

*The Economics of Land Use*



# Missouri Flat Master Circulation & Financing Plan (MC&FP) Phase II: Retail Market and Initial Financial Feasibility Analysis

*presented to*

County of El Dorado Board of Supervisors

*presented by*

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December 7, 2015

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# Presentation Overview

- Project Background and Project Area
- Analysis Objectives
- Methodology Overview
- Summary of Findings
- Next Steps

# Project Background

- In the late 1990's, the County was processing applications for new retail in the Missouri Flat Project Area: Wal-Mart, El Dorado Villages (Safeway center) & Sundance Plaza (now Crossings, not yet constructed).
- Because of existing traffic congestion, road capacity was insufficient to meet Level of Service (LOS) standards; County unable to approve new commercial.
- County adopted urgency ordinances limiting new commercial development in the area for two years between April 16, 1996 and April 15, 1998 (Ordinance Nos: 4417, 4420, & 4446).

# Project Background

- The MC&FP was developed to meet the following objectives.
  - Alleviate existing traffic congestion.
  - Create adequate capacity to meet County Level of Service (LOS) policy.
  - Establish a vital commercial center in the County.
  - Improve the County's fiscal well-being.
  - Establish the framework for revenue collection to fund specific improvements in the Missouri Flat Project Area.
  - Widen portions of Missouri Flat Road.

# Project Background

The MC&FP was divided into two phases after the November 1998 passage of Measure Y. The County approved the initial phase (Phase I) in December 1998.

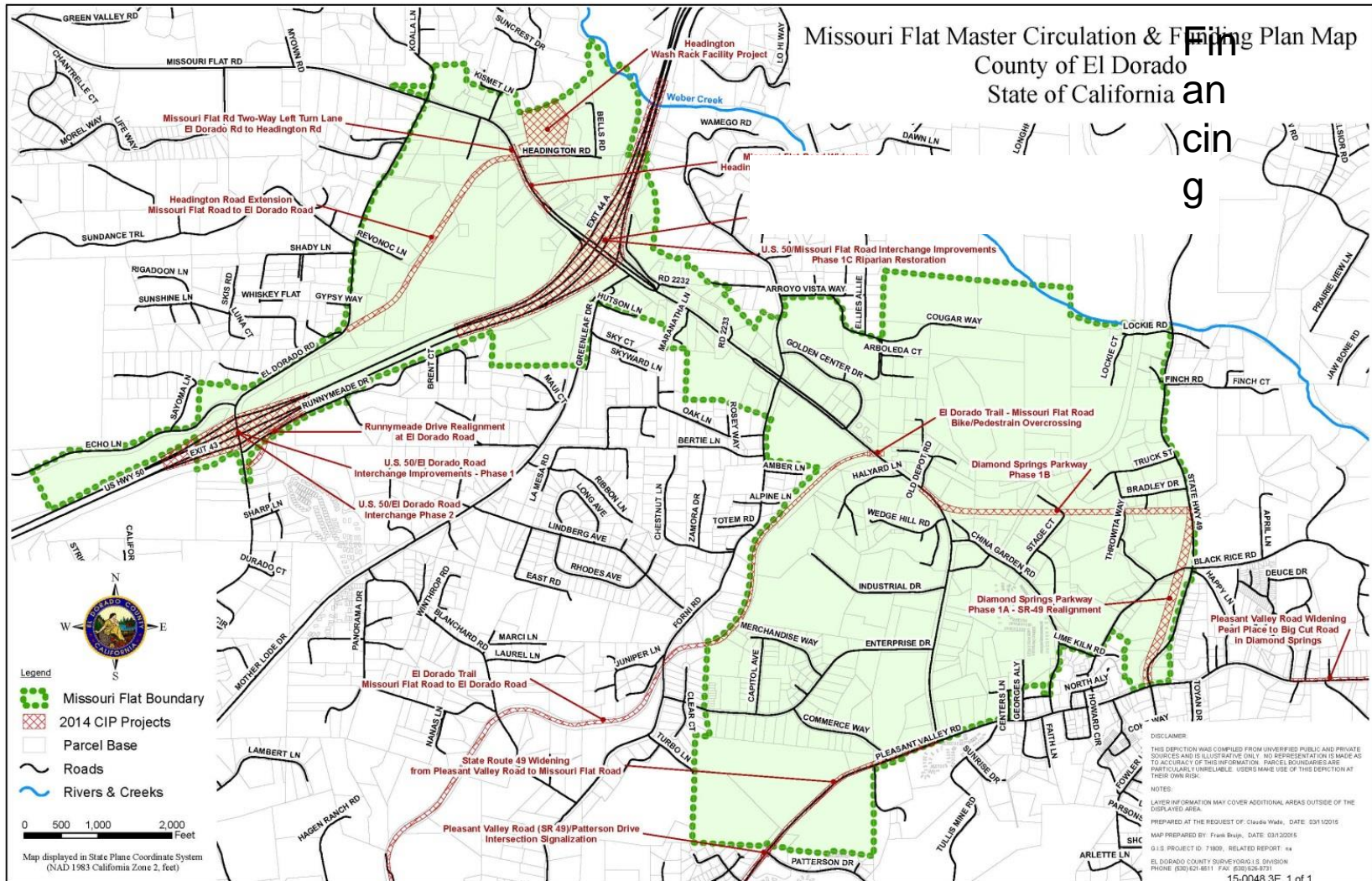
## **Phase I**

- Limits commercial development to 730,000 sq. ft. in Project Area.
- Excludes specific transportation improvements included in MC&FP.

## **Phase II**

- Allows for an additional 770,000 sq. ft. of commercial development (1.5 million sq. ft. in total).
- Requires updated evaluation of transportation improvements, including need for ultimate highway interchange solution at Missouri Flat.

# Missouri Flat Project Area



# Existing Conditions in Project Area

- Project Area has been County's retail focal point for past 20 years due to location and developable space.
- Since Phase I was approved, nearly 500,000 sq. ft. feet of commercial space has been constructed, leaving 230,000 sq. ft. of capacity remaining in Phase I.
- Proposed new retail in Project Area exceeds Phase I capacity:

Proposed Retail Center	Approved?	Sq. Ft.
The Crossings at El Dorado	Yes	375,000
Diamond Dorado Retail Center	Yes	242,000
Willow Creek Plaza	No	31,000
El Mirage Plaza	No	NA
<b>Total</b>		<b>647,000</b>

# Market and Initial Financial Feasibility Analysis Objectives

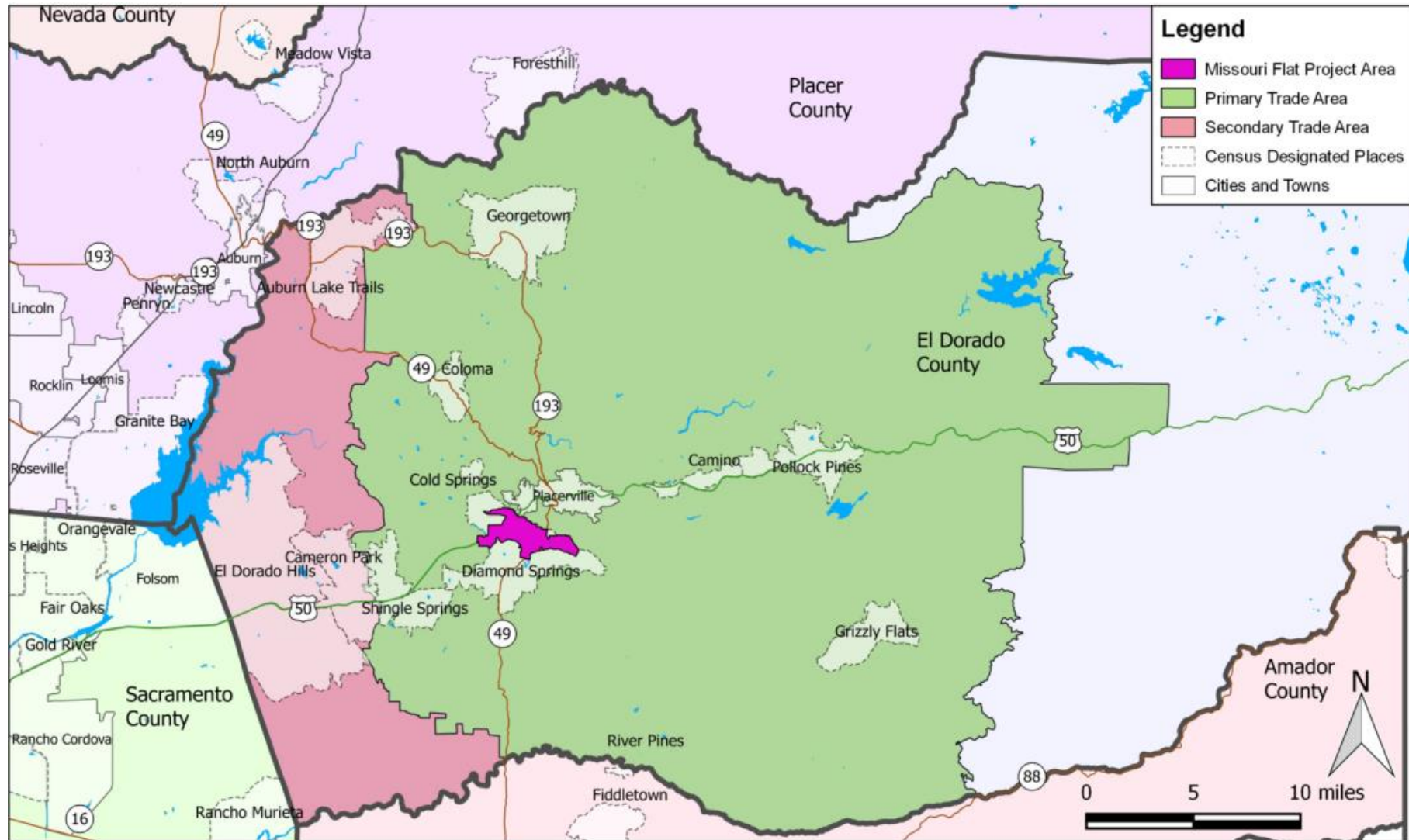
- **Evaluate market support for additional commercial development in Project Area.** Estimate whether sufficient demand exists to support current approved and proposed commercial development in the Project Area to determine need for additional Phase II technical analyses.
- **Examine initial commercial development financial feasibility.** Future commercial development hinges on both market support and favorable land economic conditions.



# Market Analysis Methodology Overview

- Define primary and secondary trade areas.
- **Identify Retail Supply**
  - Existing and proposed competitive supply in trade areas.
- **Estimate Retail Demand**
  - Estimate retail spending potential of current (2015) and projected (2020 and 2035) households in trade areas.
  - Estimate capture rate in Missouri Flat Project Area.
  - Convert retail spending to retail building sq. ft.
- **Compare Retail Supply and Demand**
- **Conduct Retail Sales Leakage Sensitivity Analysis**

# Methodology Overview: Primary and Secondary Trade Area Boundaries



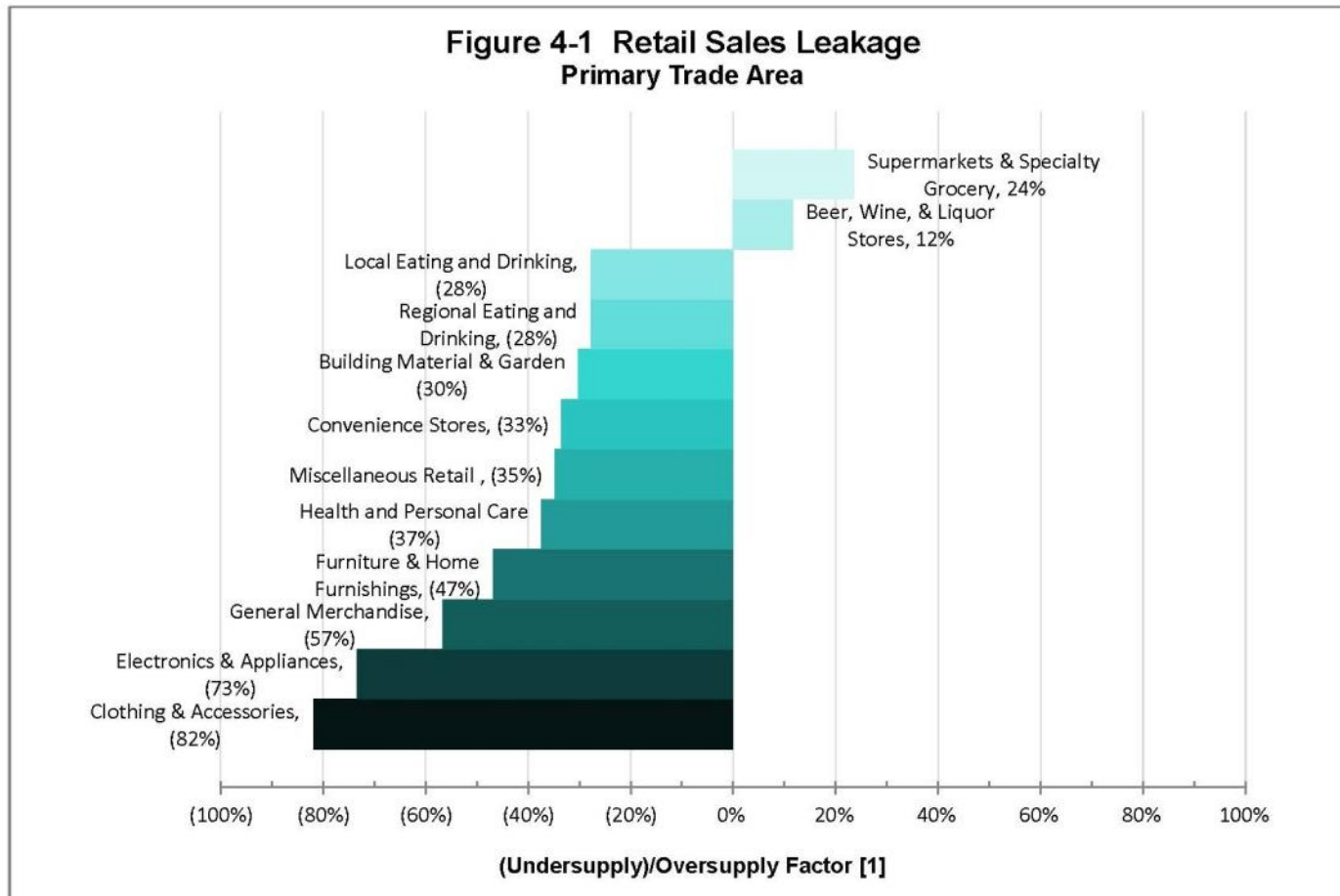
# Initial Feasibility Analysis Methodology Overview

- Utilize two methods for evaluating financial feasibility:
  - Total Burden of Major Infrastructure
  - Total Taxes and Assessments as a Percentage of Sales Price
- Review local retail market indicators
- Conduct interviews with real estate professionals

# Summary of Market Analysis Findings

- The Project Area is well positioned to attract a significant portion of estimated consumer demand in the trade areas.
- Market performance indicators suggest pent-up demand for retail development in the Project Area.
- The **Primary Trade Area** is estimated to experience retail sales leakage in all retail categories except for:
  - Supermarkets/specialty grocers; and
  - Beer, wine, and liquor stores.

# Summary of Retail Market Analysis Findings: Retail Sales Leakage in Primary Trade Area



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Source: ESRI Business Analyst Online; 2012 U.S. Census of Retail Trade; EPS

[1] Represents a measure of the relationship between supply and demand in the Primary Trade Area (supply as a percent of demand). This factor ranges from total undersupply (100%) to total oversupply 100%, with 0% representing equilibrium.

# Summary of Retail Market Analysis Findings: Current 2015 Supply and Demand Comparison

- **2015:** The Project Area is estimated to currently support 358,000 to 466,000 sq. ft. of additional retail development.

Item	Current Demand (Retail Sq. Ft.)	Existing Supply (Retail Sq. Ft.)	Difference: Oversupply/ (Undersupply)
Base Scenario	955,000	489,000	(466,000)
Sensitivity Scenario [1]	847,000	489,000	(358,000)

[1] Excludes demand for Supermarkets/Specialty Grocers and Beer, Wine, and Liquor Stores because of potential oversupply in these retail categories.

# Summary of Retail Market Analysis Findings: Projected 2020 Supply and Demand Comparison

- **2020:** *Full buildout of The Crossings by 2020 (375,000 sq. ft.)*  
Project Area estimated to support The Crossings and an additional 26,000 to 140,000 sq. ft. of retail by 2020.

Item	Projected Demand (Retail Sq. Ft.)	Existing/ Proposed Supply (Retail Sq. Ft.)	Difference: Oversupply/ (Undersupply)
Base Scenario	1,004,000	864,000	(140,000)
Sensitivity Scenario [1]	890,000	864,000	(26,000)

[1] Excludes demand for Supermarkets/Specialty Grocers and Beer, Wine, and Liquor Stores because of potential oversupply in these retail categories.

# Summary of Retail Market Analysis Findings: Projected 2035 Supply and Demand Comparison

- **2035:** *Full buildout of Diamond Dorado (approved) and Willow Creek Plaza (proposed) (272,000 sq. ft.)*

Project Area estimated to fully support development of The Crossings (by 2020) and fully to partially support these additional proposed projects by 2035.

<b>Item</b>	<b>Projected Demand</b> (Retail Sq. Ft.)	<b>Existing/ Proposed Supply</b> (Retail Sq. Ft.)	<b>Difference: Oversupply/ (Undersupply)</b>
Base Scenario	1,158,000	1,136,000	(22,000)
Sensitivity Scenario [1]	1,025,000	1,136,000	110,000

[1] Excludes demand for Supermarkets/Specialty Grocers and Beer, Wine, and Liquor Stores because of potential oversupply in these retail categories.



# Summary of Initial Feasibility Findings

- An initial analysis of financial feasibility indicates new retail development falls within the range of feasibility under two feasibility measurements.
- For some sites in the Project Area, current lease rates may not be sufficient to support construction costs.
  - Stakeholders indicated an estimated threshold lease rate of \$2.00 per sq. ft. may be required to support new construction, although it is estimated to be achievable in next 3-5 years.
  - Many factors – principally land and infrastructure costs – play a role in financial feasibility and some projects (e.g., The Crossings) may have ability to move forward depending on specific costs related to site.

# Conclusions and Next Steps

- Sufficient demand is estimated to support proposed retail projects in Missouri Flat Project Area both currently (2015) and in the near to long term (2020 and 2035).
- Additional commercial development in Project Area will:
  - Expand retail shopping opportunities for residents
  - Keep more sales tax revenue in the County (reduce sales tax leakage to neighboring jurisdictions)
  - Increase job and business opportunities in the County
- Remaining MC&FP Phase II tasks will allow evaluation of needed improvements and funding to facilitate additional commercial development.