; and other consumer goods that are not everyday convenience items and for which shoppers are most likely to compare prices. Existing market area demand would support more stores offering these types of goods.

DOWNTOWN GRASS VALLEY SALES ANALYSIS

Grass Valley's downtown maintains a special function within the city's retail landscape. The Downtown Business District (Downtown) is marketed to visitors as Grass Valley's historic, walkable centerpiece. Downtown hosts events, markets, and street fairs year-round, and The Center for the Arts located on West Main Street presents more than 200 performances a year that bring both Nevada County residents and visitors downtown. Downtown is known for an eclectic mix of locally owned shops and restaurants, in a concentrated collection of buildings boasting the patina of age, enhancing the area's appeal to locals and visitors alike.

Data for the most recent fiscal year (2014/15) show \$48 million in retail and food services sales in the Downtown Assessment District, representing about 11 percent of retail and food services sales in Grass Valley. The Downtown district has maintained this share of total city sales over the last few years. (**Table 5**) Downtown's restaurants, cafés, and bars capture a higher than average share of city sales—accounting for 25 percent of total city eating and drinking out sales. With a major grocery store located within the boundaries of the Downtown Assessment District, convenience sales are well represented in the downtown area and account for the largest total amount of sales. Comparison shopping represents the next highest amount of Downtown sales. Across all categories, the Downtown share of the city total has been remarkably consistent over time.

Table 5

Retail and Food Services Sales in the Downtown Assessment District (total sales in thousands) ^a

Retail Category	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
Comparison	\$11,543	\$12,468	\$12,500	\$12,351	\$13,076	\$13,495
Convenience	17,385	17,199	17,986	18,779	18,668	20,035
Eating and Drinking	8,105	7,850	8,716	8,102	9,384	10,258
Vehicle sales, repair, rental	3,403	1,986	4,925	3,888	3,944	3,940
Total	\$40,435	\$39,504	\$44,127	\$43,120	\$45,072	\$47,729

Downtown Assessment District percent of city total sales

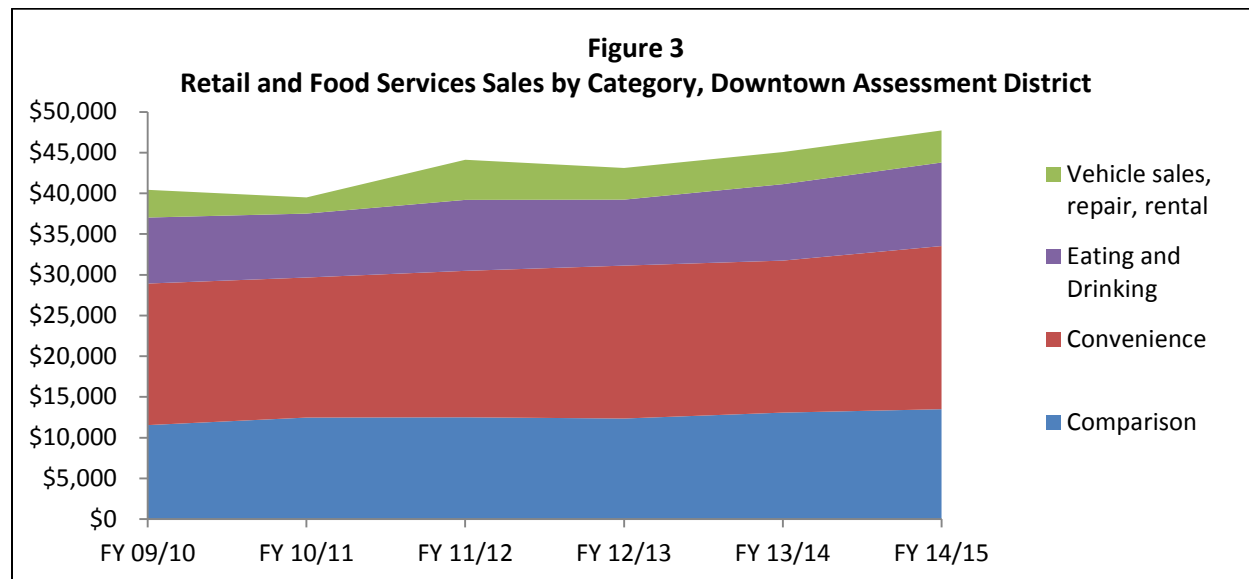
Comparison	10%	10%	11%	11%	10%	11%
Convenience	12%	11%	11%	12%	11%	12%
Eating and Drinking	26%	24%	25%	24%	26%	26%
Vehicle sales, repair, rental	4%	3%	6%	5%	5%	5%
Total	10.8%	10.4%	11.3%	10.9%	11.0%	11.3%

Notes:

a. Taxable sales converted to total sales assuming 30 percent of food and beverage store sales are taxable and about 36 percent of health and personal care store sales are taxable.

Sources: City of Grass Valley, HdL Companies, Allocations by Business Type, and Hausrath Economics Group.

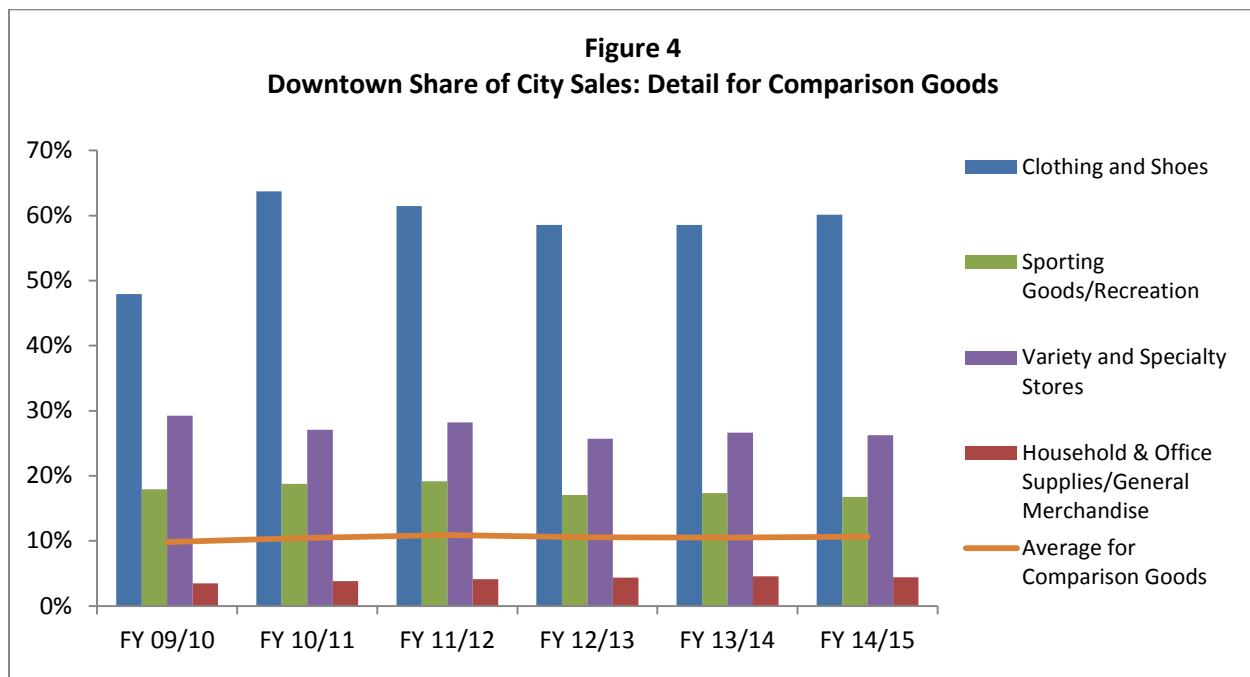
Since a low point in sales citywide and Downtown during the Great Recession (2008 – 2009), retail and food services sales Downtown have increased relatively steadily across all retail categories (**Figure 3**) and at a somewhat faster pace than city retail and food services sales overall. Downtown sales increased 18 percent between 2009/10 and 2014/15 while citywide sales increased 12 percent over the same period. The net result has been a marginal increase in the contribution of Downtown to total city sales—from 10.4 percent in 2010/11 to 11.3 percent in 2014/15.



Sources: City of Grass Valley, HdL Companies, and Hausrath Economics Group.

Relative to sales trends citywide, Downtown has shown the strongest growth in comparison sales and sales at eating and drinking establishments. The \$2 million per year increase in Downtown sales in each of these categories represents 20 percent of the increase in comparison sales and 30 percent of the increase in sales in eating and drinking establishments in Grass Valley since 2009/10.

Downtown has particular strengths in certain types of comparison goods sales. Sales at clothing and shoe stores, sporting goods/recreation stores, and specialty stores (establishments selling books, stationery, music, jewelry, flowers, gifts, and novelty items) are a disproportionate share of comparison sales Downtown (**Figure 4**). By contrast, sales of household and office furnishings and supplies and general merchandise are more likely to occur in other locations in Grass Valley.



Sources: City of Grass Valley, HdL Companies, and Hausrath Economics Group.

DORSEY MARKETPLACE – PROJECT DESCRIPTION AND ECONOMIC ANALYSIS PARAMETERS

Retail space and retail sales

Proposed for a 26.9 acre site at the southeast corner of Highway 20/49 and Dorsey Drive, the Dorsey Marketplace project would be developed adjacent to the new off-ramp for the Dorsey Drive interchange. This is a prominent site, well-located to attract people driving between the highway and nearby educational, medical, residential and other business commercial activity in Grass Valley. The project proposes 181,900 square feet of commercial and retail development and 90 multi-family residential rental units, along with surface parking, plazas, pedestrian corridors, a community dog park, and residential common areas, including fitness center and pool. This is the largest amount of new retail space proposed to be added in Grass Valley in 10 years. The retail and commercial development is laid out to accommodate four major tenants ranging from 20,000 to 48,000 square feet in size, six smaller buildings ranging from 3,400 to 10,000 square feet each for shops and/or offices, and four restaurant and/or office pads for that could be oriented to drive-through uses. Entrances and exits are off Dorsey Drive and a new road extending into the site and connecting with Springhill Drive. The residential units would be developed in a series of six two- and three-story structures accessed off this new road.

The project sponsor has outlined the following mix of potential tenants for the commercial development:

- ♦ Four anchor tenants: including a neighborhood market, and stores offering general merchandise, apparel (men/women/children), home furnishings, health and beauty, sporting goods, or electronics, for example

- ♦ Six smaller shops: food services and drinking places, café's, smaller retail shops selling goods similar to those listed above
- ♦ Four drive-through pads: financial institutions, sandwich/coffee shops, quick-service food

Using sales per square foot estimating factors that reflect planning level estimates for establishments of these types based on industry data, the Dorsey Marketplace could potentially generate retail sales ranging from \$53 million to \$57.5 million per year at full occupancy. **(See Table 6)** The range illustrates two scenarios: higher sales with a neighborhood market/grocery store anchor and lower sales without such an anchor. Sales per square foot estimating factors are generally around \$300 per square foot for the larger anchor stores and \$350 per square foot for the smaller shops and eating and drinking places. Actual sales per square foot can be substantially higher or lower than these planning averages, depending on the characteristics of the operator. Industry standards indicate that a neighborhood market/grocery store would be expected to generate sales at a substantially higher rate of \$500 per square foot.

The estimates assume two of the pads would be developed for office uses such as banks or real estate brokerages and would not generate retail sales. Based on review of the tenant mix at other Grass Valley shopping centers, it is likely that one or more of the small shop spaces might also be used for office or other commercial use not generating retail sales. That assumption is factored into the estimate above.

Table 6
Dorsey Marketplace Estimates of Annual Retail Sales and Employment

Retail/Commercial spaces	Square footage	Store types:	Annual sales per square foot ^a	Estimated Sales (annual)	
				Grocery store ^b	No grocery store ^c
Major 1	38,000	General merchandise, men's/women's/children's clothing, home furnishings, health and beauty, sporting goods, electronics, neighborhood market	\$300	\$11,400,000	
Major 2	48,000		\$300	\$14,400,000	
Major 3	24,000		\$500 /\$300	\$12,000,000	\$7,200,000
Major 4	20,000		\$300	\$6,000,000	
Shop A	10,400		\$300	\$3,120,000	
Shop B	7,200	Food service and drinking places, café	\$350	\$2,520,000	
Shop C	5,000		\$350	\$1,750,000	
Shop D	6,000		\$350	\$2,100,000	
Shop E	5,000		\$350	\$1,750,000	
Shop F - office	3,800				
Pad 2 - food service	3,000	Drive-throughs: financial institution, sandwich/coffee, quick-service food	\$350	\$1,050,000	
Pad 1 - food service	4,000		\$350	\$1,400,000	
Pad 3 - office	4,000				
Pad 4 - office	3,500				
Total Square Feet	181,900		Total Annual Sales	\$57,490,000	\$52,690,000
Employment Estimate				Grocery store ^b	No grocery store ^c
Sales per employee ^d				\$235,000	
Estimated Retail Jobs				245	224
Office Space ^e				11,300	
Office space per employee ^f				350	
Estimated Office/ Commercial Jobs, full occupancy				32	
Estimated Property management/maintenance jobs				3	
Total Employment				280	259

Notes:

a. Sales per square foot factors developed based on Urban Land Institute and International Council of Shopping Centers, *Dollars and Cents of Shopping Centers / The SCORE 2008* (2008 sales per square foot factors inflated to 2015 dollars based on the Consumer Price Index) and review of data in selected corporate annual reports (Form 10-K).

b. This scenario assumes one of the major anchors is a grocery store/neighborhood market with annual sales estimated based on an average of \$500 per square foot.

c. This scenario assumes there is no grocery store and annual sales at all of the major anchors are estimated at \$300 per square foot. All other sales are assumed the same in this scenario.

d. Sales per employee factor from U.S. Census Bureau, 2012 Economic Census, *Retail Trade*.

e. Office space is assumed for the shop and pad spaces not occupied by retail tenants: Shop F, Pad 3 and Pad 4 totaling 11,300 square feet.

f. The Natelson Company, *Employment Density Study Summary Report*, prepared for Southern California Association of Governments, October 2001.

Sources: Dorsey Marketplace project description, Urban Land Institute, International Council of Shopping Centers, Corporate 10K reports, U.S. Census Bureau, The Natelson Company, and Hausrath Economics Group

Employment

Assuming sales per employee of about \$235,000 per year, based on data for Grass Valley shopping-center-type retail establishments from the Census of Retail Trade, there would be about 225 - 245 people employed in retail activity at Dorsey Marketplace. Another \pm 30 jobs would be expected at full occupancy of the office and other commercial space. Property management and maintenance staff at the residential units could add another three jobs, bringing total project employment to 260 - 280.

Households and population

The 90 residential rental units would provide housing for about 200 people. (See Table 7) Assuming a stabilized occupancy rate of 95 percent, typically 86 of the units would be occupied. Household size is estimated at an average of 2.25 persons per occupied unit (American Community Survey 2010-2014 5-year estimate for renter occupied units in Grass Valley), resulting in the estimate of 194 residents.

Table 7
Dorsey Marketplace Residential Units and Population Estimate

Unit types/sizes	Number of units
1 bedroom apartments (1,013 sf +- per unit)	20
2 bedroom apartments (1,340 sf +- per unit)	50
3 bedroom apartments (1,600 sf +- per unit)	20
Total number of apartments	90
Occupied units and population	
Average occupancy rate	95%
Average occupied units	86
Persons per occupied unit ^a	2.25
Total resident population	194

Notes:

a. U.S. Census Bureau, *American Community Survey 2010 - 2014 5-year estimates*, renter occupied units in Grass Valley.

Sources: Dorsey Marketplace project description, U.S. Census Bureau, and Hausrath Economics Group

Apartment rents and household income

The rents for the Dorsey Marketplace residential units will likely be established once the project is under construction. The units will not be age-restricted and rents will be at market rate, oriented towards professionals working in Grass Valley. There are no comparable market-rate rental projects in Grass Valley to provide indicators of likely market rents. HEG reviewed online rental listings in the Grass Valley and Nevada City areas and in the Auburn area and could find no directly comparable projects with current apartment listings. In the absence of relevant local comparable projects, apartment complexes in Roseville and Rocklin provide benchmarks to establish rough market-rate rental estimates for the proposed Dorsey Marketplace units. Current listings in Roseville and Rocklin indicate the following:

- ♦ One bedroom rentals ranging from \$1,280 - \$2,100 per bedroom
- ♦ Two bedrooms rentals ranging from \$750 - \$1,350 per bedroom
- ♦ Three bedroom rentals ranging from \$530 - \$1,030 per bedroom

All of the projects reviewed market themselves as adjacent to shopping; some are only a short walk to major shopping centers. All have pools and fitness centers; many have business centers, community gardens, sports courts and playgrounds, BBQ/picnic areas, and theatre/lounge/coffee bar spaces. The higher prices are for newer units, and the pricing range also reflects different levels finishes and amenities.

To establish rental rates for the Dorsey Marketplace units, HEG assumed rental rates per bedroom at the lower end of the range identified above, to account for differences in location and amenity factors. Furthermore, HEG adjusted the market rate rents for the income differential between Grass Valley and the Roseville/Rocklin area, in recognition of the differences in the labor market and in the ability to pay. Rents are estimated at 80 percent of the lower end of the market-rate rental range per bedroom.² **Table 8** presents the resultant rent assumptions for the Dorsey Marketplace units.

Table 8
Dorsey Marketplace Residential Units, Estimated Market Rents, and Household Income

Apartment types	Approximate square feet per unit	Rent per bedroom ^a	Rent per unit	Rent per square foot	Implied Household Income ^b
1 bedroom apartments	1,013	\$1,000	\$1,000	\$0.99	\$40,000
2 bedroom apartments	1,340	\$700	\$1,400	\$1.04	\$56,000
3 bedroom apartments	1,600	\$500	\$1,500	\$0.94	\$60,000

Notes:

a. Rent per bedroom based on Roseville rents for newer apartment complexes near shopping. Representative Roseville rents selected from the lower end of the range of rental listings to account for location factors and differences in amenities. Rent per bedroom for Dorsey Marketplace units estimated at 80 percent of the rent per bedroom for Roseville apartments, based on household income differentials between Grass Valley and Roseville.

b. Household income estimated from average rents assuming rent payments are 30 percent of annual household income.

Sources: Apartment listings for Roseville and Rocklin and Hausrath Economics Group.

Household incomes are projected from these rental rates using an assumption about the average share of household income devoted to rent. Typically, rent is considered affordable if it requires 30 percent of annual household income. Based on this assumption, the resulting estimated average household incomes range from \$40,000 per year for one-bedroom units to \$60,000 per year for 3 bedroom units. For comparison, the average household income for all households in

² According to the 2010-2014 5-year estimates from the American Community Survey, median rent in the city of Grass Valley is about 70 percent of the median rent in Rocklin and Roseville. Because so much of existing Grass Valley rental units are rented at below market rates through government subsidized rental programs (Grass Valley Housing Element 2014 – 2019, page II-10), this comparison overstates the difference between comparable market-rate rentals. Therefore, the 80 percent factor is used as a more appropriate gauge for estimating potential market rate rents in Grass Valley.

Grass Valley is about \$47,000 per year and the median income for renter households is about \$26,000 per year, according to the 2010-2014 American Community Survey 5-year estimates.

Retail spending from Dorsey Marketplace households

Applying the retail spending and household income relationships for western Nevada County households used in the market area spending and sales analysis, we can estimate retail spending by category for the households living in the Dorsey Marketplace project. (See Table 9)

Assuming 36 percent of household income devoted to retail spending, these households would generate about \$1.6 million per year in retail spending potential. Some of these dollars would be spent at Dorsey Marketplace, some elsewhere in Grass Valley, and some beyond the local market area. Spending in the categories represented by the types of tenants expected at the proposed project totals about \$1.2 million per year—less than five percent of the project’s total estimated retail sales. The housing units proposed as part of the project would add to total retail sales in Grass Valley—supporting tenancies in the Dorsey Marketplace and elsewhere in the city. The spending generated by Dorsey Marketplace residents does not represent a significant component of demand for the proposed retail at the site, however.

Table 9

Dorsey Marketplace Estimates of Household Retail Spending

Apartment types	Number of units	Occupied units	Monthly rent	Estimated average household income	Total annual household income
1 bedroom units	20	19	\$1,000	\$40,000	\$760,000
2 bedroom units	50	48	\$1,400	\$56,000	\$2,660,000
3 bedroom units	20	19	\$1,500	\$60,000	\$1,140,000
Total	90	86		\$53,000	\$4,560,000
Retail spending percent of income (rounded) ^a					36%
Total annual retail spending					\$1,641,600
Distribution by category (rounded) ^a					
Comparison				31%	\$508,896
Convenience				28%	\$459,648
Eating & drinking out				13%	\$213,408
Motor vehicles, parts, service stations				28%	\$459,648
Total				100%	\$1,641,600
Subtotal comparison, convenience, and eating and drinking out					\$1,181,952

Notes:

a. U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey 2013-2014*, September 2015. Table 3133, Western region by income before taxes: Average annual expenditures and characteristics.

Sources: U.S. Bureau of Labor Statistics, and Hausrath Economics Group.

PROJECTED INCREASE IN MARKET AREA DEMAND

There has been only modest housing and population growth in Grass Valley and the greater western Nevada County market area over the last couple of decades. The housing supply in Grass Valley increased by about 90 units per year between 1990 and 2000 and by about 133 units per year between 2000 and 2010. Since 2010, the pace has slowed to less than 10 units per year. This is well below the average annual rate through for the 2000 – 2020 period forecast in the *Grass Valley General Plan* (1999): 2,820 housing units translating to an average annual rate of 140 units per year over the 20-year planning period. An update prepared for the *Economic and Fiscal Conditions Study for the City of Grass Valley* (the SDA Study) in 2006 projected that Grass Valley could absorb 170 units per year between 2003 and 2020. (The latter projection was prepared during the economic boom times preceding the Great Recession and assumed expansion of housing supply potential within the city’s sphere of influence areas as well as encouragement of infill development.)

More recent projections prepared by state agencies for infrastructure and service planning (California Department of Finance and Caltrans) and based on long-term demographic trends provide guidance for updated estimates of the amount and pace of growth in the market area. The California Department of Finance (DOF) projects Nevada County population will increase at the rate of 0.7 percent per year from 2015 through 2030; a somewhat faster pace of growth than the 0.4 percent per year rate evidenced from 2000 – 2015. **Table 10** presents estimates for population and household growth in Grass Valley and the Western Nevada County market area through 2030, based on the DOF projections for Nevada County.³ The Grass Valley share of county households increased from 13.6 percent in 2000 to just under 15 percent in 2016. Assuming Grass Valley maintains this share of the county total through 2030, there would be 7,200 households in the city by 2030, an increase of about 1,240 over the 14 year period from 2016—an average annual pace of about 90 units per year. Assuming no change in average household size (2.1 persons per household is the current estimate) and no change in the percent of the population accommodated in group quarters, total population in the city would be about 15,700 by 2030. A similar analysis for the western Nevada County market area results in a 2030 projection of 38,600 households and 92,000 people living in this part of the Nevada County.⁴

³ Caltrans projections are somewhat lower than DOF projections for households and employment, but are within one percent (for population) and five percent (households) of the DOF projections used in this analysis. Caltrans does identify Nevada County as a “vulnerable county”. These counties are forecast to have low rates of population growth and to be vulnerable to economic stagnation (constrained labor markets and relatively low growth rates for personal income and taxable sales), resulting in strained local government budgets.

⁴ A more aggressive growth rate for Grass Valley was estimated for the 2011 Sphere of Influence Plan prepared by the Nevada County Local Agency Formation Commission (the SOI Plan). The projections in that report assumed Grass Valley population would grow at two percent per year on average—faster than the growth rate between 2000 and 2010 and more in line with the growth rate of the 1990s. In the SOI Plan, the city’s population was projected to reach 19,000 people by 2030. The SOI Plan shows a 2015 population for Grass Valley (14,151) that is almost 10 percent higher than the current population. In the interests of a conservative analysis, HEG uses the slower rate of growth established in the DOF and Caltrans projections.

Table 10

Population and Household Projections for Grass Valley and Western Nevada County Market Area ^a

Grass Valley								
	Census 2000 and 2010		DOF E-5 May 2016		Estimate based on County Total			
	2000	2010	2015	2016	2020	2025	2030	
Total Population	10,922	12,860	12,967	12,955	14,400	15,200	15,700	
Household Population	10,662	12,401	12,508	12,496	13,860	14,700	15,120	
Households	5,016	6,077	5,970	5,961	6,600	7,000	7,200	
Persons per Household	2.13	2.04	2.10	2.10	2.10	2.10	2.10	
Household % of Total Population	98%	96%	96%	96%	96%	96%	96%	
Grass Valley Share of County Total ^b								
	Census 2000 and 2010		DOF E-5 May 2016		Factors for Projections Estimate			
	2000	2010	2015	2016	2020	2025	2030	
Total Population	11.9%	13.0%	13.2%	13.2%	14.1%	14.4%	14.5%	
Households	13.6%	14.6%	14.9%	14.8%	15%	15%	15%	
Western Nevada County								
	Census 2000 and 2010		ACS 2010 - 2014 5 year Estimate		Estimate based on County Total			
	2000	2010	2014		2020	2025	2030	
Total Population	73,585	77,935	78,178		84,400	88,700	92,000	
Household Population	72,765	76,819	77,065		83,180	87,410	90,700	
Households	29,933	33,281	32,798		35,400	37,200	38,600	
Persons per Household	2.43	2.31	2.35		2.35	2.35	2.35	
Household % of Total Population	99%	99%	99%		99%	99%	99%	
Western Nevada County Share of County Total ^b								
	Census 2000 and 2010		ACS 2010 - 2014 5 year Estimate		Factors for Projections Estimate			
	2000	2010	2014		2020	2025	2030	
Total Population	80.0%	78.9%	79.3%		83%	84%	85%	
Households	81.1%	80.1%	80.3%		80%	80%	80%	
Nevada County Total								
	Census 2000 and 2010		ACS 2010 - 2014 5 year Estimate		DOF E-5 May 2016		DOF P-4 March 2015	
	2000	2010	2014	2015	2016	2020	2025	2030
Total Population	92,033	98,764	98,606	98,037	98,095	101,780	105,407	108,129
Household Population	91,167	97,589	97,481	96,801	96,881	100,629	104,196	106,857
Households	36,894	41,527	40,838	40,157	40,167	44,278	46,474	48,216
Persons per Household	2.47	2.35	2.39	2.41	2.41	2.27	2.24	2.22

Notes:

a. Excludes Lake of the Pines. See notes in Table 3.

b. Trend relationships (2000, 2010, 2014, 2015 and 2016) from various sources used to develop projections for Grass Valley and the western Nevada County market area from county total projections.

Sources: U. S. Census Bureau, State of California Department of Finance, and Hausrath Economics Group.

The 2014 – 2019 Housing Element (adopted August 2014) identifies the potential for 1,883 housing units within Grass Valley city limits, based on likely densities on vacant residential land, and vacant non-residentially zoned or mixed use properties. There are currently 1,145 residential units in projects approved but not yet built in Grass Valley. The 90 units in the proposed Dorsey Marketplace project bring the total pipeline (as of March 2016) to 1,235 residential units. More than half of these units (700 of the total) are approved in the Loma Rica Ranch Specific Plan. This pipeline of residential development fits within the rough growth parameters outlined above based on DOF projections for Nevada County. In addition, the pending annexation of the Southern Sphere of Influence Special Development Plan Area could accommodate up to 534 residential units. There are no current proposals for this development, however, although the potential supply is noted in the 2014-2019 Housing Element.

The projection of household growth in the western Nevada County market area provides the basis for a generalized estimate of growth in spending potential and market area retail demand. **Table 11** uses the household income and spending assumptions presented in Table 3 to generate an estimate of potential spending growth, assuming long-term trends in market area housing and population growth and no real income growth. The projections indicate an increase of about 6,500 households in the western Nevada County market area over the next 14 years through the 2030 projection horizon. Total annual household retail spending would increase from about \$850 million per year in 2016 to just over \$1 billion per year in the future sometime around the year 2030. There would be about \$123 million more per year in spending on comparison and convenience goods and on eating and drinking out. Assuming average sales per square foot in the range of \$300 - \$350 for most types of retail space, this spending would support about 350,000 – 400,000 square feet of additional retail space.

Table 11
Increase in Retail Spending in the Western Nevada County Market Area ^a

		2016	Future (2030)
	Households ^b	32,134	38,600
Average Household Income ^c		\$73,500	\$73,500
Retail spending percent of income (rounded) ^d		36%	36%
Total retail spending		\$26,460	\$26,460
Distribution by category (rounded) ^d		2016	Future (2030)
Comparison	31%	8,203	8,203
Convenience	28%	7,409	7,409
Eating & drinking out	13%	3,440	3,440
Motor vehicles, parts, service stations	28%	7,409	7,409
	100%	\$26,460	\$26,460
Estimated Household Spending by Category		2016	Future (2030)
Comparison		\$263,579,067	\$316,620,360
Convenience		238,071,416	285,979,680
Eating & drinking out		110,533,157	132,776,280
Motor vehicles, parts, service stations		238,071,416	285,979,680
		\$850,255,056	\$1,021,356,000
		Change from 2016	
Households		6,466	
Comparison, Convenience, Eating & drinking out Spending		\$123,192,680	
Percent change		20%	
Space supported at \$300 per square foot		411,000	
Space supported at \$350 per square foot		352,000	

Notes:

a. Excludes Lake of the Pines. See notes in Table 3.

b. Household count for 2016 from the California Department of Finance *Report E-5. Population and Housing Estimates for Cities, Counties, and the State, January 1, 2011-2016, with 2010 Benchmark*, May 2016, assuming 80 percent of county households live in the market area. Projections based on sources and analysis in Table 10.

c. U.S. Census Bureau, *American Community Survey 2010-2014 5-year estimates*. Assumes no real increase in household income over time.

d. U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey 2013-2014*, September 2015. Table 3133, Western region by income before taxes: Average annual expenditures and characteristics.

Sources: State of California Department of Finance, U.S. Census Bureau, U.S. Bureau of Labor Statistics, and Hausrath Economics Group.

POTENTIAL NEW RETAIL SUPPLY IN THE MARKET AREA

The current pipeline of approved retail space in the City of Grass Valley includes 54,500 square feet in the Loma Rica Ranch Specific Plan.⁵ The Dorsey Marketplace project would add another 181,900 square feet at most considering that some of that space would be tenanted by office or other service commercial establishments. The likely approved projects plus Dorsey Marketplace represent a total of about 236,000 square feet of retail space in Grass Valley.

In addition, in the near term, three Dollar General stores (a national chain small-box discount retailer) are proposed in unincorporated western Nevada County (Alta Sierra, Rough and Ready, and Penn Valley). A similar Dollar General store opened in the Glenbrook Basin area in Grass Valley at the end of 2014. The Dollar General format consists of a building of 9,100 square feet with about 7,200 square feet of sales floor area. Economic analysis conducted for the three proposed projects plus the existing Grass Valley store estimated that, combined, the four stores would have sales of \$6.5 million per year. The stores are positioned to capture some of the well-documented spending leakage from the western Nevada County market area. The economic analysis concluded that the combined four stores would need to capture only a small portion of market area demand to achieve stabilized sales. The existing retail base and new market area household growth provide “more than sufficient support” to absorb the projected Dollar General sales with little or no impact on existing retailers.⁶

Longer-term, there is substantially more non-residential development potential in planning areas yet to be annexed to Grass Valley. The City approved pre-zoning for the Southern Sphere of Influence Area in 2014. Within the larger 416 acre planning area, 119 acres were originally proposed for annexation; another 60 acres are proposed for addition to the annexation area. Buildout would represent more than 800,000 square feet of non-residential development (primarily industrial use), based on the worst-case scenario analyzed in the October 2013 *Southern Sphere of Influence Planning and Annexation Report Draft EIR*. The intent of the updated annexation planning effort was to increase opportunities for commercial and industrial development within Grass Valley. While this area could be annexed to Grass Valley within the next five years, there are currently no specific development proposals for these properties. Proposals for other Special Development Areas within the Grass Valley Sphere of Influence are on hold or inactive at this time.

CONCLUSIONS FOR PROPOSED DORSEY MARKETPLACE RETAIL DEVELOPMENT

Retail development in the Dorsey Marketplace project would generate annual sales in the range of \$52.7 million to about \$57.5 million at full occupancy, depending primarily on whether or not a grocery store would be one of the anchor tenants. While this type of tenancy might be possible, the retail demand and supply analysis indicates that the gaps in existing retail capture lie in comparison goods (apparel, household goods, electronics and appliances, sporting goods, gifts and specialty items and the like) and food services and drinking places.

⁵ The Village at South Auburn (including about 15,000 square feet of retail development) is unlikely to be developed as approved due to changes in property ownership.

⁶ ALH Urban and Regional Economics, Letter to Mr. Joshua Simon, “Dollar General Economic Analysis in Nevada County”, May 7, 2015. The economic analysis conducted for the Dollar General projects used methods and assumptions very directly comparable to those described in this analysis for the Dorsey Marketplace project.

With roughly \$150 million in existing retail spending leakage from the western Nevada County market area (in the combined comparison and eating and drinking out categories) and only small amounts of similar retail supply proposed, the Dorsey Marketplace project provides a site that could accommodate a tenant mix well-positioned to enhance Grass Valley's already strong position in the regional retail market. Dorsey Marketplace sales of \$53 million represent about 35 percent of existing retail leakage. Prior retail market assessment for Grass Valley (the *Glenbrook Basin Redevelopment Infill Study* (2010) and the Buxton Market Overview and Retail Site Assessment (2014) have indicated that a proposal of such a scale would be needed to recapture identified leakage. It is reasonable to expect that the right mix of Dorsey Marketplace tenants would result in existing market area households choosing to shift their shopping patterns—recapturing up to about one-third of market area household spending that is currently lost the market area and instead supporting stabilized operations at Dorsey Marketplace.

Furthermore, the moderate growth projected for the market area generates another \$120 million in retail spending annually. Given the project's central location and accessibility, Dorsey Marketplace would benefit over time from some of this increase in market area spending.

The residential units proposed at Dorsey Marketplace would generate about \$1.6 million per year in total retail spending. The spending that could support project retail ranges from about \$700,000 per year up to \$1.2 million per year, depending on the inclusion of a major grocery or drug store in the project. This amount of spending would not be a significant component of support for the Dorsey Marketplace retail, although it is part of the growth in broader market area support for retail throughout Grass Valley—growth that has been dormant in recent years due to the lack of new residential development.

Market area demand and supply analysis and projections, evaluation of retail spending leakage, detailed assessment of trends in Grass Valley retailing, and evaluation of project characteristics indicate that the Dorsey Marketplace project would not depend on cannibalizing from existing retail establishments in Grass Valley. A reasonable shift in market area retail spending patterns in the near term, combined with moderate growth in the market area over time, provide ample support for the proposed increase in the city's retail inventory. Specifically, with respect to Downtown Grass Valley, the analysis of retail sales trends highlights the strong and specialized character of that retail destination. Sales activity Downtown is more influenced by general economic conditions and factors affecting visitor travel and discretionary spending on entertainment and recreation. Development of Dorsey Marketplace would not change the reasons for shopping and dining Downtown.



DRAFT MEMORANDUM

Date: August 2, 2018
To: Tom Last, Community Development Director City of Grass Valley
Katherine Waugh, DUDEK
From: Sally Nielsen
Subject: **Dorsey Marketplace Economic Analysis – Generalized Comparison of Alternatives**

OVERVIEW AND SUMMARY CONCLUSIONS

This memorandum is based on the July 26, 2016 “Dorsey Marketplace Economic Analysis” memorandum prepared by Hausrath Economics Group. That 2016 analysis was prepared to determine the impact of the proposed Dorsey Marketplace on the Grass Valley retail market. The project analyzed in 2016 is essentially the same as Alternative A in the July 2018 Draft environmental impact report (DEIR). Alternative B in the DEIR proposes less commercial/retail space, more housing units, and adds office space to the project. This 2018 memorandum compares Alternative A and Alternative B in terms of the key economic analysis parameters:

- ◆ commercial, retail, and office space;
- ◆ retail sales;
- ◆ employment;
- ◆ housing units;
- ◆ population and;
- ◆ household retail spending.

The memorandum then presents a generalized evaluation of the extent to which Alternative B would result in different conclusions about the effect of the project on the Grass Valley retail market, specifically whether the project would have a negative impact on the economic health of the Downtown Business District.

The local and regional retail market context analysis was not updated to prepare this memorandum. The existing market conditions are presumed to be mostly unchanged:

- ◆ Grass Valley functions as the retail center for a broader market area, capturing more retail sales than any other part of Nevada County, while, at the same time, substantial local market area retail spending is lost to retail locations outside Nevada County.
- ◆ Downtown Grass Valley accounts for just over 10 percent of total sales in Grass Valley and has a special function in the Grass Valley retail landscape attracting both locals and visitors.
- ◆ Convenience sales are strong downtown (the largest in total dollar amount and about on par with Downtown's average share of total city sales), while sales at restaurants, cafés, and bars are concentrated in the Downtown (representing about one-quarter of total City sales in this category).

The projected increase in market area retail demand is presumed to be roughly the same as estimated in 2016, and there have been no significant changes in the potential for other new retail supply in the market area. [*Note to reviewers:* Please confirm. The 2016 memorandum mentions the 54,400 sf of retail space in the Loma Rica Ranch Specific Plan, the three Dollar General Stores in the approval process in unincorporated Nevada County—I see from some stories in *The Union* on February 27 and March 13 2018 that the Alta Sierra and Penn Valley stores were approved—and the longer term potential in the sphere of influence.]

Compared to Alternative A, Alternative B proposes about 40 percent less retail space. Total retail sales and local sales tax generated by Dorsey Marketplace businesses would be less under Alternative B. There would be about 100 fewer people working in commercial, retail, and office space within the project site under Alternative B. On the other hand, Alternative B proposes almost twice as many housing units as Alternative A. This would increase the resident population on-site and almost double the increase in household retail spending attributable to the project. That increase would support Dorsey Marketplace retail and more importantly other local businesses elsewhere in Grass Valley, including Downtown. The increase in household retail spending would somewhat offset the effects to the City of Grass Valley economy of the lower amount of project retail space and sales under Alternative B compared to Alternative A.

Support for Dorsey Marketplace retail businesses in either Alternative would depend on both shifts in local market area spending patterns **and** new residential development and associated household retail spending expected in the greater market area. The amount of spending to be captured in either case is reasonable, and neither Alternative would pose a competitive threat to Downtown Grass Valley retailers. The potential for any competitive impacts would be less under Alternative B than under Alternative A because Alternative B would add less retail supply and more retail demand from project households and associated local retail spending.

DORSEY MARKETPLACE ALTERNATIVES A AND B

Table 1 compares the physical characteristics of Alternatives A and B and the key economic analysis parameters that are derived from those characteristics. Under Alternative B,

commercial/retail space is reduced by about 40 percent. There are sites for two major shops instead of four, and five smaller shops instead of six. Both Alternatives show four pads for food services and financial institutions; some of these pads would be drive-through establishments. Alternative B proposes almost two times the number of residential units for the site and adds office space in a mixed-use residential/office building near the center of the project site.

Table 1
Dorsey Marketplace Alternatives
Project Characteristics and Economic Parameters

	Alternative A	Alternative B
	Commercial/Residential	Commercial/Office/Residential
<u>Project Characteristics</u>		
Commercial/Retail	4 major shops 20,000 - 40,000 sf 6 smaller shops 4,000 - 8,560 sf 4 pads 3,300 - 6,000 sf	2 major shops 21,000 - 35,000 sf 5 smaller shops 4,000 - 8,500 sf 4 pads 3,200 - 6,000 sf
Office	-	8,500
Residential (dwelling units)		
1 BR	20	38
2 BR	50	95
3 BR	20	38
Total square feet		
Commercial/Retail	178,960	104,350
Office	-	8,500
Total dwelling units	90	171
<u>Economic Analysis Parameters</u>^a		
Total annual retail sales	\$52.7 million - \$57.5 million	\$33.3 million - \$37.6 million
Total employment	260 - 280 jobs	170 - 190 jobs
Resident population	194 residents	365 residents
Total annual retail spending	\$1,600,000	\$3,100,000

Notes:

a. Estimates are based on the same planning level factors used in the 2016 analysis. For retail sales, these are sales per square foot estimating factors for establishments of these types based on industry data. The range illustrates the difference in sales depending on whether or not one of the major anchors is a grocery store / neighborhood market that would have higher average sales per square foot. Retail employment is estimated based on retail sales per employee factors from the 2012 Economic Census, *Retail Trade*. Office employment assumes a density of 350 gross square feet per employee and estimates office employment for the pad spaces that might be occupied by financial institutions. Population is based on the household size for renter-occupied units in Grass Valley, according to the U.S. Census Bureau, *American Community Survey 2010 – 2014 5-year estimates*. Household retail spending estimates are based on estimates of market rate rent levels by unit size and incomes derived by assuming that rent payments are 30 percent of annual household income. Spending patterns are estimated from the U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey 2013-14*, September 2015 for the Western Region.

Source: Dorsey Marketplace project description (2016 and 2018) and Hausrath Economics Group.

For either Alternative, the mix of potential tenants for the commercial/retail development is assumed to be roughly the same as described by the project sponsor in 2016:

- ♦ Anchor tenants: a neighborhood market and stores offering general merchandise, apparel (men/women/children), home furnishings, health and beauty, sporting goods, or electronics, for example
- ♦ Smaller shops: food services and drinking places, cafés, smaller retail shops selling goods similar to those listed above
- ♦ Four drive-through pads: financial institutions, sandwich/coffee shops, quick-service food

Alternative B would generate a lower amount of retail sales than Alternative A, proportional to the reduced commercial/retail building area—in the range of \$32 million - \$36 million per year at full occupancy.

There would be about 100 fewer people working in businesses located on the project site under Alternative B.

Alternative B proposes almost twice as much housing as Alternative A; there would be 365 people living in the Dorsey Marketplace housing units—about 170 more people living on the project site—90 percent more than under Alternative A.

Alternative B would generate about \$3.1 million in annual household retail spending supporting Dorsey Marketplace businesses and other businesses in the market area—almost two times the amount estimated for Alternative A.

CONCLUSIONS – ALTERNATIVE B COMPARED TO ALTERNATIVE A

The 2016 analysis concluded that it is reasonable to expect that the right mix of Dorsey Marketplace tenants would result in existing market area households choosing to shift their shopping patterns—recapturing up to about one-third of market area household spending that is currently lost the market area and instead supporting stabilized operations at Dorsey Marketplace. Furthermore, retail development at the centrally located and accessible project site would benefit over time from the increase in market area spending attributable to expected moderate increases in residential development and population in the greater market area. With the reduced amount of commercial/retail development in Alternative B, it would be easier for project tenants to meet sales targets. A fully-occupied project would not have to capture as much leakage. On the other hand, the fiscal benefits to the City of Grass Valley from taxable retail sales generated by Dorsey Marketplace establishments would be less than under Alternative A.

The increase in the number of project households and the associated higher amount of household retail spending under Alternative B would to some extent offset this reduced fiscal benefit relative to Alternative A. The spending from project households would support more of the Dorsey Marketplace retail than under Alternative A, but that would still not be a significant component of support for project retail businesses. More importantly, the higher level of

household retail spending would be part of the growth in broader market area support for retail throughout Grass Valley—growth that has been dormant in recent years due to the lack of new residential development. This benefit would be enhanced under Alternative B.

As in the 2016 analysis, neither Alternative A nor Alternative B for the Dorsey Marketplace project would depend on cannibalizing from existing retail establishments in Grass Valley. Any prospects for this outcome would be less likely under Alternative B than under Alternative A because there would be a fewer retail stores and shops to support and more household spending from project households that would increase sales activity in the City. A reasonable shift in market area retail spending patterns in the near term, combined with moderate growth in the market area over time, provide ample support for the proposed increase in the city's retail inventory under either Alternative.

With respect to Downtown Grass Valley, the 2016 analysis of retail sales trends highlighted the strong and specialized character of that retail destination. Sales activity Downtown is more influenced by general economic conditions and factors affecting visitor travel and discretionary spending on entertainment and recreation. Development of Dorsey Marketplace would not change the reasons for shopping and dining Downtown. Alternative B offers somewhat better prospects for Downtown businesses than Alternative A, because there would be less retail supply added to the market and more demand from household retail spending.

