

EXECUTIVE SUMMARY

TO: Solano 360 Committee

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DATE: June 23, 2011

SUBJECT: Executive Summary - Solano 360 Project Refinement

BACKGROUND

The Solano 360 Vision Report prepared by Solano County, the City of Vallejo and the Solano County Fair Association in May 2009 initiated a process to establish and realize the long-term revitalization goals for the County-owned Solano Fairgrounds property in Vallejo. The Project Vision “offers flexible, sustainable options for a diverse and future-oriented program of uses to be developed over time.”¹ The Project Vision was based on six guiding principles:

- A Unique Place – establish a unique place with an unmistakable identity that serves as a destination for visitors as well as a pedestrian friendly, community gathering place.
- Economic Sustainability – generate revenue for Solano County and the City of Vallejo, create jobs and ensure long-term economic sustainability.
- Mix of land Uses – explore a mix of complementary land uses, including retail, commercial, hospitality, recreational, residential, family and youth oriented, educational and civic uses that seamlessly integrate with the “Fair of the Future”.
- Connectivity and Synergy – explore increased connectivity and synergy with Six Flags Discovery Kingdom, downtown Vallejo, the waterfront and other existing commercial operations.
- Access - provide pedestrian, bicycle, vehicular and transit facilities that foster access to, from and within the site.
- Sustainability – incorporate sustainable and green principles in all aspects of the development.

¹ Solano360 Report, May 28, 2009, page 1

Based on these principles, a preliminary mix of land uses was proposed, including entertainment, mixed use commercial, hospitality, office, open space, exhibition hall, flex special event facilities, outdoor multi-purpose area, demonstration farm, transit, parking and other fair uses.

The Solano360 Vision Report stated that there was a need to assure flexibility and the ability to adapt to market conditions over time. The Solano360 Vision Report also included an Implementation strategy that indicated that the property would likely be developed in phases and “within each phase, development will occur in orderly increments, based on market demand and staging of on-site infrastructure.”²

The Implementation strategy indicated that the “next steps” would include a financial feasibility analysis consisting of economic feasibility models based on the mix of uses identified in the Vision. The Implementation strategy also indicated that the entitlement process would include the development of a Specific Plan and evaluation of the environmental impacts by preparing an Environmental Impact Report (EIR).

The County, City, Fair Association and the Solano360 Project Team are making progress on the next steps as articulated in the Solano360 Vision Report and in the Memorandum of Understanding executed by Solano County and the City of Vallejo. The prime consultants in the Project Team are the SWA Group (SWA), Michael Brandman Associates (MBA), and the Municipal Resource Group (MRG). SWA is under contract with the County to prepare the Specific Plan, MBA is under contract to prepare an environmental constraints analysis and the EIR, and MRG is under contract as the project manager to coordinate the entitlement process. MRG is also tasked with managing a working economic model to evaluate market conditions. This task includes the preparation of a market study by Gruen Gruen + Associates (GG+A). SWA and MRG are also working with County, City and Fair staff to refine the project and land use plan created during the visioning phase of the project.

This Executive Summary describes the status of project tasks, ongoing studies that are being undertaken to facilitate refinement of the project and preparation of the Specific Plan and EIR, and additional recommendations for the development of the Specific Plan and steps required to process entitlements for the Solano County Fairgrounds property.

This Executive Summary has been prepared jointly by Elizabeth Shreeve, SWA Group; Randy Chafin, MBA; Tom Sinclair, MRG; Andy Plescia, A. Plescia & Co.; and Bob Johnson, RCH Group. A. Plescia & Co. and the RCH Group are sub-contractors with MRG, with extensive experience in fairgrounds redevelopment projects.

² Ibid, page 41

MARKET STUDY

There are a variety of studies and inputs that can and should ultimately influence the land use plan and project for the redevelopment of the Solano Fairgrounds site. A market study provides one set of data that is useful as a tool to help inform the land planning process. A market study includes an assessment of potential land use options according to projected market potential, with the output identifying the types of land uses and product types that have sufficient demand potential. In addition, a market study provides insight into the timing and development of alternative land uses by giving perspective on demand and supply conditions, and which uses are likely to provide demand and development opportunities sooner than other land uses.

To gain market insights, the County retained the services of Gruen Gruen +Associates (GG+A) to prepare a market study on the proposed development program set forth in Solano 360 Vision Plan and to provide market-based recommendations for future uses on the site. The study provides data and insights that are useful in refining the Solano 360 Project and in developing the related Specific Plan.

Based on an evaluation of the market demand for the proposed Solano 360 Project development program the market study general findings, conclusions and recommendations include the following summary of items:

- The “Great Recession” has diminished demand for goods and services globally, nationally, Countywide and in Vallejo. A return to “pre-Great Recession” consumer expenditures is not expected in the near future. Near-term prospects for economic recovery and development in Solano County generally, and in Vallejo specifically, are not particularly positive.
- The study indicates that redevelopment of the Solano County Fairgrounds site will succeed by responding to market demands, the timing of which may vary by land use. The long-term economic prospects for the area may be more positive, particularly if and as the existing excess retail and office capacity is absorbed. The Solano360 Vision and the future Specific Plan should adopt a long-term perspective and expectations regarding the scale and build-out of the property.
- A themed anchor entertainment use that would complement the fair/event uses and Six Flags Discovery Kingdom has potential and would be a catalyst for other related development on the

Fairgrounds site. This could either be accomplished by expansion of the Six Flags Discovery Kingdom operations onto the Fairgrounds site (if desired by Six Flags Discovery Kingdom), and / or by the introduction of another entertainment venue.

- The land use plan should be refined to take advantage of the visitors to current Six Flags Discovery Kingdom and fair/event visitors to the site. For example, retail, dining (restaurants) and hospitality uses may become market-supportable, particularly if a third entertainment venue also locates on the Fairgrounds site.
- The market support for the feasible private development of retail, office and hotel uses is unlikely to materialize in the near-term based on the fact that the current supply of retail and office space and hotel rooms exceeds the current demand, generally in Solano County, and more specifically in Vallejo. Without an increase in demand generated by other uses, a near-term addition of retail and office space or hotel rooms would likely detract from current businesses.
- While there is a current oversupply of office space, a long-term perspective for office use may be possible, assuming a secure, dedicated office campus environment with a fee simple sale to a potential developer. There may be concerns about proximity to entertainment venues, parking and infrastructure that would need to be resolved.
- Regarding the development of public Fairgrounds uses, current capacity to serve convention, exhibition and event needs in the Bay Area is adequate. Phasing and interim uses at the Solano Fair site may bridge the current Fairgrounds use and the build-out of the public components envisioned in the Solano360 Vision Plan. A near-term “facelift” of some existing fair buildings, accompanied by mid-term construction of smaller, expandable facilities with modern technology may help to enhance demand, brand the fairgrounds for the future and support the ultimate build-out of the exhibition hall and other fair facilities as described in the Solano360 Vision.

PROJECT VISION REFINEMENT AND PREPARATION OF THE SPECIFIC PLAN

County, City and Fair staff and the Project Team consultants are taking into consideration the market study and additional information developed since the Solan360 Vision Report was adopted, and are in the process of preparing refined land use concepts to be incorporated in the Specific Plan document.

The refinements under consideration include the following:

- The Specific Plan should identify potential, supportable and desirable land uses and provide sufficient flexibility to respond to future market-based demand for the Fairgrounds property.
- The proposed land use plan should take advantage of the 1.6 million visitors to Six Flags Discovery Kingdom and the existing year-round events and activities of the Fairgrounds by incorporating a “third gate” entertainment/amusement park anchor that would result in a more varied and appealing multi-tenant entertainment “campus”. Related elements of parking, entry sequence, pedestrian connections and shared common space should be used to structure the land plan and provide for a more varied, region-serving destination. As part of this approach the County, City and Fair Association should work with Six Flags Discovery Kingdom in an attempt to coordinate efforts to expand the existing Six Flags Discovery Kingdom property and redevelop the Fairgrounds site.
- A third entertainment venue, complementing the public fair/event facilities and Six Flags Discovery Kingdom, should be a permitted use in the Specific Plan, with flexibility in land use policies and design guidelines sufficient to accommodate a range of possible users.
- The Specific Plan should include phased solutions to parking and transportation issues resulting from addition of a “third gate” entertainment anchor, with consideration of the Fair’s need for parking during the annual Fair Week.

At the June 23, 2011 Solano 360 Committee meeting, the progress on the refinement of the Solano360 Project and the preparation of the Specific Plan will be discussed in more detail.

ENVIRONMENTAL IMPACT REPORT PREPARATION

Environmental review for a project begins with the preparation of a “project description”, which leads to an initial study of the potential environmental impacts, and, in the case of the Solano 360 Project, the likely preparation of an EIR. While MBA has been conducting an environmental constraints analysis of the site to assist SWA with site planning that avoids environmental impacts, the project description will initiate the formal environmental review. The goal is to introduce a project description to the Solano 360 Committee at its July 28, 2011 meeting and to request that the Board of Supervisors, as the lead agency for environmental review, adopt the project description at its August 9, 2011 meeting.

Generally, the level of specificity, or detail, in a proposed plan determines the level of specificity of the environmental analysis. For example, if a plan is very conceptual or provides for a great detail of flexibility in the types and intensity of land use, the environmental document would be prepared at commensurate level of specificity. Under the California Environmental Quality Act (CEQA), a “program level” EIR would be prepared for a conceptual, less detailed plan and a “project level” EIR would be prepared for a more detailed plan. Since MBA’s scope of work is based on an understanding that certain components of the Specific Plan would be highly detailed and certain components would be more conceptual, a combined “program/project” EIR was proposed.

Ultimately, the format (i.e., “program-level” vs. “project-level”) of the EIR will conform to the project description in terms of the specificity of analysis. The EIR will provide an important first-tier environmental analysis upon which subsequent environmental analysis will be based. It should be recognized that project components analyzed at a program level will be subject to more rigorous subsequent environmental analysis than components analyzed at a project level. In a situation where future actions and applicants pursuant to the Specific Plan are uncertain due to the economy and the desire to provide flexibility to developers, keeping the entire EIR at “program level” of analysis is a worthy consideration.

RECOMMENDATIONS

The recommendations for the refinement of the Solano360 Project, including preparation of the Specific Plan and EIR are as follows:

- Continue to develop the Specific Plan and prepare the EIR to be in a position to respond to short-term and longer-term economic conditions, with the short-term objective of improving the Fairgrounds in its existing location and identifying a “third gate” entertainment anchor.
- Maintain the schedule for development of the Specific Plan and EIR and for processing entitlements, with a goal of adoption of project documents in mid-2012.
- Research possibilities for a new entertainment venue(s) to complement the existing Six Flags Discovery Kingdom and Fair of the Future. This could consist of an expansion of Six Flags Discovery Kingdom or a new entertainment venue(s), to be identified by examining case studies of successful examples nation-wide.
- Create a working group to include a representative from Six Flags Discovery Kingdom and a policy-maker from each of the Board of Supervisors, City Council and the Solano County Fair

Board to work with the Project Team to research possibilities of collaboration between the parties regarding synergies between Six Flags Discovery Kingdom and the Fair of the Future.

- Refine the land use plan to take advantage of the existing fair/event visitors and Six Flags Discovery Kingdom visitors. Include a “third gate” anchor, related support uses such as retail, hotel, restaurant row or other synergistic uses, and connective elements of parking, entry, waterway, and public open space.
- Provide for interim uses on the Fairgrounds property that can be replaced by long-term development as market conditions improve. For example, evaluate the possibilities for a solar collector facility within surface parking lots to generate economic revenue and accomplish objectives for environmental sustainability.
- Provide for phasing of the Fair of the Future elements, including short-term improvements, medium-term facilities and long-term build-out of exhibition and event space.
- Provide flexibility in the Specific Plan and entitlements and in the breadth, or level of specificity, of the EIR to adjust to possible entertainment-amusement park anchors and associated support uses, with the ability to respond to market conditions that may evolve as the economy recovers.

**THE MARKET FOR RETAIL, OFFICE, HOTEL AND
EVENT SPACE AT THE SOLANO COUNTY FAIRGROUNDS**

To

**COUNTY OF SOLANO
CITY OF VALLEJO
SOLANO COUNTY FAIR ASSOCIATION**

From

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

June 2011

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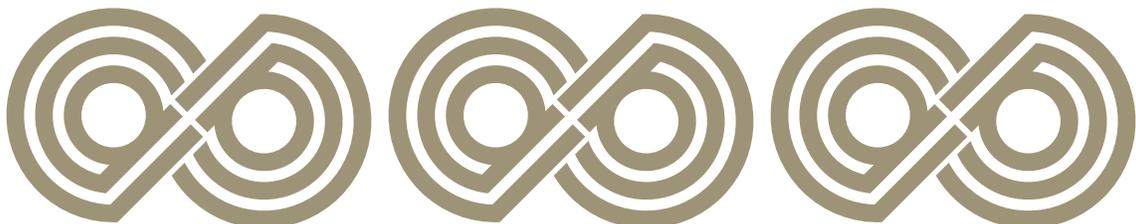


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CHAPTER I

EXECUTIVE SUMMARY

INTRODUCTION

The Solano County Fairgrounds currently consists of approximately 149.1 acres of land, located at the southwest corner of Interstate 80 and Highway 37, directly adjacent to Six Flags Discovery Kingdom on the west side of Fairgrounds Boulevard in Vallejo, California. Gruen Gruen + Associates (“GG+A”) was asked to study market conditions for retail, office, and hotel uses to reach judgments on whether sufficient obtainable demand exists to support the type and amount of land use products specified in the proposed development program based on the visioning of the Solano360 Committee.

This report summarizes the results of the market research and analysis GG+A conducted to forecast the potential demand for retail, office, and hotel space at the Solano County Fairgrounds. This report also evaluates the potential for adding significant new public exhibition and event building space. The findings, conclusions, and recommendations drawn from the results of the market research about the proposed development program are presented below.

PROPOSED DEVELOPMENT PROGRAM

According to the “Solano360 Vision Plan”, the redevelopment of the Solano County Fairgrounds site is currently planned to accommodate approximately 1.6 million square feet of new public and private building space. Table I-1 below summarizes the proposed development program.



The Market for Retail, Office, Hotel and Event Space at the Solano County Fairgrounds

TABLE I-1		
Solano County Fairground Redevelopment Program		
	Building Space # Square Feet	Land Area # Acres
Exhibition Hall	100,000	4.5
Events Center / Arena / Flex Parking	100,000	4.4
Other Fair Uses	88,000	29.3
Open Space and Transit Center	n/a	22.2
Total Public Uses	288,000	58.0
Entertainment / Commercial	150,000	14.2
Entertainment / Mixed-Use	53,000	4.8
Retail	470,000	38.4
Office	284,000	
Hotel	375,000 (375 rooms)	13.9
Total Private Uses	1,332,000	71.3
Roads and Flex Parking	n/a	17.3
TOTAL	1,620,000	149.1

Source: SWA Architects

Public uses are planned for approximately 58-acres, including a 100,000-square-foot exhibition hall; a 100,000-square-foot events center or arena; and 88,000 square feet of new fairground facilities. Private uses are anticipated to occupy approximately 71-acres of the site, including: approximately 200,000 square feet of entertainment space; 470,000 square feet of retail space; 284,000 square feet of office space; and two hotels totaling 375 rooms and 375,000 square feet of building space. An additional 17 acres is planned to accommodate internal roadways and space for flex parking.

WORK COMPLETED

To accomplish the study objectives, GG+A completed the following primary tasks:

1. Conducted field research and interviews with and obtained information and data from commercial real estate brokers, office and retail developers, real estate executives with retailers, hotel and retail store managers, event producers, and fair and exhibition/event facility managers as well as representatives of the Solano Economic Development Corporation, Solano County, City of Vallejo Economic Development Department and City Manager’s Office, Vallejo Convention and Visitors Bureau, and Six Flags Discovery Kingdom. Appendix A contains a list of sources consulted. We directed these interviews toward gaining information and insights needed to define the relevant primary market areas and to identify: (a) the likely origins and types of prospective space users and visitors, (b) the alternative locations prospective space users and visitors will consider, and (c) the relative advantages and disadvantages of the location of the Fairgrounds for office, retail,



The Market for Retail, Office, Hotel and Event Space at the Solano County Fairgrounds

- hotel uses and exhibition and events uses and activities;
2. Studied retail, office, and hotel and fair and exhibition/event space supply conditions and trends;
 3. Analyzed demographic, employment, and retail sales trends;
 4. Forecast the demand for office space by (a) analyzing historic employment trends by economic sector for Solano County, (b) reviewing forecasts of total employment growth for the County, (c) using GG+A's Spacewalk™ model and market-based assumptions about worker-office space density ratios to convert the forecast employment growth into estimates of future building space demand, and (d) comparing the estimated supply of office space in Vallejo and other submarkets of the broader market to forecast demand potentially captured at the site of the Fairgrounds;
 5. Forecast potential demand for retail space at the site of the Fairgrounds based on (a) analysis of the demographic and income composition of households in the relevant market area, (b) estimates of retail expenditure patterns, (c) analysis of taxable sales trends, (d) interviews with merchants, retail brokers, developers, and property owners, (e) an identification of retail supply and sales productivity thresholds for varying types of retail space, and (f) judgments drawn from the evaluation of demand and supply conditions;
 6. Evaluated the potential demand for hotel space based on analysis of hotel supply and demand trends data, and interviews with representatives of the Vallejo Convention and Visitors Bureau and representatives of area hotels as well as consideration of the economic base and employment trends; and
 7. Evaluated the potential demand for a 100,000-square-foot exhibition building and related venues based on a review of industry supply and demand trends, evaluation of the supply of competitive facilities, interviews with managers of fairgrounds and non-fairgrounds facilities, comparison of primary market area characteristics for the proposed facilities at the Solano County Fairgrounds to market area characteristics for similarly sized facilities in other Bay Area and Sacramento locations, and interviews with producers and promoters of potential events.

REPORT ORGANIZATION

Chapter II describes historical population and household trends in Solano County and Vallejo and reviews a forecast households and jobs by community in Solano County.

Chapter III summarizes retail sales trends in Vallejo and compares per capita retail sales trends by community in Solano County. Chapter IV describes the advantages and disadvantages of the Solano County Fairgrounds as a retail location and summarizes the



The Market for Retail, Office, Hotel and Event Space at the Solano County Fairgrounds

primary trade area for retail uses. Chapter V presents the supply of retail space in the primary trade area. Chapter VI presents retail demand in terms of primary trade area expenditure potential and compares the supply of retail space to the demand for space supported by the estimated expenditure potential. Chapter VI concludes with judgments about the potential for retail development at the Solano County Fairgrounds based on a synthesis of the results of the market analysis and real estate economic analysis.

Chapter VII describes the economic base of Solano County and presents historical employment trends as well as a regional employment forecast for the Vallejo-Fairfield MSA.

Chapter VIII describes the office space market of which Vallejo and the Solano County Fairgrounds are a part and evaluates the Solano County Fairgrounds competitive position as an office location within the office market. Chapter VIII presents a review of office space supply trends, presents a forecast of office space demand and describes the relationship between office space demand and supply and estimates the share of potential demand that can be captured in the future in Vallejo. Chapter VIII presents judgments about the potential for office space development at the site based on a synthesis of the market research and real estate economic analysis.

Chapter IX describes the market conditions for hotel uses and the competitive position of the Solano County Fairgrounds' location within the hotel market. Based on a synthesis of the analysis of the supply trends, interviews, employment base analysis and assessment of office demand, it presents conclusions about the potential demand for hotel rooms at the Solano County Fairgrounds.

Chapter X presents an evaluation of the potential for the Solano County Fairgrounds to add a 100,000-square-foot exhibition hall and events building in light of the review of industry conditions and trends, identification of supply competition and demand for potential events, and interviews with facility managers as well as events producers and promoters.

CONCLUSIONS

The primary conclusions are presented below.

A refined development program can be evaluated, and the timing better estimated, by the County, City, and Fair, collaborating with the institutions and businesses outlined below to investigate alternative uses such as another entertainment anchor that would hold potential to be feasibly developed and operated. Such uses would relate well to the existing proximate use of Six Flags and set of advantages and disadvantages that apply to the Fairgrounds. The parties could undertake the activities outlined below in the Recommendations section to position catalytic development and public improvements that would both improve the competitive position and appeal of the Fair and generate greater and more immediate revenue from the property.

Capitalizing on the proximity to Six Flags and its customer base to create a dominant



The Market for Retail, Office, Hotel and Event Space at the Solano County Fairgrounds

agglomeration of entertainment/amusement facilities would also provide a unique environment for the Fair. This would have an advantage of: (1) not competing with other communities for similar types of retail, office, hotel, and exhibition facilities found throughout the region; and (2) provide a set of branded entertainment destinations and physical and social environment that cannot be readily duplicated by competing communities. Under such an approach, a restaurant row that would “bridge” Six Flags and the Fairground and benefit from attracting highway travelers represents one use that can be expected to be supported in an early phase of the redevelopment process. In addition, given both Six Flags and the Fair draw heavily on weekends, a potential complementary use would include outlet retail that also tends to attract tourists and weekend recreational shoppers¹.

Given the findings drawn from the market research and real estate economic analysis summarized in this report, sufficient market support for the feasible private development of the proposed non-Fair uses is unlikely to materialize in the near future. Retail development, even if rendered feasible through municipal subsidies, if unaccompanied by the addition of a significant visitor draw can be expected to negatively impact the existing retail supply given the existing lack of unmet demand for retail uses. Therefore, the Solano County, City of Vallejo, and Solano County Fair Association will need to consider a long-term view and set of expectations about the timing and scale of build-out of the Fairgrounds for the proposed uses.

Such a long-term orientation about the phasing, pace, scale, and make-up of the redevelopment of the Fairgrounds’ site also suggests the advisability of identifying an intermediate or interim phased program of enhancements to the Solano County Fair facilities. For example, consider “facelifts” to key buildings and enhancements to the grounds to make the property more user-friendly and appealing. This should begin to increase the competitive position of the Fair so as to also stimulate and reinforce subsequent development of additional higher and better uses. Instead of attempting to make a financially-risky and organizationally- challenging “quantum leap” of demolition of existing Fairgrounds’ facilities and relocation and new construction of much larger facilities, strategically and selectively update, upgrade, and expand existing facilities to increase the Fair’s ability to capture local and regional demands for events and other activities.

A long-term orientation also suggests the need to plan for a harmonious and user-friendly environment with appropriate design and use covenants with built-in flexibility to permit responsiveness to shifting or unforeseen market demands.

¹ The market potential and real estate economics of outlet retail would need to be evaluated but the interviews indicate a waiting list exists for space at the Napa Premium Outlets Center; and the site serves as a gateway to the wine country tourism market and is also more centrally located and accessible to the dense urban Bay Area consumer population than is the Vacaville Premium Outlets center in Vacaville. In addition, outlet retail at the site could in concert with eating and drinking establishments not abundant at the Vacaville Premium Outlets center and the existing and potential added entertainment uses to be part of the overall recreational/entertainment experience that distinguishes the offering from standard outlet centers.



FINDINGS

The findings from which the conclusions are drawn are summarized below.

The Potential for Additional Entertainment Uses

The current operations and plans by Six Flags Discovery Kingdom to expand attractions at its Vallejo theme park and the expectation that visitation will increase is an indication of the demand for entertainment uses at the site. The proximity of Six Flags and the presence of the Solano County Fair are the key differentiating characteristics associated with the location of the Fairgrounds. The profitability of regional theme parks and other related entertainment and leisure-time activities are influenced by economic conditions including gas and transportation prices, business cycle fluctuations and employment and income factors, which in turn influence consumer confidence and discretionary spending.

Compared to the markets for the other uses reviewed in this report, however, entertainment uses such as theme parks have less direct, proximate supply competition. For example, Six Flags indicates its direct competition consists primarily of Aquarium of the Bay at Pier 39 in San Francisco, Academy of Science Center in San Francisco, Great America in Santa Clara, Gilroy Gardens in Gilroy, and Outer Bay at Monterey Bay Aquarium in Monterey.

Entertainment uses that successfully anticipate and respond to consumer demands as consumer confidence increases and which will thrive in the competition for future entertainment expenditures by consumers will include characteristics that have passed the test of time for successful fairs. These characteristics include:

- unique to the location attractions, exhibits and activities;
- opportunities for visitors to “show off” and to have fun (via rides, shows, and games);
- opportunities to socialize and gather in a safe and secure setting;
- good food, including treats that can not be readily found elsewhere; and
- recreational, novel, and exciting shopping opportunities not readily found in standard retail centers.

Entertainment attractions, including fairs, which continuously improve their facilities and features so as to stay ahead of their competitors, are likely to sustain their consumer magnetism needed to attract customers even as direct and indirect competition in the entertainment industry becomes more intense. The declining condition of the existing Fair facilities will lessen any competitive advantage the Fair may have with its location in the greater Bay Area. Without a significant capital renewal investment in the existing Fair facilities, the Fair will most likely continue to see declining attendance at the annual Fair as well as fewer opportunities to secure additional events year-round. Therefore, investing in the existing facilities in the near term will be necessary to sustain the existing level of businesses and attract new events and visitors, while waiting until new development becomes



more feasible.

The Market for Retail Uses

Adjusted for inflation and reported in 2011 dollars, between 2004 and 2009, taxable retail sales in Vallejo decreased at a 6.1 percent annual rate of growth to over \$500 million dollars, a decrease of over \$200 million dollars since 2004.

Consistent with the advent of the Great Recession beginning in 2007, per capita retail sales have declined in Solano County by approximately 28 percent or at an annual rate of decline of 6.5 percent. Vallejo's per capita sales declined at an average annual rate of 7.5 percent. Vallejo's per capita sales decreased from over \$9,600 in 2004 to approximately \$6,500 in 2009. Although the three largest communities in Solano County each had declining per capita sales over the 2004-2009 period, the productivity of the retail space in both Fairfield and Vacaville on a per capita basis has been higher than in Vallejo. Per capita retail sales in Fairfield and Vacaville are one-third to nearly three-quarters higher than per capita sales in Vallejo.

The sales trends show the impacts of downward shifts in consumer expenditures at retail outlets due to job insecurity and income constraints, demographic shifts, and the powerful trend of a growing percentage of goods being purchased on the Internet. As described more fully in Appendix B, these secular demographic and consumer shopping pattern shifts are unlikely to reverse even when the labor market and economy recovers from the adverse impacts of the Great Recession.

The quantitative analysis of the relationship between retail demand and supply, interviews with brokers and merchants and consideration of demographic, income and consumer behavior trends reviewed in this report suggest the following:

- Retail uses at the Fairgrounds site would serve a primary trade area consisting of Vallejo, Benicia and American Canyon. This geographic area is likely to continue to experience limited population, household and income growth in comparison to Solano County as a whole;
- A large share of primary trade area residents leave the area for work. Major employment locations outside the trade area include a full array of necessity and discretionary shopping opportunities;
- A relatively complete supply of hard and soft good retailers is located in the primary trade area, as well as outside but near the primary trade area to the north and south along Interstate 80;
- Accordingly, the competition for expenditures of consumers will be highly intense for the foreseeable future;



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- The supply of retail space built at high rates prior to the Great Recession caused trade areas in and near Solano County to decline;
- The Internet has created increasing shopping opportunities from homes and workplaces, which also helps time constrained households to make the most efficient use of time. The increasing proportion of retail expenditures made online will continue to place downward pressures on demand for on-the-ground retail space;
- A decline in housing values, a decrease in the value of retirement plans, job insecurity, downward pressure on income and wages, high debt levels attributable to school loans, automobiles, and credit cards along with changing consumer shopping attitudes and patterns indicate consumer expenditures on retail goods and services will not likely return to former higher pre-Great Recession levels even after the labor market and economy recover;
- The magnitude of the estimated excess supply or sales capacity relative to potential demand suggests that new retail development will depend upon siphoning off existing sales to succeed;
- Given the availability of existing space at below replacement costs, “backfilling” of space vacated by other retailers will likely occur before new development;
- Due to conditions, trends and shifts described in Appendix C of this report, the probabilities of attracting an “iconic destination retailer” (e.g., Bass Pro or Cabela’s), that because of its magnetism would serve as a development and visitor-attracting catalyst of the type previously envisioned, are low or would require significant governmental incentives. Retailing, however, has and will continue to undergo revolutionary shifts driven by continuous changes in demographics, attitudes, and tastes of consumers and technology. Retail operates under the law of creative destruction. Formats will change and new concepts will still arise and thrive. Therefore, the planning of the redevelopment of the Fairgrounds should provide for opportunities, should they arise, for capturing exciting new retail uses, in conjunction with the enhancement and potential addition of entertainment anchors. Such uses are likely to relate to the consumer preference shifts to a focus on compelling value (the best combination of price, brand, convenience, and delight) and experiential shopping (which may include education, recreation and entertainment components). Given both Six Flags and the Fair draw heavily on weekends, a potential compatible use would include outlet retail; and
- It will be highly challenging for the amount and type of retail space proposed



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at the Solano County Fairgrounds site to be feasibly supported.

The Market for Office Uses

The synthesis of the results of quantitative and qualitative research and analysis about the office market presented in this report indicate the following:

- The competition for office space users will be highly intense for the foreseeable future;
- Any supply additions at locations other than the site of the Fairgrounds over the next several years, or increases in vacancy due to expiring leases which are not renewed or which result in the rental of less space, will further extend the office market recovery horizon;
- Speculative office development will be limited prior to 2016 within the primary market area and the Solano County Fairgrounds site may not be a priority development location for office space before 2016 due to the disadvantages found to apply for office uses at the site, affects of the Great Recession, surplus market area office space supply, constrained construction lending, availability of buildings below replacement costs, and low effective rents;
- Based on the limited development potential for office space at the site given the identified challenging market conditions and constraints that currently apply to the site, it may not be financially feasible for a developer to pay for the land needed to site an office building prior to 2016²; and
- The amount of office space development potentially absorbed at the site (or elsewhere in Vallejo) between 2016 and 2020 is estimated to be 145,000 square feet of space. The most likely office development will be a campus option for a larger user seeking to combine or consolidate a variety of functions at one location which would appreciate the lower costs of a Solano County office location and the billboard effect the site could provide to highway travelers. Opportunities may also arise to attract professional and service firms which prefer the display advantages of the site in a central location between Sacramento and the Bay Area. Even if these arrangements are made, competition for office space uses will be intense. Before committing to including the amount of office space in the proposed development program for the site, conduct a solicitation of office space developers/users to attempt to secure a commitment for the development of office space at the site,

² By 2016, office space development opportunities could begin to arise at the site if rents rise significantly at preferred locations in the San Francisco Bay Area encouraging users to consider alternative locations, necessary off-site and on-site transportation and ingress/egress improvements are made, dedicated parking is provided for an office use, the other characteristics described in this report required for successful office environments are created, and the land is sold fee simple at a relatively low cost.



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given the findings summarized in this report suggesting it will be challenging to do so on favorable economic terms.

The Market for Hotel Uses

Both the secondary market data analysis and results of the primary market research about the market for hotel uses suggest that in the foreseeable future any new hotel development will depend upon siphoning off room night demand from existing hotels and that this would still not be sufficient to support occupancy and average daily rates required to amortize and provide a return on development costs.

Hotel managers indicated demand is generated primarily from leisure travelers, especially visitors to Six Flags. The analysis of the employment base/economic base and interviews indicate that the market area does not generate sufficient demand from business/corporate travelers to warrant the addition of hotels, either limited service or full-service that are designed to serve and depend upon attracting business travelers. Unless large employers/institutions such as Kaiser, Touro University or others create demand for additional room nights, the market area cannot support another hotel serving business/corporate travelers even with the siphoning of demand away from other area hotels. Given the proximity to Napa with its appealing and larger set of amenities and services, and array of lodging facilities, it will also be difficult to penetrate into higher-end, leisure demands.

The room night demand the proposed exhibition/event facilities are likely to generate will not be sufficient to support the proposed new hotel facilities at the site of the Fairgrounds. A major branded entertainment anchor that in conjunction with Six Flags Discovery Kingdom serves to create greater than a day-trip market than Six Flags currently obtains, may potentially support additional hotel room night demand.

The Market for Exhibition Building/Event Space

Primary Market Area and Type of Events Attracted

Public or consumer shows, social, military, educational, religious or fraternal or other events which require outdoor space are likely to represent primary “product” markets with the relevant geographic market mainly being local or from within the metropolitan area. Solano County is and is likely to remain the primary market area from which most attendees for both Fair and non-Fair event are drawn.

The ability of the Solano County Fair to draw events sufficient to support the size of proposed facilities will significantly depend upon the size of the market area population and employment and its income and spending characteristics. Eight large facilities in the region for which the Solano County Fairgrounds is compared against are located in counties that have populations nearly two times to more than four times larger than Solano County’s population base. Similarly, the household base of Solano County is by far the smallest of the



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counties with similar sized facilities as proposed for the Fairgrounds. The comparison counties have employment bases from which to draw businesses that may need exhibit and event facilities six times to eight times larger than the employment base of Solano County. All of the comparison areas other than Sacramento have substantially higher proportions of their populations with incomes above \$100,000 than Solano County. This indication of spending power suggests other submarkets have a higher proportion as well as numbers of residents with more disposable income to spend at public or consumer shows than do residents of Solano County.

Based on the findings about broader industry trends, the likely primary market area facilities at the Solano County Fairgrounds will most likely serve, the locations, types, and sizes of potentially competing venues, and comparison of demographic, income and employment characteristics, it is unlikely that convention, trade shows and corporate meetings and other events during the work week will comprise a sufficient source of use and net revenue for the proposed 100,000-square-foot exhibition building and related additional event facilities.

Industry Trends and Existing Competitive Venues Reveal Significant Geographic and Product Competition

The convention center and exhibition industry has reached maturity resulting in very competitive conditions. New facilities will not simply be able to rely on the “build it they will come approach.”

Interviews with managers of fairs with large exhibition facilities in the Bay Area and Sacramento indicate that their exhibition and event facilities have been impacted by national trends, which include significant supply increases accompanied by a demand decline. Major conventions, trade shows, and corporate meetings have been particularly challenging to attract to these alternative large venues given both the supply additions and reduction in events as firms have cut business travel and event costs. In addition, these interviews revealed communication technology innovations have reduced the need for some types of meetings held in exhibition and event facilities. Moreover, the increase in fuel prices and other economic/income pressures and time constraints on households has reduced attendance for some public or consumer shows. Multiple fair managers reported significant reductions in attendees for events held annually at their respective facilities.

The existing and proposed exhibition and event facilities on the site of the Fairgrounds face significant geographic and product competition. The review of the supply of convention, exhibition, trade show and public show and arena facilities suggest the following conclusions:

- Existing convention, exhibition and event facilities in the San Francisco Bay Area (especially San Francisco and Silicon Valley) and Sacramento have ample facility and hotel room capacity to serve a wide variety of events, including large conventions, trade shows, and corporate meetings as well as public consumer shows and concerts;



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- A wide variety of facilities, including the existing Solano County Fairgrounds and other county fairs and hotels, have the capacity to serve smaller events, including local public or consumer shows, and those events which require both interior building space and outdoor space. Competition for serving demands originating from corporate events such as meetings, seminars, product launches, exhibitions and smaller convention and trade show events is intense. An increasing proportion of demand from smaller events can be expected to be absorbed in hotel facilities, which have incentives to offer conference and meeting space at highly attractive rates in order to obtain hotel room bookings; and
- Alameda County and Contra Costa County to the south, Sonoma County to the west, and Sacramento to the east of the Solano County Fairgrounds have venues to also serve the demands of medium-sized events.

Survey Event Promoters/Producers to Ascertain Willingness to Book and Pay for Events

A shift has occurred in the music or concert industry. Nationally recognized performers are now able to command significant shares of ticket revenue and therefore concert promoters must seek and rely on obtaining revenues that the performers cannot readily access such as amounts that the events centers or arenas would otherwise receive as rent, food and beverage concession revenues and parking fees. This shift explains why promoters such as Live Nation have begun to build their own facilities in order to control the revenue sources that in the past event centers and arenas were able to obtain. Local and regional ethnic-oriented performances that can be held in exhibition facilities rather than mid-sized arenas or event centers like that included in the development program are likely to be a more profitable market and one that the Solano County Fairgrounds can penetrate further with facility improvements and targeted marketing.

The facility programming and sizing should reflect the findings from the research that most events the Fair will most likely capture will tend to occur on the weekend dates (Friday-Sunday); and most events will be public or consumer shows, and social military, educational, religious or fraternal and community events. Given the local and regional nature of the market area likely to be served, the size of the public facilities proposed in the Solano360 development program will be challenging to fully utilize.

Review of the prior ERA/AECom report³, review of financial statements for exhibition facilities, and interviews with multiple fair managers of large exhibition and event facilities confirm that the capital costs of the proposed 100,000-square-foot exhibition and related event facilities will need to be subsidized and that even successful operations will probably need to be subsidized in order to fully offset costs of development, operations and maintenance.

³Previous findings by ERA indicate that the proposed capital facilities would require a large subsidy to develop and ERA appears to have projected that operating expenses would exceed the revenues generated from the operation of the exhibition/event facilities. See 'Solano360 Vision Plan Financial modeling and Fiscal Analysis,' Exhibit K, prepared by Economics Research Associates dated January 14, 2010.



RECOMMENDATIONS

Based on the conclusions and findings outlined above, the following presents recommendations that can be incorporated into the implementation approach for the Solano360 Vision Plan on which the representatives of Solano County, City of Vallejo, and Solano County Fair Association are collaborating to develop.

Because the Solano County Fair serves an increasingly urbanized community that will still seek food, entertainment and education closer to home to save on travel costs, conduct ongoing research to make sure that the events and attractions of all kinds continue to be appealing, by being in tune with the profiles and demands of contemporary visitors that can be attracted. For the most part, that means doing research to enhance the magnetism of the Fair itself to provide the activities attendees prefer and to identify and enhance the rental of the property during the times when the Fair is not in session.

Investigate whether local educational institutions such as The California Maritime Academy, Touro University-California, and Solano Community College would have interest in collaborating on Fair programming and on revenue-generating uses of the property during non-Fair times, especially during the work week.

Investigate whether Six Flags Discovery Kingdom would be willing to pay for and collaborate on operating uses such as an interim RV Park or additional attractions that are frequently included on Six Flags' properties but which the land constraints of its Vallejo property preclude from accommodating on site. In addition, seek to expand the cross-marketing and use efforts with Six Flags as was done for the Earthdance event. While theme parks such as Six Flags have not been immune from negative effects of the recession, an opportunity may exist to position Six Flags to benefit from a rebound in visitor attendance and to capture discretionary consumer expenditures through improving visitor experiences and services that could more fully utilize the Fairgrounds property, while concurrently improving the site for the conduct of the Fair.

Most important, investigate building on the strength of the day-trip regional attraction of Six Flags by attracting another major branded destination entertainment anchor with which the Fair could be coordinated and which could be linked with Six Flags. This could be done in conjunction with Six Flags expanding its operations onto the Fairgrounds. If Six Flags is not in a position to more fully incorporate the Fairgrounds' site with its sets of attractions, then explore the potential for another developer/operator of theme parks or entertainment attractions to participate in the redevelopment opportunity. A potential example could be Merlin Entertainment's Legoland theme park. Merlin is currently redeveloping the 145-acre Cypress Gardens theme park in Winter Haven Florida it purchased for a reported \$22.3 million in 2010 (with governmental incentives for infrastructure improvements). Merlin Entertainment is retaining the former attraction's 30-acre botanical gardens. The addition, if feasible, of another major branded entertainment anchor, in conjunction with the regional destination of Six Flags would create a powerful and magnetic agglomeration of entertainment and amusement attractions that may justify additional support services.



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Additional services will, include restaurants that would improve the experiences of visitors while generating revenues for both entertainment destinations and the Fair. In addition, such an expanded entertainment and recreation destination could potentially generate visitation to complementary value- and experiential- shopping and dining opportunities described above.



CHAPTER II

ANALYSIS AND FORECAST OF DEMOGRAPHIC AND HOUSEHOLD TRENDS IN SOLANO COUNTY AND VALLEJO

INTRODUCTION

This chapter reviews the demographic and household shifts and trends that influence obtainable demands and provide insight about the market conditions and supply competition described in subsequent chapters.

POPULATION GROWTH

Table II-1 presents historical population growth in Solano County by community.

	1990 #	2000 #	2010 ¹ #	Change 1990- 2010 #	Change 1990- 2010 %	Average Annual Growth Rate 1990-2000 %	Average Annual Growth Rate 2000-2010 %
Benicia	24,437	26,865	26,997	2,560	10.5	0.9	0.05
Dixon	10,401	16,103	18,351	7,950	76.4	4.5	1.3
Fairfield	77,211	96,178	105,321	28,110	36.4	2.2	0.9
Rio Vista	3,316	4,571	7,360	4,044	121.9	3.3	4.9
Suisun City	22,686	26,118	28,111	5,425	23.9	1.4	0.7
Vacaville	71,479	88,625	92,248	20,769	29.1	2.2	0.4
Vallejo	109,199	116,760	115,942	6,743	6.2	0.7	-0.07
Balance of County	21,692	19,322	18,834	-2,858	-13.2	-1.1	-0.4
Solano County Total	340,421	394,542	413,344	72,923	21.4	1.5	0.5
¹ From Census 2010.							
Sources: California Department of Finance; U.S. Census Bureau; Gruen Gruen + Associates.							

Between 1990 and 2010, the population of the County increased by nearly 73,000 people or 21 percent. Three-fourths of this growth occurred, however, between 1990 and 2000. Vallejo experienced the lowest average annual growth rate of 0.7 percent of the incorporated cities, although Vallejo's growth rate was off a larger base than either Fairfield or Vacaville. Vallejo's population grew at less than half the rate of growth for the County as a whole. Vallejo gained about 6,700 people over the 20 year period from 1990 to 2010. The growth in Vallejo's population accounted for less than 10 percent of the total population growth in the County. Fairfield and Vacaville's populations grew more substantially, accounting for two-thirds of the County's population growth over the 20-year period. In 1990, Vallejo's population was about 1.5 times the population of either Fairfield or Vacaville. By 2010, with nearly 116,000 persons, Vallejo's population was 11 percent higher than Fairfield's



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population and 25 percent higher than Vacaville’s population. In 2010, Vallejo, Fairfield, and Vacaville had a combined population of 313,500, approximately 76 percent of the County’s population.

As evidenced by the geography of historical population growth within the County, southern communities including Vallejo have been primarily built-out for the better part of a decade. Growth shifted north along Interstate 80 given the availability of more abundant and affordable residential land, adequate transportation connectivity to Sacramento and the Bay Area, and continued job relocation to growing employment centers along Interstate 80.

Since 2000, the County’s population growth has slowed to less than 0.5 percent per year. Vallejo has experienced a small decline in population since 2000, and the population base of neighboring Benicia has remained essentially stable over the past decade. Of the 18,800 people added in the County since 2000, 49 percent of the growth occurred in Fairfield with another 19 percent of the population growth in Vacaville.

POPULATION AND HOUSEHOLD ESTIMATES FOR CITY OF VALLEJO

Table II-2 shows population and household estimates for Vallejo from 2000 and 2010.

TABLE II-2					
Population and Household Estimates for City of Vallejo: 2000-2010¹					
	2000 #	2010 #	Change 2000-2010 #	Change 2000-2010 %	Average Annual Growth Rate 2000-2010 %
Population	116,760	115,942	-818	-0.7	-0.07
Households	39,601	40,559	958	2.4	0.24
Average Household Size	2.95	2.86			
Sources: California Department of Finance, Demographic Research Unit, <i>Census 2010 Redistricting Data Summary File</i> , Gruen Gruen + Associates.					

Between 2000 and 2010, Vallejo’s population declined by approximately 800. The household base of Vallejo increased by approximately two percent or 960 households. Accordingly, average household size has decreased from 2.95 persons per household in 2000 to 2.86 persons per household.

Vallejo’s demographic composition differs from that of the Bay Area and other Solano County communities. Table II-3 below summarizes the distribution of the population for Vallejo, Solano County, and the Bay Area by race and Hispanic origin.



TABLE II-3

Distribution of Population by Race and Hispanic Origin: 2010

	Vallejo %	Solano County %	Bay Area %
Hispanic	22.6	24.0	23.5
Non-Hispanic White	25.0	40.8	42.4
Non-Hispanic Black	21.5	14.2	6.4
Non-Hispanic Asian	24.5	14.3	23.0
Non-Hispanic Other	6.4	6.7	4.7
Total	100.0	100.0	100.0

Sources: U.S. Census Bureau, *2010 Census*; Gruen Gruen + Associates.

The resident base of Vallejo is characterized by a relative balance of Hispanics, Non-Hispanic Whites, Blacks and Asians. As illustrated above, Vallejo contains a much higher concentration of Blacks than does Solano County and especially the Bay Area. The Non-Hispanic Black population comprises just under 22 percent of all Vallejo residents and only 6.4 percent of total Bay Area residents. Relative to Solano County, Vallejo also includes a slightly higher concentration of Asians, comparable to that of the Bay Area at approximately 25 percent of the total population.

THE CITY OF VALLEJO’S POPULATION AS A PROPORTION OF COUNTY-WIDE GROWTH

Table II-4 shows the population growth of Vallejo as a proportion of County-wide growth between 2000 and 2010.

TABLE II-4

Population Growth in City of Vallejo As Proportion of County-Wide Growth

	2000 #	2002 #	2004 #	2006 #	2008 #	2010 #
Vallejo Population	116,760	119,753	121,148	120,394	120,466	115,942
Solano County Population	394,542	408,513	416,417	420,715	424,585	413,344
Vallejo Share of Total County Population as Percentage	29.6	29.3	29.1	28.6	28.4	28.1

Sources: California Department of Finance, Demographic Research Unit, *Census 2010 Redistricting Data Summary File, E-4 Population for Cities, Counties, and the State 2001-2010*; Gruen Gruen + Associates.

As other areas further north of Vallejo in the County grew slightly faster over this period, Vallejo’s share of the County’s population has declined. Vallejo’s share of Solano County’s population has declined from nearly 30 percent to 28 percent in 2010.



**FUTURE HOUSEHOLD AND JOB
GROWTH IN SOLANO COUNTY AND VALLEJO**

Table II-5 presents forecasts of households and jobs in Solano County and all the communities in the County as prepared by the Association of Bay Area Governments (“ABAG”) and the Metropolitan Transportation Commission (“MTC”) as part of its Initial Vision Scenario for the Sustainable Community Strategy and Regional Transportation Plan in March 2011.

Community	Households				Jobs			
	2010 #	2035 #	Change 2010- 2035 #	Change 2010- 2035 %	2010 #	2035 #	Change 2010- 2035 #	Change 2010- 2035 %
Benicia	11,329	13,527	2,198	19.4	14,043	17,485	3,442	24.5
Dixon	5,617	8,222	2,605	46.4	4,330	7,239	2,909	67.2
Fairfield	36,061	52,476	16,415	45.5	42,864	60,579	17,716	41.3
Rio Vista	3,540	4,737	1,197	33.8	1,191	2,327	1,136	95.3
Suisun City	9,132	10,548	1,415	15.5	3,210	4,637	1,428	44.5
Vacaville	32,620	41,775	9,155	28.1	23,422	35,030	11,608	49.6
Vallejo	42,043	47,814	5,771	13.7	28,415	38,258	9,843	34.6
Balance of County	7,817	8,677	860	11.0	8,853	11,156	2,302	26.0
Solano County Total	148,160	187,776	39,616	26.7	126,328	176,711	50,383	39.3

Sources: Bay Area Plan, Initial Vision Scenario for Public Discussion, March 11, 2011, Association of Bay Area Governments and Metropolitan Transportation Commission; Gruen Gruen + Associates.

The number of households in Solano County is expected to increase by nearly 40,000 or 26.7 percent by 2035. Job growth is expected to exceed household growth with over 50,000 new jobs or a 39.3 percent increase by 2035. Fairfield, Vacaville, and Vallejo are expected to add the most households with Vallejo accounting for over 14 percent of new households in the County or about 5,800 additional households. Similarly, the same three communities are expected to add over three-fourths of the new jobs with Vallejo accounting for nearly 20 percent of the job growth (below Fairfield which is expected to account for 35 percent of the new jobs).



CHAPTER III

ANALYSIS OF RETAIL SALES TRENDS

PURPOSE

The analysis of retail sales trends provides a framework for assessing the relative strengths and weaknesses of Vallejo’s retailing base. The analysis also shows the impacts of downward shifts in consumer expenditures at retail outlets due to job insecurity and income constraints, demographic shifts, and the powerful trend of a growing percentage of goods being purchased on the Internet. As described more fully in Appendix B, these secular demographic and consumer shopping pattern shifts are unlikely to reverse even when the labor market and economy recovers from the adverse impacts of the Great Recession.

TAXABLE RETAIL SALES BY CATEGORY FOR CITY OF VALLEJO

Table III-1 presents changes in Vallejo’s taxable retail sales from 2004 through 2009.

TABLE III-1

Taxable Annual Retail Sales by Category for the City of Vallejo: 2004-2009¹

	2004 \$	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$	Average Annual Change 2004-2009 %
Apparel Stores	37,030,000	42,480,000	41,755,000	39,183,000	35,010,000	38,016,000	0.5
General Merchandise	242,874,000	248,652,000	258,873,000	223,917,000	180,530,000	142,306,000	-10.1
Food Stores ²	64,695,000	64,152,000	61,491,000	58,074,000	56,299,000	60,662,000	-1.3
Eating & Drinking	121,113,000	123,334,000	123,014,000	122,848,000	116,764,000	112,625,000	-1.5
Home Furnishings and Appliances	36,656,000	35,714,000	32,080,000	26,611,000	35,494,000	40,403,000	2.0
Building Materials	108,654,000	104,279,000	95,528,000	75,720,000	64,401,000	60,032,000	-11.1
Other Retail Stores	110,339,000	110,150,000	106,017,000	97,618,000	78,556,000	72,497,000	-8.0
Total	721,361,000	728,762,000	718,758,000	643,972,000	567,054,000	526,541,000	-6.1
¹ 2011 dollars. Annual calendar year data. Does not include automotive dealers and supplies and service stations.							
² Not all food and drug store sales are taxable. Thus, actual sales are higher than summarized above.							
Sources: California State Board of Equalization; Bureau of Labor Statistics, Consumer Price Index; Gruen Gruen + Associates.							

Adjusted for inflation and reported in 2011 dollars, between 2004 and 2009, taxable retail sales in Vallejo decreased at a 6.1 percent annual rate of growth to over \$500 million dollars, a decrease of over \$200 million dollars since 2004. The categories with the largest average annual declines in retail sales were: (a) building materials (11.1 percent average annual decline for a decrease of \$48.6 million), (b) general merchandise (10.1 percent annual decline for a



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decrease of \$100.6 million), and (c) other retail stores (8.0 percent average annual decline for a decrease of \$37.8 million. Food stores sales have had a small decline but experienced growth between 2008 and 2009 to remain relatively stable. Eating and drinking places sales have also declined though off a larger base so the annual average percentage decline has been relatively small. The only category to experience an increase was the home furnishings and appliances categories, which decreased between 2004 and 2007 but then has shown a substantial increase growing by over 50 percent since 2007 to a higher amount of sales than in 2004. This increase reflects in large part the opening of the Bed Bath & Beyond store in late 2009 in the Gateway Plaza shopping center.

Table III-2 presents the proportion of total retail sales each category comprises.

	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	Shift in Share of Total Sales Percentage Points
Apparel Stores	5.1	5.8	5.8	6.1	6.2	7.2	+2.1
General Merchandise	33.7	34.1	36.0	34.8	31.8	27.0	-6.7
Food Stores	9.0	8.8	8.6	9.0	9.9	11.5	+2.5
Eating & Drinking	16.8	16.9	17.1	19.1	20.6	21.4	+4.6
Home Furnishings and Appliances	5.1	4.9	4.5	4.1	6.3	7.7	+2.6
Building Materials	15.1	14.3	13.3	11.8	11.4	11.4	-3.7
Other Retail Stores	15.3	15.1	14.8	15.2	13.9	13.8	-1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	---
¹ 2011 dollars. Annual calendar year data. Does not include automotive dealers and supplies and service stations.							
Sources: California State Board of Equalization; Bureau of Labor Statistics, Consumer Price Index; Gruen Gruen + Associates.							

Consistent with the general decline in retail sales due to the Great Recession and departure of Wal-Mart from Vallejo, general merchandise which had made up about one-third of Vallejo's retail sales in 2004 still remains the largest sales generator although at only about one-fourth of total retail sales by 2009. Eating and drinking sales also declined, albeit at a slower rate and by 2009 represented a larger share of total retail sales of about 21 percent. Food store sales represent the fourth largest sales category (after other retail store sales) followed closely by building materials sales which now represents nearly the same proportion of sales as food store sales.

Table III-3 shows for 2004 through 2009 the average growth rate in sales by category for Vallejo and Solano County.



TABLE III-3

**Average Annual Growth in Retail Taxable
Sales for Solano County and the City of Vallejo: 2004-2009**

	Solano County %	City of Vallejo %
Apparel Stores	5.2	0.5
General Merchandise ¹	-6.4	-10.1
Food Stores	-4.1	-1.3
Eating & Drinking	-0.5	-1.5
Home Furnishings and Appliances	-18.6	2.0
Building Materials	-12.2	-11.1
Other Retail Stores	-14.7	-8.0
Total	-5.7	-6.1

¹ Includes drug store sales.

Sources: California State Board of Equalization; Bureau of Labor Statistics, Consumer Price Index; Gruen Gruen + Associates.

Overall, Vallejo retail sales decreased at approximately six percent annually compared to 5.7 percent annually for the County. Sales in food stores, buildings materials stores, and other retail stores declined less rapidly than sales in those categories in the County as a whole. Sales in the home furnishings and appliances category in Vallejo outpaced sales in the County overall.

PER CAPITA RETAIL SALES

To further evaluate the relative strength and dynamics of Vallejo’s taxable retail sales, Table III-4 adjusts sales by the growth in population for municipalities in the County, and the County as a whole, by presenting estimated per capita sales for the sales in selected retail sales categories outlined above plus automotive-related sales. Note, however, some local sales are made to visitors such as attendees of Six Flags and therefore the per capita estimates reflect both sales made to non residents as well as sales lost to retailers located outside of Vallejo.⁴

⁴ Obviously, sales are also made to nonresidents in the other communities listed as well as lost to retailers located outside their jurisdictions.



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TABLE III-4

Per Capita Retail Sales by City in Solano County¹

	2004 \$	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$	Average Annual Change 2004-2009 %
Vallejo	9,660	9,835	9,758	9,071	7,676	6,532	-7.5
Fairfield	12,884	13,120	13,323	12,990	10,957	8,976	-7.0
Vacaville	11,515	12,020	12,502	12,596	12,089	11,295	-0.4
Solano County	11,429	11,606	11,578	11,043	9,462	8,178	-6.5

¹ 2011 dollars. Annual calendar year data. Per capita retail sales figures include automotive and service station sales.
Sources: California Board of Equalization; California Department of Finance; Gruen Gruen + Associates.

Consistent with the advent of the Great Recession beginning in 2007, per capita retail sales have declined in Solano County by approximately 28 percent at an annual rate of decline of 6.5 percent. Vallejo’s per capita sales declined at an average annual rate of 7.5 percent. Vallejo’s per capita sales decreased from over \$9,600 in 2004 to approximately \$6,500 in 2009. Although the three largest communities in Solano County all had declining per capita sales over the 2004-2009 period, the productivity of the retail space in both Fairfield and Vacaville on a per capita basis is higher than in Vallejo. Per capita retail sales in Fairfield and Vacaville are one-third to nearly three-quarters higher than per capita sales in Vallejo⁵. This reflects the larger amount of retail space with lower vacancy rates in Fairfield and Vacaville than in Vallejo. The per capita sales trends indicate that the market area from which retail space in Vallejo can draw will be limited by the retail space agglomerations located in Fairfield and Vacaville.

⁵ While the retail centers in Fairfield and Vacaville benefit from accessibility and visibility from I-80, the majority of sales are made to market area residents. According to a May 28, 2009 Urban Decay study by CB Richard Ellis for the 465,000-square-foot Green Valley Plaza in Fairfield, 80 percent of the sales are forecast to be generated by market area residents and 20 percent of sales generated by secondary demand originating from outside the market area including those who live beyond the market area, drive-by commuters, and out-of-town visitors (p.2). In addition, day-time office workers were expected to be a growing source of demand for the proposed center. An interview with the leasing agent of the Gateway Plaza and Gateway Courtyard in Fairfield (two power centers adjacent to Interstate 80 and the Solano Mall) indicates that retailers attracted to the location consider most important market area demographics, including the household and worker base, when deciding to locate at the centers. The amount of pass-through traffic on Interstate 80 has not been an important factor in site selection. An interview with a leading broker also confirmed that the Fairfield and Vacaville centers primarily derive their sales from area residents and workers and don’t depend upon highway travelers and impulse shoppers as significant sources of sales.



CHAPTER IV

**ADVANTAGES AND DISADVANTAGES AS A RETAIL
LOCATION AND IDENTIFICATION OF PRIMARY TRADE AREA**

INTRODUCTION

To gain insight into the consumer motivations and market factors affecting the Solano County Fairgrounds and trade area of which it is a part, GG+A staff inspected the site and surrounding area. GG+A staff conducted interviews with real estate developers, property owners, leasing agents, real estate brokers, and merchants, and reviewed retail supply data. We have synthesized the results of the research and analysis into primary advantages and primary disadvantages of the site for retail uses.

PRIMARY ADVANTAGES THAT ENCOURAGE RETAIL DEMAND

Important advantages associated with the Solano County Fairgrounds site for retail uses include the following:

- Accessibility to Interstate 80 and Highway 37 and highway visibility;
- Located close to a well-established community-serving retail agglomeration on the east side of Interstate 80 across from the site; and
- For restaurant uses, spillover potential associated with Six Flags and Fairgrounds visitation.⁶

PRIMARY DISADVANTAGES THAT DISCOURAGE RETAIL DEMAND

Important disadvantages associated with the Solano County Fairgrounds site for retail uses include the following:

- A location within a community and region with a significant pattern of out-commutation;⁷
- A location not forecast to be the future growth pole in the primary market area;
- A limited professional employment base in vicinity of the site to support weekday/daytime sales;
- Significant external retail competition along the Interstate 80 corridor to both the north and south;
- Heavy traffic congestion during peak visitation hours to the Six Flags amusement park; and

⁶ Our interviews with local retail store managers indicated that Six Flags visitation is not an important source of retail sales. This is consistent with Vallejo's lower per capita retail sales performance than for the County as a whole

⁷ Approximately 80 percent of employed residents of Vallejo, Benicia, and American Canyon commute out of the area for work. Many of these employment centers contain a full array of necessity and discretionary, comparison good shopping opportunities (e.g. Fairfield, Vacaville, San Francisco, and East Bay).



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- Limited connectivity and linkage to existing nearby retail uses (a shopper attracted to the site would not be able to easily access retail uses across I-80 and could not walk to these uses).

THE RELEVANT PRIMARY TRADE AREA FOR RETAIL USES

A primary trade area is the geographic area from which most (i.e. 70 percent or more) customers of a retail store, shopping center or shopping agglomeration are drawn. The trade area for any specific agglomeration or set of stores is a function of the size and tenant make-up, its accessibility, and the scale and tenancies of competing locations. Trade areas are dynamic and tend to change as a function of the type and supply of competing shopping locations. The travel time people are willing to expend in order to visit a shopping or business location varies as a function of both the size of the shopping areas and the relative uniqueness of the tenants and environments available at alternative destinations. The relative accessibility to the shopping area and ease of getting in, about, and out of the shopping area also influence the trade area. Uniqueness, attraction, and accessibility are not measured in the abstract, but are always relative to the specific competition in the trade area.

Existing Retail Agglomerations Constrain Depth of Potential Trade Area

The primary geographic trade area is constrained by well established regional- and community-serving retail centers and agglomerations to the north in Fairfield, Vacaville and Napa, and to the south in Pinole. Table IV-1 summarizes the characteristics of these well-established shopping destinations.



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Characteristics of Retail Agglomerations Near Vallejo				
	<u>Pinole / Richmond</u> I-80 @ Richmond Pkwy	<u>Fairfield</u> I-80 @ Travis Blvd and Texas St	<u>Napa</u> Hwy 29 @ 1 st , Hwy 221 @ Imola Ave	<u>Vacaville</u> I-80 @ Nut Tree Rd
Driving Distance from Fairgrounds	12.9 miles	13.6 miles	15.2 miles	22.5 miles
Major Centers	Pinole Vista Crossing, Hilltop Plaza, Hilltop Mall	Solano Mall, Gateway Plaza, Gateway Courtyard	South Napa Market Place, Napa Premium Outlets, Napa Town Center	Vacaville Premium Outlets, Vacaville Commons, Power Plaza
Total Retail Space # Square Feet	2,100,000	1,700,000	820,000	1,200,000
Major Tenants	Macy's, Wal-Mart, JC Penney, Target, Best Buy, Sears, Century Theatres, Old Navy, Ross, Petsmart, Staples, BevMo, OSH	JC Penney, Best Buy, Old Navy, Macy's, Edwards Cinema, Target, Home Depot, Ross, Michaels, Office Max, Cost Plus, Barnes & Noble, Thomasville	Target, Home Depot, Office Depot, Kohl's, Mc Caulou's, Bose, Kenneth Cole, Gap Outlet, Ann Taylor, American Apparel, BCBG	Target, Walmart Supercenter, Best Buy, Old Navy, Sam's Club, Ross, Big 5, Restoration Hardware, Ann Taylor, BCBG, Marshalls, Banana Republic, Burlington Coat Factory
Sources: Terranomics; Retail Center websites; Loopnet; Gruen Gruen + Associates.				

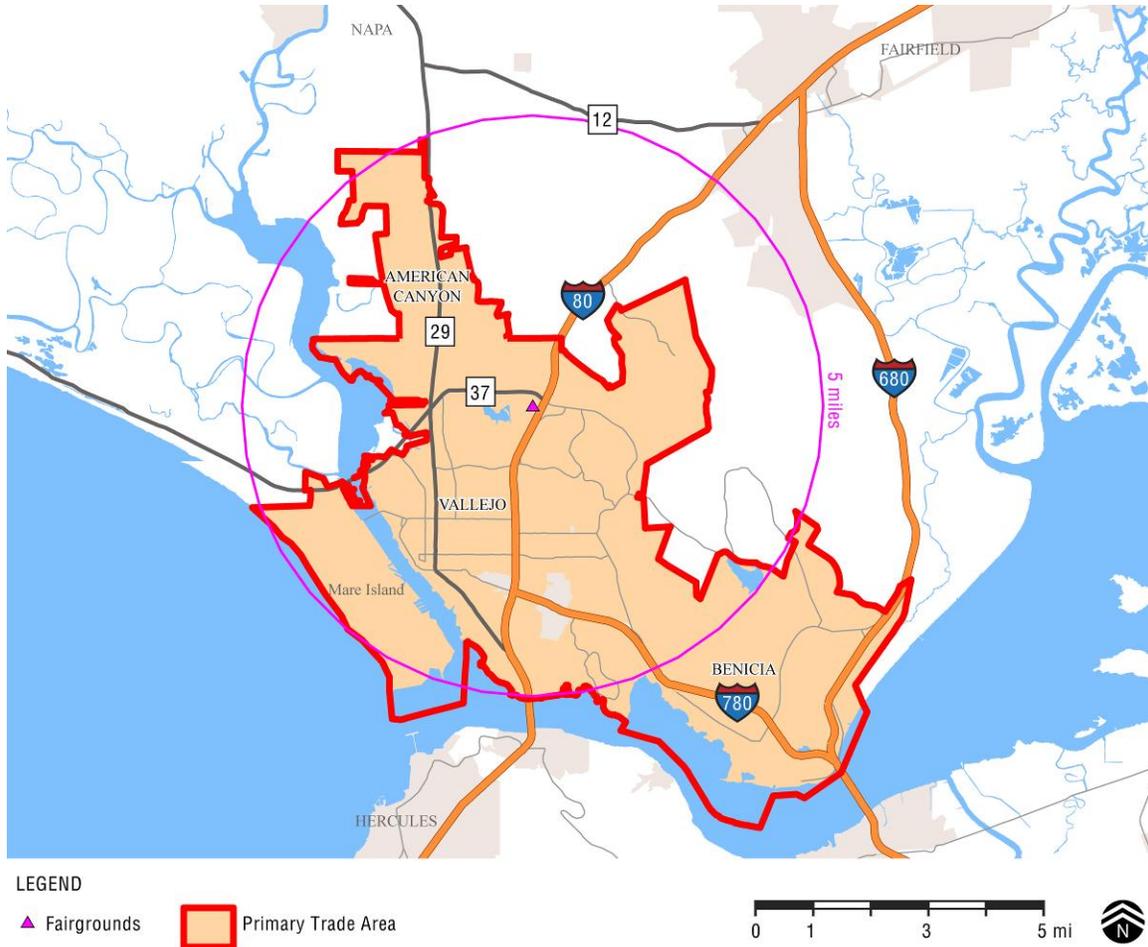
The retailers and retail brokers with whom we spoke consistently indicated that Fairfield has a stronger draw than the existing retail agglomeration just east of the Solano County Fairgrounds site in Vallejo. The Fairfield area at Interstate 80 and Travis Boulevard and Texas Street contains the 1.1-million-square-foot Solano Mall, multiple power centers, and freestanding Target and Home Depot stores. Napa also contains a relatively complete supply of specialty shops, a successful outlet center, some category-killer tenancies (e.g., Home Depot, Office Depot), and general merchandise retailers. When purchasing discretionary items not available in Napa, for example, Napa households and visitors typically head east on Highway 12 to Fairfield. Households south of the Carquinez Bridge are not attracted to shopping areas in Vallejo. The dominant 400,000-square-foot Pinole Vista Crossing power center (anchored by Target) and the 1.1-million-square-foot Hilltop regional mall are less than 15-minutes south of the Fairgrounds on I-80. While located considerably further away from Vallejo, the well-established mix of hard and soft good retailers located in Vacaville is another indication of how trade areas have tended to shrink as the supply of retail space in varying formats has increased over time.



Primary Trade Area Definition

Our interviews with local retail store managers for Home Depot, Best Buy, Bed, Bath & Beyond and Olive Garden and retail real estate brokers, in addition to our review of existing retail supply and driving tours of the area, suggest retail uses of the scale envisioned under the Solano360 Vision Plan are likely to serve a primary trade area including the communities of Vallejo, Benicia, and American Canyon. Map IV-1 below shows the primary trade area definition.

MAP IV-1: PRIMARY TRADE AREA FOR RETAIL USES



The primary trade area boundary – delineated by the municipal limits of Vallejo, Benicia, and American Canyon – approximates a 10-minute drive time to the northwest and south, and a 15-minute drive time to the southeast (into Benicia). Households generally within 5-miles of the Solano County Fairgrounds site are included in the definition (the areas to the northeast of the Fairgrounds between Vallejo and Fairfield remain unpopulated and are not likely to be developed in the future).



CHAPTER V

ESTIMATED SUPPLY OF RETAIL SPACE IN THE PRIMARY TRADE AREA

INTRODUCTION

This chapter summarizes an estimate of the current and future retail supply within the primary trade area, in terms of both on-the-ground space and retail sales. We prepared the estimates based on our site inspections, interviews, and review of secondary market data.

PRIMARY TRADE AREA RETAIL SALES BASE

To identify the current retail sales base of the primary trade area, GG+A obtained taxable sales data from the State Board of Equalization for 2009 (the most recent year available) for the three primary trade area communities (American Canyon, Benicia, and Vallejo). Table V-1 presents an estimate of total retail sales within the primary trade area in 2009.

TABLE V-1	
Estimated Non-Automotive Retail Sales Within the Primary Trade Area: 2009¹	
Store Categories ²	\$
Home Furnishing, Appliance and Building Material Stores	144,997,000
Food and Beverage, Drug and General Merchandise Stores ³	589,653,000
Clothing and Other Retail Stores	156,204,000
Food Services and Drinking	156,389,000
Total Primary Trade Area Sales	1,047,243,000
¹ Includes the communities of Vallejo, Benicia, and American Canyon. Sales have been adjusted to current 2011 dollars. Figures are rounded.	
² Because of disclosure limitations in the general merchandise and home furnishing and appliance categories for the smaller communities of American Canyon and Benicia, the distribution of taxable sales to these categories was made based on the number of permits reported and sales performance of these categories throughout Solano County. For the general merchandise category in American Canyon, which only includes one store (Wal-Mart Supercenter), estimate reflects sales figures reported by the real estate broker for the project.	
³ Taxable sales were adjusted to total sales based on ratios derived from the 2007 Economic Census and sales composition of big-box supercenters (e.g. Wal-Mart and Costco). Assumes that 35 percent of food and beverage store sales are taxable; 30 percent of pharmacy and drug store sales are taxable; and that 85 percent of all other general merchandise store sales are taxable.	
Sources: State Board of Equalization, <i>Research & Statistics Division</i> ; U.S. Census, <i>2007 Economic Census</i> ; Gruen Gruen + Associates.	

Non-automotive retail sales within the primary trade area are estimated to have totaled just over \$1 billion in 2009. Food and beverage, drug and general merchandise store sales are estimated to have comprised the largest source of sales at approximately \$590 million or 56



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percent of total sales. Sales in the home furnishing, appliance and building material store category totaled just under \$145 million in 2009. Sales in the clothing and other retail store categories (i.e. sporting goods, hobby, book, music, toys, office supplies, and novelty stores, etc) totaled \$156 million. Food service and drinking place sales (restaurants and bars) also approximated \$156 million.

RETAIL SUPPLY CHARACTERISTICS

Total Inventory

Table V-2 below summarizes the existing retail inventory within the primary trade area communities of Vallejo, American Canyon, and Benicia.

TABLE V-2				
Primary Trade Area Retail Inventory: 2011¹				
	Total Rentable Space # Square Feet	Available Space # Square Feet	Occupancy Rate %	Average Weighted Rent ² \$ Per Square Foot
American Canyon	542,346	23,383	96	2.23
Benicia	933,112	32,294	97	1.56
Vallejo	6,169,784	622,608	90	1.12
Total	7,645,242	678,285	91	1.18
¹ Includes all types and sizes of retail property.				
² Monthly asking rent.				
Sources: CoStar; Gruen Gruen + Associates.				

According to CoStar, the primary trade area includes approximately 7.6 million square feet of existing retail space. A total of 678,000 square feet of retail space is currently vacant and available within the primary trade area. The overall occupancy rate approximates 91 percent, but as summarized above, Vallejo accounts for more than 90 percent of the available space within the primary trade area. Average asking rents for available retail space in American Canyon of \$2.23 per square foot (monthly) are considerably higher than other locations within the primary trade area. Asking monthly rents average \$1.56 per square foot in Benicia and \$1.12 per square foot in Vallejo. A large proportion of the existing inventory within Vallejo is comprised by very small and older unanchored centers and freestanding stores along Sonoma Boulevard and near the Downtown. The supply of competitive retail space able to accommodate or attract national tenants and mid-scale or box retailers is much smaller than 7.6 million square feet.

Anchored Centers and Competitive Supply

The primary trade area includes approximately 1.95 million square feet of community center, power center, and freestanding big-box retail space. Approximately 255,000 square feet is currently available for lease for an occupancy rate of 87 percent. All of this supply, with the



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exception of the recently developed Napa Junction project in American Canyon, is located in Vallejo. Benicia does not contain any large community or power centers or freestanding big-box retailers. Table V-3 and Map V-1 below summarize the supply of such space within the primary trade area.



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TABLE V-3

Existing Supply of Power Center, Community Center and Freestanding Big-Box Space Within Primary Trade Area

ID	Name	City	Type of Center <i>Year Built/Renovated</i>	GLA # Square Feet	Available Space # Square Feet	Occupancy Rate %	Average Asking Rent ¹ \$ Per Sq. Ft.	Anchors
A	Gateway Plaza	Vallejo	Power <i>1991/2002</i>	560,334	21,308	96	Negotiable	Costco, Century Theatres, Bed Bath and Beyond, Ross, CVS, Old Navy
B	Home Depot	Vallejo	Freestanding	95,443	0	100		
C	Best Buy	Vallejo	Freestanding	44,925	0	100		
D	Kohl's	Vallejo	Freestanding <i>2004</i>	97,732	0	100		
E	Lowe's	Vallejo	Freestanding <i>2010</i>	185,142	0	100		
F	Vallejo Corners	Vallejo	Community <i>1983-1987</i>	212,219	17,113	92	Negotiable	Target, Dollar Tree, Hancock Fabrics
G	Vallejo Plaza	Vallejo	Community <i>1962</i>	246,368	29,190	88	1.37	DD's, Seafood City, Dollar Tree, Big 5
H	Meadows Plaza	Vallejo	Community <i>1991</i>	194,451	131,755	32	1.50	Food 4 Less
I	Sonoma Plaza	Vallejo	Community <i>1977/1990</i>	92,777	52,726	43	Negotiable	Mervyn's (vacant), Lakeridge Fitness
J	Napa Junction	American Canyon	Community <i>2006-2008</i>	215,853	3,110	99	2.72	Wal-Mart Supercenter
	TOTAL			1,945,244	255,202	87		

¹ Asking monthly rents.

Sources: CoStar; Gruen Gruen + Associates.



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The 560,000-square-foot Gateway Plaza power center near the Solano County Fairgrounds site is the largest center within the primary trade area. The center currently includes approximately 21,000 square feet of available space, including a 17,500-square-foot junior anchor space. Four freestanding retailers adjoin Gateway Plaza – Best Buy, Home Depot, Lowe’s and Kohl’s - totaling approximately 390,000 square feet of additional retail space. Home Depot has been at the location for nearly 20 years, while Best Buy took over a former Toys R’ Us store in 2005. Best Buy generates most of its sales from local households. Best Buy generates limited day-time sales from office workers and visitors to Six Flags. The adjoining restaurants generate dinner-time traffic for the store.⁸ The Olive Garden located on an outlot in the Gateway Plaza attracts customers primarily from Vallejo and American Canyon. During the summer months, Six Flags does generate customers for the restaurant, which come for dinner after spending the day at the amusement park. It also generates sales from I-80 travelers.

Lowe’s and Kohl’s were each developed at the location in the past several years. Bed Bath & Beyond, for example, moved into the 42,000-square-foot anchor space in late 2009 subsequent to the chain-wide closing of Linens n’ Things. The primary competition is with the nearby Target. Bed, Bath & Beyond does not receive sales spillover from the Fairgrounds’ activities or Six Flags visitation. Also proximate to the Fairgrounds, adjoining Gateway Plaza, is the 212,000-square-foot Vallejo Corners community center. The center is 92 percent occupied and anchored by a 106,000-square-foot Target store.

The west side of Vallejo contains four community centers along Sonoma Boulevard, totaling approximately 750,000 square feet of space. Each center is more than 20 years old. A considerable amount of vacancy exists given the closure of Mervyn’s and the relocation of Wal-Mart to American Canyon. The former Mervyn’s space consists of 53,000 square feet. The former Wal-Mart store in the Meadows Plaza shopping center contains just over 126,000 square feet of space. According to Terranomics, asking annual rents for the 126,000-square-foot anchor space (now leased to Home Depot, which never opened a second Vallejo store) are in the “low teens.” Asking monthly rents for smaller spaces range from \$1.25 per square foot to \$1.50 per square foot at Vallejo Plaza and Meadows Plaza. The 215,000-square-foot Napa Junction center in American Canyon, anchored by a 175,000-square-foot Wal-Mart Supercenter, contains 3,100 square feet of available shop space at an average asking rent of \$2.72 per square foot. The project was built in 2006.

As summarized below in Table V-4, the prevailing pattern of low rents and high vacancy applies also to smaller neighborhood serving uses within the primary trade area; particularly those in Vallejo. Neighborhood and strip centers within American Canyon and Benicia, although fewer in number, have higher occupancy rates with higher asking rents. The primary trade area includes approximately 1.4 million square feet of anchored neighborhood center and smaller strip center retail space (not including centers or freestanding stores smaller than 25,000 square feet in size, which in Vallejo, are numerous). Park Place is the dominant grocery-anchored shopping center in the trade area. The property’s anchor grocery tenant, Raley’s, is well-established in the trade area.

⁸ Because of the limited employment base, lunch time sales at local restaurants are relatively low. For example, Black Angus has stopped opening for lunch given the limited daytime traffic.



The Market for Retail, Office, Hotel and Event Space at the Solano County Fairgrounds

TABLE V-4

Neighborhood-Serving Retail Supply Within Primary Trade Area

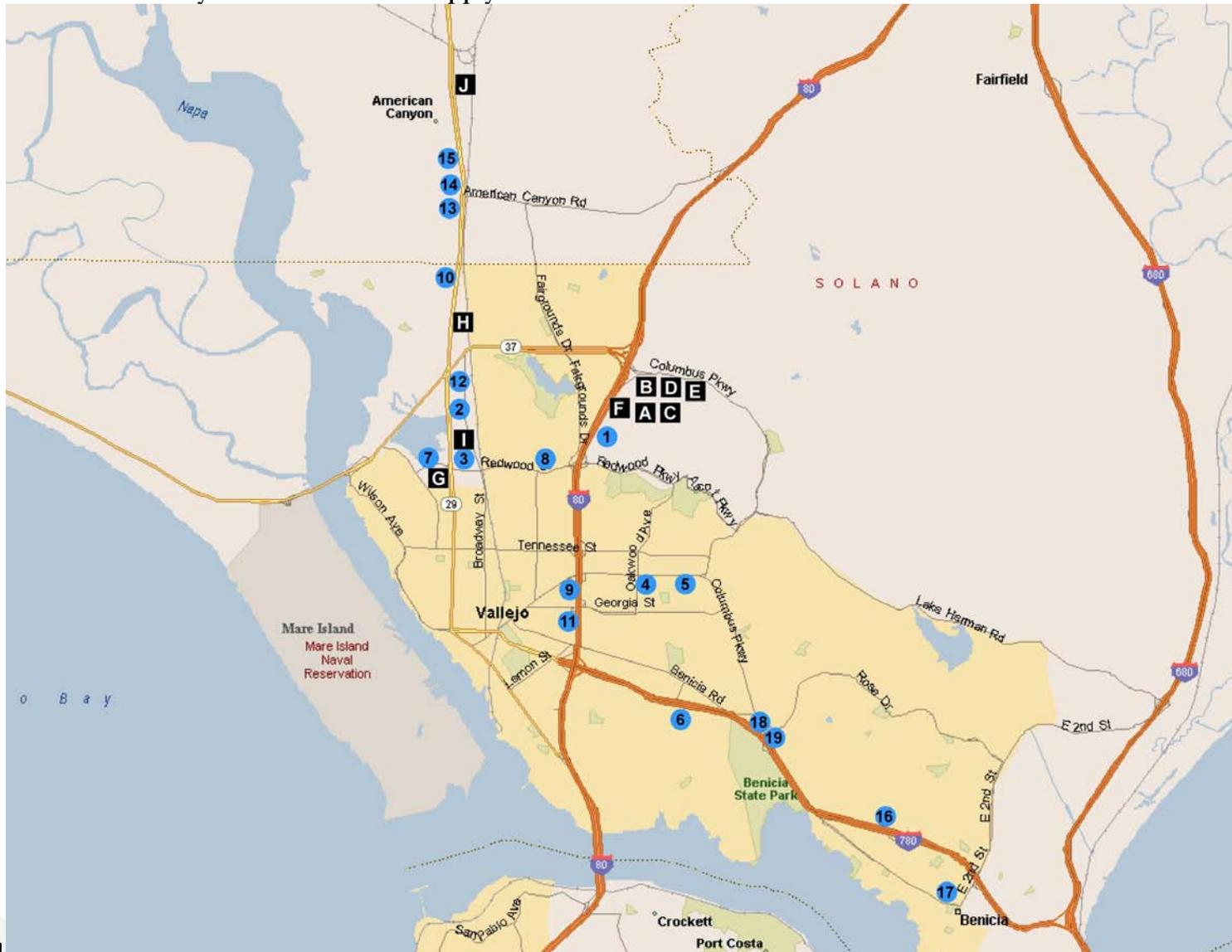
ID	Name	City	Type of Center	Year Built / Renovated	GLA # Square Feet	Available Space # Square Feet	Occupancy Rate %	Average Asking Rent \$ Per Square Foot	Anchors
1	Redwood Plaza	Vallejo	Neighborhood	1982	98,249	12,100	88	Negotiable	Safeway
2	Park Place	Vallejo	Neighborhood	1987	151,556	23,741	84	1.50	Raley's, 24-Hour Fitness
3	CVS Center	Vallejo	Neighborhood	1977	107,000	1,800	98	1.00	CVS
4	Springstowne Center	Vallejo	Neighborhood	1982	103,653	0	100		99 Cents Only
5	Springhill Center	Vallejo	Neighborhood	1965	49,141	12,628	74	1.00	Walgreens
6	Glen Cove Center	Vallejo	Neighborhood	1990	66,000	3,253	95	Negotiable	Safeway
7	Redwood Square	Vallejo	Strip	1990	27,250	1,800	94	0.90	
8	Lucky Food Center	Vallejo	Neighborhood	2005	79,898	7,400	91	1.77	Lucky grocery
9	Solano 80	Vallejo	Neighborhood	2010	120,301	23,200	81	1.25	Rite Aid, Harbor Freight Tools
10	Rancho Square	Vallejo	Strip	1977	30,058	10,800	64	1.50	
11	Safeway Center	Vallejo	Neighborhood		60,000	0	100		Safeway (freestanding)
12	Vallejo Village	Vallejo	Strip		41,000	7,000	83	1.25	
13	American Canyon Market Place	American Canyon	Neighborhood	2001	76,678	1,059	99	Negotiable	Safeway
14	Canyon Corners	American Canyon	Neighborhood	2006	87,678	1,399	98	2.50	Ultimate Fitness
15	Canyon Plaza	American Canyon	Strip	2001-2004	43,060	11,835	73	2.00	
16	Southampton Center	Benicia	Neighborhood	1984	155,868	4,807	97	Negotiable	Raley's, Ace Hardware
17	Solano Square	Benicia	Neighborhood	2000	76,788	1,200	98	Negotiable	Safeway, Rite Aid
18	Rose Center	Benicia	Neighborhood	2007	33,450	2,636	92	2.25	CVS
19	Parkway Plaza	Benicia	Strip	1991	32,260	1,200	96	2.00	
	TOTAL				1,439,888	127,858	89		

¹ Asking monthly rents.

Sources: CoStar; Terranomics; Loopnet; Gruen Gruen + Associates.



MAP V-1: Primary Trade Area Retail Supply



FUTURE RETAIL SUPPLY WITHIN PRIMARY TRADE AREA

The primary source of future retail supply within the primary trade area is the third phase of the Napa Junction development in American Canyon, the previous phase of which includes the 175,000-square-foot Wal-Mart Supercenter and smaller shop space tenants. The 13-acre site, adjacent to Highway 29, is fully entitled for up to 131,500 square feet of additional retail space for mid-size tenants, pads and in-line shop space. This project can be expected to represent formidable competition for the attraction of retail tenants, both existing and new to the market, given its proximity to the Wal-Mart Supercenter. Our interviews with brokers indicate the Wal-Mart captures households from an extended geographic area and generates weekly sales of greater than \$2 million. A Walgreen's-anchored center of approximately 27,000 square feet is also currently under construction in American Canyon.

Adjacent to the Napa Junction project, the 160-acre American Canyon Town Center project has been planned for nearly a decade. There is no formal development program at this time, but the project is reportedly planned to be primarily residential in nature (+/- 1,600 housing units) with a commercial and mixed-use town center component. Developer and City representatives could not be reached, but the project has not yet gone through the EIR process and local media suggest the future of the project is uncertain given disagreements between LAFCO and the City regarding annexation.⁹ Note, this project is identified as potential future supply competition given the long-term perspective of the Solano 360 Vision Plan, but we do not include it in the retail supply-demand model because of its preliminary and uncertain nature.

⁸ Napa Valley Register, "New American Canyon Town Center stirs disagreement," May 16, 2010.



CHAPTER VI

**POTENTIAL RETAIL DEMAND AND
RELATIONSHIP BETWEEN RETAIL SUPPLY AND DEMAND**

INTRODUCTION

This chapter presents an estimate of retail demand within the primary trade area. Retail demand primarily depends upon the amount of disposable income available within the trade area, which is influenced by population and income factors. Estimating potential retail demand also requires the identification of the share of income spent on retail goods. Not all internally-generated demand is satisfied in a primary trade area. Some potential demand within the primary trade area is lost to retailers outside the trade area. Conversely, retail sales in a trade area will be made to customers such as nonresident workers and visitors to the primary trade area. In order to estimate the future demand for retail goods and services in the primary trade area, we consider the expenditure potential of current and potential future primary trade area households. Potential demand related to non-resident workers and visitors is not considered because: (1) input from multiple local retailers suggest workers and visitors do not generally comprise an important source of sales; and (2) the number of primary trade area residents leaving the area for work is considerably larger than the number of non-residents which commute into the primary trade area for employment.¹⁰ Thus, the outflow and inflow of retail dollars associated with workers is likely to be negative, although, for this analysis, we assume this spending is in balance.

**ESTIMATE OF RETAIL EXPENDITURE POTENTIAL
ATTRIBUTABLE TO PRIMARY TRADE AREA HOUSEHOLDS**

Retail Expenditure Patterns

In order to estimate the potential purchasing power of primary trade area households, we reviewed the Bureau of Labor Statistics' *Consumer Expenditure Survey* for the San Francisco Metropolitan Statistical Area and the Western United States. As shown on Table VI-1, the *2008-2009 Consumer Expenditure Survey* for the San Francisco MSA¹¹ indicates that households in the region expend approximately 19.8 percent of their before-tax income on non-automotive retail goods and services. Households throughout the entire Western United States, which include on average much lower incomes and lower housing expenditures, spend approximately 24 percent of their before-tax income on non-automotive retail goods and services.

¹⁰ According to the U.S. Census Bureau's Center for Economic Studies, in 2009, approximately 53,000 primary trade area residents commuted to outside employment centers. Only 30,000 non-resident workers commuted into places of employment within the primary trade area.

¹¹ The average consumer unit for the San Francisco MSA included 2.5 persons and had an annual before-tax income of \$91,330.



TABLE VI-1

Percentage of Income Spent on Various Retail Goods and Services

<i>Expenditure Category</i>	San Francisco MSA ¹ 2008-2009 %	Western U.S. ² 2009 %
Food at Home	4.7	6.2
Food Away from Home	4.0	4.4
Housekeeping Supplies	0.6	1.0
Household Furnishings and Equipment	2.1	2.5
Apparel and Services	2.6	2.9
Entertainment ³	3.6	4.7
Personal Care Products and Service	1.0	1.0
Other ⁴	1.2	1.4
Total Non-Automotive Retail⁵	19.8	24.0

¹ The average before-tax income for San Francisco MSA consumer units sampled in the survey approximated \$91,300.

² The average before-tax income for Western U.S. consumer units approximated \$65,300.

³ Includes fees and admissions to entertainment events and venues, and expenditures on television, video, audio, and related electronic goods; pet, hobby and toy-related goods; and sporting goods and recreational equipment.

⁴ Includes reading materials, tobacco products and alcoholic beverages.

⁵ Excludes automotive related items (gas, vehicles, equipment and parts, etc) and some healthcare and drugstore-related related goods (such as prescription and non-prescription drugs).

Sources: Bureau of Labor Statistics, *Consumer Expenditure Survey*; Gruen Gruen + Associates.

The largest share of household income is spent on food, which accounts for approximately nine percent of household income expenditures in the San Francisco MSA and just under 11 percent throughout the entire Western U.S. The results of the Consumer Expenditure Survey indicate that San Francisco MSA households expended approximately 4.7 percent of their income on food-related goods for consumption and preparation at home (i.e. groceries). Expenditures for food away from home (i.e. eating or dining out) approximated four percent of income. With slightly larger household sizes, food expenditures throughout the Western U.S. are on average higher as a share of income.

The average San Francisco MSA household spent approximately 2.7 percent of their before tax income on household-related items, including housekeeping supplies, furnishings and textiles, appliances, and other equipment. Expenditures on apparel and accessories (such as jewelry, watches or footwear) represented approximately 2.6 percent of income. Entertainment expenditures, the third largest category of expenditures, totaled 3.6 percent of income. This includes admissions and fees to various entertainment activities/venues (sporting events, theatres, museums, etc.) in addition to purchases of entertainment and recreational-type goods (predominately items such as electronics, pet and hobby supplies,



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and sporting goods).

Table VI-1 above summarizes average household expenditures by type of good. Based on taxable sales data reported in 2009 for the State of California, Table VI-2 below summarizes estimated retail expenditures by store type, expressed as a share of total personal income. Food store, drug store, and general merchandise sales have been adjusted based on the 2007 Economic Census to reflect estimated proportions of non-taxable retail sales.

Estimated Percentage of Income Spent at Various Types of Retail Stores	
<i>Store Category</i>	California ¹ 2009 <u>% of Income</u>
Home Furnishing and Appliance Stores	1.4
Bldg. Matrl. and Garden Equip. and Supplies	1.5
Food and Beverage Stores ²	4.1
Clothing and Clothing Accessories Stores	1.6
General Merchandise Stores ²	3.3
Health and Personal Care Stores ²	1.6
Food Services and Drinking Places	3.2
Other Retail	1.7
Total Non-Automotive Retail Stores	18.4
¹ Per capita income in California in 2009 was estimated at \$42,500. ² Based on the relationship between taxable sales in 2007, and sales estimated in the 2007 Economic Census, estimates have been adjusted to reflect the proportion of non-taxable sales at food and beverage stores, drug stores, and general merchandise stores.	
Sources: California Board of Equalization; U.S. Census, <i>2007 Economic Census</i> ; Bureau of Economic Analysis; Gruen Gruen + Associates.	

As a share of total income, total retail sales in California in 2009 approximated 18.4 percent. Food and beverage store sales were estimated to represent 4.1 percent of personal income in 2009, while general merchandise store sales made up 3.3 percent. Sales at food service and drinking places (e.g. restaurants) also comprised 3.2 percent of personal income in 2009.

Estimated Retail Expenditure Potential of Primary Trade Area Households

Table VI-3 below presents a current and future estimate of the number of households, average household income, and total available household income within the primary trade area.



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TABLE VI-3			
Estimate of Primary Trade Area Households and Available Household Income: 2010 – 2020			
	2010	2020	2010-2020 Change
Households	56,902 ¹	60,421 ²	3,519
Average Household Income ³	\$83,510	\$83,510	n/a
Total Household Income	\$4,751,859,063	\$5,045,729,086	\$293,870,023
¹ 2010 Census estimate. ² Based on long-term household growth rates forecast by ABAG and the MTC for the 2010-2035 period, as presented in the March 11, 2011 “Bay Area Plan” Initial Vision Report. ³ Average household income adjusted to current dollars (based on 2009 estimates for each community). Assumes no real income growth occurs over the 10-year period. Sources: U.S. Census; ABAG/MTC “Bay Area Plan” Initial Vision Report, March 11, 2011; Gruen Gruen + Associates.			

Based on 2010 Census results and income estimates from the American Community Survey for each community included in the primary trade area definition, total available household income is estimated to currently approximate \$4.75 billion. The primary trade area contains 56,902 households and average household income is estimated at approximately \$83,500.

Based on household growth rates prepared by ABAG and the MTC for the primary trade area communities, the total number of households is forecast to increase by 3,519, or 6.2 percent, over the 2010 to 2020 period. Assuming real average household income of \$83,510, total household income is forecast to grow by \$294 million to \$5.05 billion by 2020.

To estimate retail expenditure potential of primary trade area households, based on the previously reviewed rates and patterns of expenditures, we assume an overall expenditure rate of 20 percent for all non-automotive retail goods and services.¹² Table VI-4 summarizes the estimated expenditure potential of primary trade area households.

¹² As described in more detail in Appendix B, given the persistently high unemployment rates in the region and Vallejo (which currently exceeds 14 percent) and corresponding wage and income pressures, and an increasing proportion of retail expenditures made online, it is unlikely that retail expenditure rates will return to historical levels that supported strong sales in the robust retail environment of the prior decade. Within Solano County, according to the Federal Reserve Bank of San Francisco, Vallejo continues to exhibit the highest rates of foreclosure with the share of mortgage loans in foreclosure exceeding eight percent in some parts of the City.



<i>Store Type</i>	Expenditure Rate ¹ %	2010 Expenditure Potential \$	2020 Expenditure Potential \$
Home Furnishing, Appliance and Building Mtrl	3.2	152,059,490	161,463,331
Food and Beverage, Drug and Personal Care	6.2	294,615,262	312,835,203
General Merchandise Stores	3.6	171,066,926	181,646,247
Clothing Stores	1.8	85,533,463	90,823,124
Other Retail Stores	1.8	85,533,463	90,823,124
Food Services and Drinking	3.4	161,563,208	171,554,789
Total	20.0	950,371,813	1,009,145,817
2010 – 2020 Growth		58,774,005 (6.2%)	
¹ Total expenditure rate allocated to various store types based on proportion of expenditures by category summarized in Table VI-2.			
Source: Gruen Gruen + Associates			

The total 2010 retail expenditure potential of primary trade area households is estimated at just over \$950 million. Food, beverage, drug and personal care store expenditure potential attributable to primary trade area households is estimated at \$295 million, or approximately 30 percent of total expenditure potential. General merchandise store expenditure potential is estimated at \$171 million. Expenditure potential for food service and drinking establishments is estimated at \$162 million, and \$152 million for home furnishing, appliance and building material stores. The expenditure potential for clothing and all other retail stores is estimated at a combined \$171 million.

Given the forecast of potential primary trade area household growth and total household income between 2010 and 2020, total retail expenditure potential is forecast to grow by six percent, or \$58.8 million, to just over \$1 billion by 2020.

RELATIONSHIP BETWEEN RETAIL DEMAND AND SUPPLY

In order to convert estimates of expenditure potential or purchasing power demand into estimates of demand for on-the-ground retail space, an assumption must be made as to the averages sales per square foot required for tenants to viably operate and landlords to obtain high enough rents to amortize development costs, adequately maintain property, and provide satisfactory return on investment. Assuming a sales per square foot threshold of \$300 to \$350 per square foot¹³, primary trade area households are capable of supporting

¹³ According to the Urban Land Institute's *2008 Dollars and Cents of Shopping Centers* publication, community and super-community centers in the Western United States average sales of \$331 per square foot. Neighborhood shopping centers in the Western United States, which most often include grocery store anchors that require higher sales per square foot



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approximately 2.7 million to 3.2 million square feet of retail space. Table VI-5 summarizes the relationship between current and potential 2020 retail space demand and supply within the primary trade area.

TABLE VI-5		
Relationship Between Retail Space Demand and Supply Within the Primary Trade Area		
	2010 # Square Feet	2020 # Square Feet
Demand for Retail Space @ \$300 to \$350 Per Square Foot ¹	2,715,000 - 3,168,000	2,883,000 - 3,364,000
Supply of Retail Space	3,385,000	3,544,000
<i>Existing Supply</i> ²	<i>3,385,000</i>	<i>3,385,000</i>
<i>Potential Future Supply</i> ³	-----	<i>159,000</i>
Unmet Space Demand (Supply Surplus)	(217,000) – (670,000)	(180,000) – (661,000)
¹ Based on trade area expenditure potential of \$950,371,813 in 2010 and \$1,009,145,817 in 2020. ² Not including smaller centers and freestanding stores in the primary trade area of less than 25,000 square feet. ³ Not including potential longer-term additions of retail space not yet entitled (such as the American Canyon Town Center) or any other potential future supply other than the third phase of the Napa Junction development and Walgreen’s-anchored center in American Canyon.		
Source: Gruen Gruen + Associates		

The existing supply of retail space within the primary trade area of just under 3.4 million square feet (not including supply smaller than 25,000 square feet in size) exceeds demand for on-the-ground space by approximately 217,000 to 670,000 square feet. By 2020, primary trade area households are forecast to support approximately 2.9 million to 3.4 million square feet of on-the-ground retail space. Including the entitled future supply of 159,000 square feet of retail space in American Canyon, identified future supply is estimated to total approximately 3.5 million square feet of space.¹⁴

Accordingly, the amount of retail space within the primary trade area is estimated to exceed potential retail demand from today through 2020. In 2020, the amount of retail space within the primary trade area is forecast to exceed potential retail demand by approximately 180,000 to 660,000 square feet of space. When considering the number of smaller, unanchored retail spaces in the trade area (especially those centers and freestanding facilities located in Vallejo), the magnitude of the retail space surplus is even greater. This imbalance between the demand for-and supply-of on-the-ground space explains the relatively high retail vacancy

thresholds to operate viably given low per-unit margins, generate higher average sales of \$364 per square foot.

¹⁴ The estimate of potential future retail supply does not reflect any additions of retail space not yet entitled (such as the American Canyon Town Center) or any other potential future supply that could arise between the study date and 2020, other than the third phase of the Napa Junction development in American Canyon and a small Walgreen’s-anchored center.



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rates and reduction in obtainable rents that has occurred. It also suggests any new retail development in the market area would need to siphon off sales at existing facilities.

While the above presents an estimate of the relationship between retail space and retail demand, based on the estimate of sales within the primary trade area retail sales presented in Chapter V, Table VI-6 below compares expenditure potential of primary trade area households to actual sales within the primary trade area.

Store Category	Actual Sales ¹ \$	Expenditure Potential \$
Home Furnishing, Appliance and Building Material Stores	144,997,000	152,059,000
Food and Beverage, Drug and General Merchandise Stores ³	589,653,000	465,682,000
Clothing and Other Retail Stores	156,204,000	171,155,000
Food Services and Drinking	156,389,000	161,563,000
Total Primary Trade Area Sales	1,047,243,000	950,372,000
¹ Presented in current dollars, based on taxable sales reported in calendar year 2009. See Table V-1.		
Sources: State Board of Equalization, <i>Research & Statistics Division</i> ; U.S. Census, <i>2007 Economic Census</i> ; Gruen Gruen + Associates.		

We estimate that primary trade area households generate \$950 million of annual non-automotive retail expenditures. Non-automotive retail sales in 2009 are estimated to have totaled \$1.05 billion; a difference of only nine percent. Significant unmet demand for retail goods and services does not apply to any of the major store segments included above. The only category that appears to include a measurable surplus of sales relative to demand within the primary market area is necessity-related: food and beverage stores, drug stores and general merchandise stores. This reflects the extensive draw of the Wal-Mart Supercenter in American Canyon and the Costco at the Gateway Center, which generate very high sales per square foot and in total. The Wal-Mart store in American Canyon attracts households from well beyond the primary trade area definition (thus explaining some portion of the surplus of sales relative to expenditure potential from households within the primary trade area).

The difference between annual home furnishing, appliance and building material stores sales and household expenditure potential is estimated to differ by only \$7 million. This minimal gap will be more than offset the recent opening of Lowe’s (adjacent to the Gateway Plaza) and the attraction of Bed Bath & Beyond to the formerly vacant Linen n’ Things space at Gateway Plaza.¹⁵ Similarly, the relative gap between food service and drinking place sales and expenditure potential is very small at only \$5 million. This leakage of expenditure potential likely relates to the pattern of employed members households leaving the primary

¹⁵ Bed Bath & Beyond did not open until the fall of 2009, so the effect of this addition is not fully reflected in the 2009 taxable sales data used to the prepare the estimated summarized above in Table VI-6.



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trade area for work, and proximity to destination locations in Fairfield and Napa which contain considerably greater casual and fine dining opportunities.

The margin between clothing and miscellaneous retail store sales and household expenditure potential is estimated at approximately \$15 million or 10 percent. However, given the strength of the local grocery, drug and general merchandise store base, this does not indicate substantial or unmet demand for apparel and other discretionary retail goods. The leakage of these household expenditures are more than likely captured by local general merchandisers or by specialty retailers located near the primary trade area in regional malls and outlet centers in Fairfield, Napa, and Vacaville.

The synthesis of the quantitative analysis of the relationship between retail demand and supply and interviews with brokers and merchants and consideration of demographic, income and consumer behavior trends reviewed above indicate the following:

- The primary trade area is likely to continue to experience limited population, household and income growth in comparison to Solano County as a whole;
- The competition for expenditures of consumers will be highly intense for the foreseeable future;
- A relatively complete supply of hard and soft good retailers is located in the primary trade area as well as in the northern part of Solano County and south of the primary trade area;
- The supply of retail space built at high rates prior to the Great Recession caused trade areas in and near Solano County to decline;
- The Internet has created increasing shopping opportunities from homes and workplaces, which also helps time constrained households to make the most efficient use of time;
- A decline in housing values, a decrease in the value of retirement plans, job insecurity, downward pressure on income and wages, high debt levels attributable to school loans, automobiles, and credit cards along with changing consumer shopping attitudes and patterns indicate consumer expenditures on retail goods and services will not return to former higher pre-Great Recession levels even after the labor market and economy recover;
- The magnitude of the estimated excess supply or sales capacity relative to potential demand suggests that new retail development will depend upon siphoning off existing sales to succeed;
- Given the availability of existing space at below replacement costs,



“backfilling” of space vacated by other retailers will likely occur before new development;

- As described in Appendix C, due to conditions, trends, and shifts described in Appendix C of this report, the probabilities of attracting an “iconic destination retailer” (e.g., Bass Pro or Cabela’s) that because of its magnetism would serve as a development and visitor-attracting catalyst of the type previously envisioned are low or would require significant governmental incentives. Retailing, however, has and will continue to undergo revolutionary shifts driven by continuous changes in demographics, attitudes, and tastes of consumers and technology. Retail operates under the law of creative destruction. Formats will change and new concepts will still arise and thrive. Therefore, the planning of the redevelopment of the Fairgrounds should provide for opportunities, should they arise, for capturing exciting new retail uses, in conjunction with the enhancement and potential addition of entertainment anchors. Such uses are likely to relate to the consumer preference shifts to a focus on compelling value (the best combination of price, brand, convenience, and delight) and experiential shopping (which may include education, recreation and entertainment components). Given both Six Flags and the Fair draw heavily on weekends, a potential compatible use would include outlet retail¹⁶; and
- It will be highly challenging for the amount and type of retail space proposed at the Solano County Fairgrounds site to be feasibly supported.

¹⁶ The market potential and real estate economics of outlet retail would need to be evaluated but the interviews indicate a waiting list exists for space at the Napa Premium Outlets Center; and the site serves as a gateway to the wine country tourism market and is also more centrally located and accessible to the dense urban Bay Area consumer population than is the Vacaville Premium Outlets center in Vacaville. In addition, outlet retail at the site could in concert with eating and drinking establishments not abundant at the Vacaville Premium Outlets center and the existing and potential added entertainment uses to be part of the overall recreational/entertainment experience that distinguishes the offering from standard outlet centers.



CHAPTER VII

**STRUCTURE AND FORECAST OF
EMPLOYMENT BASE OF SOLANO COUNTY**

INTRODUCTION

This chapter presents an analysis of the economic structure of Solano County and a forecast of the potential future employment by economic sector. The results of the analysis of employment trends and employment forecast serve as inputs into GG+A's forecasts for the demand for office space presented in Chapter VIII.

SOLANO COUNTY EMPLOYMENT TRENDS

Table VII-1 shows historical non-farm employment by industry sector for Solano County from 1990 through 2010.

TABLE VII-1

Total Non-Farm Employment by Industry Sector in Solano County: 1990-2010

Industry Sector	1990 #	1995 #	2000 #	2005 #	2010 #	Change 1990- 2010 #	Change 1990- 2010 %	Average Annual Growth Rate 1990- 2010 %
Construction	7,100	6,500	10,200	13,800	7,400	300	4.2	3.7
Manufacturing	7,400	8,600	10,300	9,300	8,900	1,500	20.3	3.4
Wholesale Trade	2,100	2,300	3,600	4,400	4,200	2,100	100.0	5.5
Retail Trade	14,300	15,400	16,500	18,600	16,300	2,000	14.0	1.4
Transportation, Warehousing & Utilities	3,200	3,500	3,300	4,700	4,500	1,300	40.6	0.3
Information	1,400	1,600	1,700	1,700	1,600	200	14.3	2.0
Financial Activities	3,400	3,400	3,800	6,300	4,700	1,300	38.2	1.1
Professional & Business Services	5,000	6,600	11,500	11,300	11,300	6,300	126.0	8.7
Educational & Health Services	9,300	10,400	13,700	15,800	18,900	9,600	103.2	4.2
Leisure & Hospitality	9,600	10,800	12,000	12,600	12,900	300	3.1	1.5
Other/Personal Services	3,900	3,600	4,000	4,200	4,000	100	2.6	0.3
Federal Government	13,300	7,200	4,400	4,000	4,500	-8,800	-66.2	-5.3
State & Local Government	16,100	17,600	20,100	21,500	19,900	3,800	23.6	1.1
Total Employment	96,100	97,500	115,100	128,200	119,100	23,200	24.2	1.1

Sources: California Employment Development Department; Gruen Gruen + Associates.

Between 1990 and 2010, total County employment has grown by 1.1 percent annually. Employment peaked in Solano County in at nearly 129,000 jobs in 2006. Most of the



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growth from 1990 to 2006 occurred in construction, educational and health services, professional and business services, and leisure and hospitality industries. This high rate of employment growth relates to the robust population and household growth experienced in Solano County during this period. Professional and business services experienced the most rapid growth at nearly nine percent annually over the 20-year period although off a small base of jobs. The high degree of correlation between population growth and increases in professional services employment indicate that many professional service firms in the County primarily serve the demands of local households and businesses as opposed to exporting their services beyond the County. This finding is also confirmed by the interviews conducted. Since 2006, total employment has decreased eight percent, primarily in construction, financial activities, and state and local government. Of the 9,700 jobs lost since 2006 in the County, over half of the job losses have been in the construction sector with another 38 percent of job losses in financial activities and state and local government.

Jobs in the financial activities, professional and business services, and government are generally recognized as the primary office space-using industries. Future office space demand will depend upon growth in the financial, professional, medical, and government sectors. While other goods-producing and trade sectors also require office space to house their managerial and professional type workforce, they typically make-up a small share of office space demand. Employment in the finance activities sector, the economic sector most associated with the use of office space, peaked at 6,300 jobs in 2005 and has decreased to approximately 4,700 jobs in 2010. Professional and business services employment peaked at 11,500 jobs in 2006 and 2007, declined in 2008, but has rebounded almost back to its peak level of 11,300 jobs in 2010.

Table VII-2 shows non-farm industry employment as a proportion of total employment in Solano County.



TABLE VII-2

**Private Industry Employment as Percentage of
Total Employment in Solano County: 1990-2010**

Industry Sector	1990 %	1995 %	2000 %	2005 %	2010 %	Change in Percentage Points From 1990 to 2010
Construction	7.4	6.7	8.9	10.8	6.2	-1.2
Manufacturing	7.7	8.8	8.9	7.3	7.5	-0.2
Wholesale Trade	2.2	2.4	3.1	3.4	3.5	+1.3
Retail Trade	14.9	15.8	14.3	14.5	13.7	-1.2
Transportation, Warehousing & Utilities	3.3	3.6	2.9	3.7	3.8	+0.5
Information	1.5	1.6	1.5	1.3	1.3	-0.2
Financial Activities	3.5	3.5	3.3	4.9	3.9	+0.4
Professional & Business Services	5.2	6.8	10.0	8.8	9.5	+4.3
Educational & Health Services	9.7	10.7	11.9	12.3	15.9	+6.2
Leisure & Hospitality	10.0	11.1	10.4	9.8	10.8	+0.8
Other/Personal Services	4.1	3.7	3.5	3.3	3.4	-0.7
Federal Government	13.8	7.4	3.8	3.1	3.8	-10.0
State & Local Government	16.8	18.1	17.5	16.8	16.7	-0.1
Total	100.0	100.0	100.0	100.0	100.0	

Sources: California Employment Development Department; Gruen Gruen + Associates.

Government employment has and continues to remain the largest source of employment in the County, although federal government employment has declined substantially with the closure of Mare Island Naval Shipyard in the mid 1990's. Three sectors comprise nearly half the job base in the County: state and local government; educational and health services; and retail trade. Employment in the professional and business services sector has grown substantially since 1990 doubling its share of the employment base from five percent in 1990 to nearly 10 percent. This sector, however, represents only the fifth largest sector in the County. Financial activities employment share has remained relatively stable and a small share of total employment at less than four percent of total County employment over the past 20 years. As indicated above, this sector is associated most closely with the consumption of office space.

Although employment in the finance, insurance and real estate sector increased by 500 jobs, as a share of total employment, the finance, insurance, and real estate sector declined during the 15 year period by nearly two percentage points to less than six percent of total employment in 2005. Retail trade employment at 15 to 16 percent of total employment between 1990 and 2005 and wholesale trade employment at 5.7 percent in 1990 and 5.5 percent in 2005 have maintained relatively stable shares of total County employment.



REGIONAL EMPLOYMENT FORECAST

To forecast long-term employment growth by industry sector, we rely upon a secondary forecast prepared by the Business Forecasting Center at the University of Pacific.¹⁷ This forecast for the Vallejo-Fairfield MSA (Solano County) covers a period of five years, extending from the fourth quarter of 2010 through the fourth quarter of 2015. We have extended the forecast through 2020 given present supply conditions which make it unlikely office space potentially developed at the Site would be delivered prior to 2015. We have also reviewed long-term employment projections by the California Employment Development Department. Table VII-3 summarizes the employment forecast for the County by economic sector.

¹⁷ The Business Forecasting Center at the University of the Pacific produces quarterly economic forecasts of California and 11 Metropolitan areas from Sacramento to Fresno and the San Francisco Bay Area. The forecasts are derived from a regional econometric model, with particular emphasis on the Bay Area and Central Valley regions. The forecasts also reflect the Forecasting Center's own judgment and opinion on future conditions, given local knowledge of each metropolitan area.



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TABLE VII-3

Employment Forecast for the Vallejo-Fairfield MSA: 2010-2020¹

Industry Sector	2010 ² # Jobs	2015 ² # Jobs	2020 ³ # Jobs	Change 2010-2020 # Jobs	Change 2010-2020 % Jobs	Avg. Annual Growth Rate %
Construction & Mining	7,500	10,100	11,700	4,200	56.0	4.5
Manufacturing	8,900	10,000	10,800	1,900	21.3	2.0
Wholesale Trade	4,200	5,000	5,800	1,600	38.1	3.3
Retail Trade	16,100	17,200	17,700	1,600	9.9	1.0
Transportation, Warehousing & Utilities	4,200	5,400	6,200	2,000	47.6	4.0
Information	1,500	1,800	2,100	600	40.0	3.4
Financial Activities	4,600	4,800	4,800	200	4.3	0.4
Professional & Business Services	10,900	13,500	15,700	4,800	44.0	3.7
Educational & Health Services	18,900	20,800	22,900	4,000	21.2	1.9
Leisure & Hospitality	13,200	14,300	14,800	1,600	12.1	1.2
Other Services	4,100	4,400	4,700	600	14.6	1.4
Government	24,100	24,300	25,600	1,600	6.6	0.6
Total Non-Farm	118,200	131,600	142,900	24,700	20.9	1.9

¹ Estimates represent the fourth quarter of each year. Figures are rounded.

² Forecast estimates from the University of the Pacific's Business Forecasting Center.

³ Forecast estimates prepared by GG+A. Based upon an extrapolation of growth forecast to occur between 2013-2015 (the period in which the job base is expected to begin to stabilize, experiencing less dramatic year-over-year changes). In other words, we applied the average annual growth rates from 2013-2015 and extended them out by an additional five years to the fourth quarter of 2020. In light of projected household growth, we have adjusted downwards the extrapolated growth rates for construction and professional services to three percent annually for the 2015-2020 period.

Source: University of the Pacific, Business Forecasting Center, *April 2011 Forecast*; Gruen Gruen + Associates.

From 2010 to 2020, approximately 25,000 jobs are forecast to be added in the Vallejo-Fairfield MSA. This represents about 49 percent of the job growth that ABAG/MTC forecast for Solano County by 2035 and shown on Table II-5 in Chapter II. The largest amount of job growth is forecast in the construction sector, followed by professional and business services, and educational and health services. These three sectors account for 45 percent of projected long-term job growth in Solano County.



CHAPTER VIII

THE MARKET FOR OFFICE SPACE

INTRODUCTION

Below we identify the competitive position of the Fairgrounds site, review office space supply trends, and present a forecast of office space demand. We used GG+A's SPACEWALK™ program (a model that converts job growth to office space demand), and the long-term employment forecast for the Vallejo-Fairfield MSA described in Chapter VII. The demand forecast also considers the large space supply overhang that still exists within the primary market area and region.

THE GEOGRAPHIC MARKET AREA FOR OFFICE SPACE

The review of office supply and interviews with office space brokers, developers, and Solano Economic Development Corporation representatives indicate the primary market area within which office space developed at the Solano County Fairgrounds' site will compete for office space users includes Fairfield, Vacaville, and Napa. These competing locations include significant amounts of available office space as well as land available for future office development.

COMPETITIVE POSITION OF SOLANO COUNTY FAIRGROUNDS' LOCATION FOR OFFICE SPACE

Successful corporate office developments depend on how well they enable businesses to be more productive and satisfy their customers with innovations that produce better products and services. Successful office space developments typically must meet the following criteria:

- A central or highly accessible location to major transportation modes and other activity centers in the region. GG+A's past survey research and review of the literature on locational factors and corporate site selection suggests for offices devoted to administrative, corporate control, and research and development functions, or producer service industries (e.g., advertising, accounting and auditing, management consulting, public relations and legal services) that most intensively sell to customers outside their region of domicile, access to air service and other key transportation links is critical;
- A large commute shed providing access to a significant concentration of a highly-skilled and well-educated workforce;
- Proximity to a diverse set of housing uses. The proximity to a variety of housing product options relates well to the national trend for people to prefer to work close to their residences. This is especially true for female wage earners, which



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are often primarily responsible for rearing children and caring for elderly parents as well as for part-time workers;

- Proximity to retail, lodging, and other support services and amenities, including eating and drinking establishments and day-care and fitness facilities;
- Market responsive product types with appropriate technology capabilities; and as indicated above, and most important,
- Locations within agglomerations or a “critical mass” that help businesses attract and retain labor and operate cost effectively and productively. It is difficult to be productive or innovative if the talented labor companies need is exhausted by long commutes. In an era of globalization and a shortage of well educated, highly-skilled workers, businesses and office development follows the talented labor.

The interviews and site and area inspections indicate that the comparative advantages associated with the location of the Solano County Fairgrounds or characteristics required for successful office space development include the following:

- Accessibility to Interstate 80 and Highway 37;
- The closest location to activity centers in the Bay Area within Solano County and the Napa Valley;
- Potential for the site to offer prospective users Interstate 80 visibility, identity and signage; and
- Opportunity for agglomeration or clustering of office uses on the site given the size of the site.

The disadvantages associated with the Fairgrounds site for office space include the following:

- The current absence of an agglomeration or clustering of office uses in the vicinity of the site;
- Proximity to Six Flags during summer months may constrain access to office uses along Fairgrounds Boulevard. Many types of office users will not find a mixed-use location adjacent to Fairground and Six Flags uses or activities the most desirable or productive site available;
- Constraints on access to a large commute shed due to the absence of BART service;



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- The poor fiscal standing of the School District and City of Vallejo contribute to the perception of Vallejo as a place to do business, and make it challenging to attract skilled and talented labor force members of office space-using businesses;
- The lack of a well established positive image or identity as an office location. Locations are defined or branded by the character and image of the neighboring uses and the neighboring uses to the Fairgrounds do not increase the locational value and image of the site for office users. The interviews indicate Vallejo has not been established as a location for office space users. The nearby Northgate development was originally planned to be centered on office uses but the development has not attracted office space users. The primary reasons prospective tenants have not moved to Northgate relate to the lack of office location image, critical mass of other office uses, and limited support services compared to those office clusters available elsewhere in the marketplace;
- Located in a land-locked community. This limits the supply of new housing and households which represent sources of demand to service-oriented firms as well as sources of labor; and
- The decision to date to not (or inability to) convey office land fee-simple represents a significant constraint. The interviews indicate most if not all speculative developers and build-to-suit users will not consider ground leasing land in the foreseeable future (given ample alternative fee simple land options in Fairfield, Vacaville, and elsewhere in Solano County).

OFFICE MARKET CHARACTERISTICS AND CONDITIONS

The broader Solano County and Napa Valley market area of which the Fairgrounds' site is a part is characterized by a shallow base of office-space using businesses and historically slow leasing activity. Historical growth in the Solano County office market has been driven by population and household growth and increases in housing-related activity. Most area office users tend to be small (using less than 6,000 square feet of office space) and serve the local household base or provide support services to the home building industry (and, in the case of Napa, the wine industry).

Solano County and Napa Valley contain relatively few large floor-plate traditional Class A office buildings. Although some Bay Area firms have relocated to Solano County, this source of demand is relatively infrequent and generally driven by very attractively-priced space/low land costs in periods when prices are high and space availabilities low in preferred San Francisco Bay Area submarkets.

Current Inventory, Vacant Space and Asking Rents

Table VIII-1 below summarizes the current Solano County/Napa Valley office space inventory.



TABLE VIII-1

Solano County/Napa Valley Office Space Inventory by Submarket: 2011

Submarket	Total Inventory # Square Feet	Vacant Space # Square Feet	Vacancy Rate %	Annual Full- Service Rent \$ Per Square Foot
Fairfield	1,752,192	545,184	31.1	1.79
Napa	1,389,141	396,970	28.6	1.92
Vacaville	513,761	145,585	28.3	1.79
Vallejo	234,065	25,548	10.9	n/a
Total¹	4,221,120	1,162,881	27.5	1.83
¹ Total includes other minor submarkets (American Canyon, Benicia, Suisun City, Dixon).				
Sources: Colliers; Gruen Gruen + Associates.				

According to Colliers, the total broader market area of which the Fairgrounds’ site is a part contains approximately 4.2 million square feet of competitive office space.¹⁸ As of the first quarter 2011, a total of 1,163,000 square feet of space was vacant for an overall extremely high vacancy rate of 27.5 percent. Average asking monthly full-service rents are reported at \$1.83 per square foot.¹⁹

Fairfield and Napa contain more than 3.1 million square feet of office space or approximately 75 percent of the total office space inventory. With less than 235,000 square feet of competitive space, Vallejo contains only six percent of the total market inventory. A considerable share of existing office space in Vallejo is comprised by government, institutional, and medical buildings, small freestanding offices, and competitively obsolete facilities.²⁰ Our interviews and field research, for example, indicate that office space rehabilitations on Mare Island would need to be substantially enhanced in order to potentially meet the needs and standards of modern office space users. Vallejo contains only 70,000 square feet of Class A space. Nearly all Class A office space within the region is located within Fairfield, Napa, Vacaville, and to a lesser extent, Suisun City (with three Class A office buildings).

Table VIII-2 summarizes the Solano County and Napa Valley inventory of office space by class.

¹⁸ Office buildings smaller than 10,000 square feet in size, medical and government buildings, and low quality (competitively obsolete) office buildings are not included in the total inventory.

¹⁹ BT Commercial estimates average full-service rents of only \$1.37 per square foot monthly, down from \$1.44 per square foot monthly the prior year.

²⁰ For example, according to Colliers, only seven traditional office properties in Vallejo are tracked in their competitive private sector inventory. Secondary office space supply statistics cited in the June 2009 ERA report (“Market Overview and Concept Development for the Solano360 Visioning Plan”) indicate Vallejo contains more than 300 office buildings with nearly 3,000,000 square feet of building space. The vast majority of this supply is related to government or medical activities or currently is not of the quality necessary to accommodate contemporary Class A office-space using businesses.



TABLE VIII-2

Solano County/Napa Valley Office Space Inventory by Class: 2011

	Total Inventory # Square Feet	Vacant Space # Square Feet	Vacancy Rate %	Annual Full- Service Rent \$ Per Square Foot
Class A	1,762,952	520,766	29.5	2.13
Class B	1,613,114	389,078	24.1	1.61
Flex	845,054	253,037	29.9	1.59
Total	4,221,120	1,162,881	27.5	1.83

Sources: Colliers; Gruen Gruen + Associates.

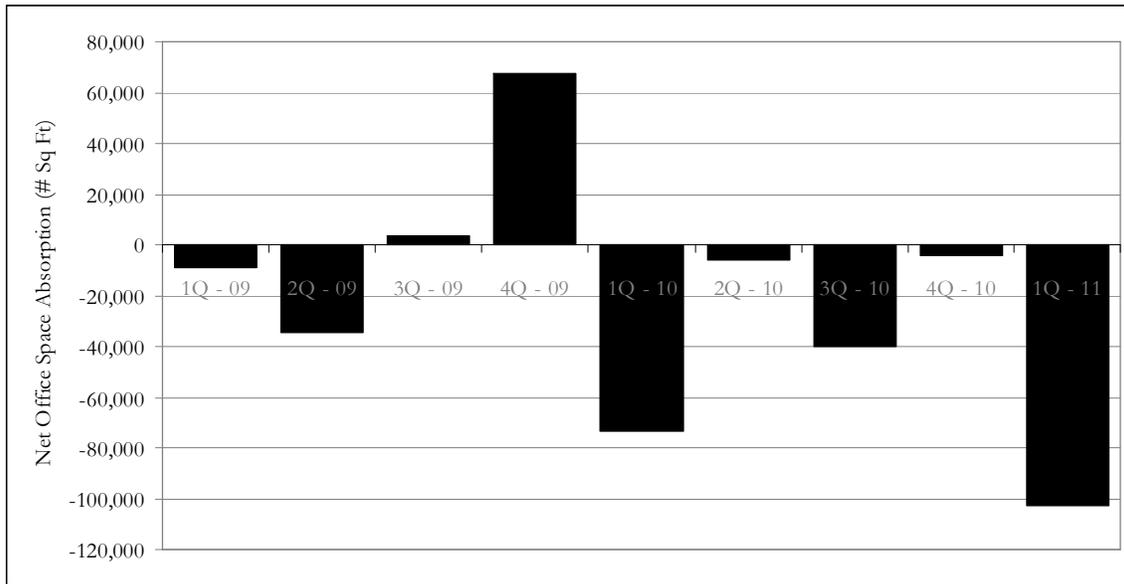
Asking full-service monthly rents for Class A space are reported at \$2.13 per square foot, approximately 32 percent above asking monthly rents for Class B space of \$1.61 per square foot. Our interviews indicate that current effective rents for new Class A leases are closer to \$2.00 per square foot, not including rental concessions. The currently high inventory of vacant space is distributed relatively uniformly across Class A, Class B, and “flex” space within the Solano County / Napa Valley office market.

Office Space Absorption Trends

Both our interviews and review of secondary data indicate the local office market has not yet begun to recover from the significant job losses and housing collapse of the past three years. Space absorption continues to be negative and the vacancy rate for existing office space remains persistently high. As illustrated below in Figure VIII-1, space absorption has been negative in all but two quarters over the past 28 months.



FIGURE VIII-1: Net Office Space Absorption Trends 2009 - 2011



Sources: Colliers International; Gruen Gruen + Associates.

Since 2008, office space absorption within the Solano County/Napa Valley market has totaled negative 200,000 square feet. In the first quarter of 2011, an additional 103,000 square feet of space became available as Dey Labs vacated a 85,000-square-foot Class A building in Napa. According to Colliers 1st Quarter Office Market Report, “vacancy rates have increased for the fifth consecutive quarter and at the same time asking rental rates have declined for five consecutive quarters...the short term projection is for these trends to continue.” The vacancy rates also do not reflect the high amounts of “shadow” space; that is, vacant or underutilized but still leased space.

Consistent with the findings summarized above, the results of our interviews with office brokers and economic development professionals also indicate new, ground-up office development in the market area will not occur until a significant amount of currently vacant space is absorbed. Because most internal growth in Solano County has tended to be driven by small space users, a significant reduction in vacancy is not likely to occur until the better established and more productive/desirable office locations in Contra Costa County and the San Francisco Peninsula become space constrained (with subsequent price increases) and spill over some demands to the North Bay from users seeking lower land and building space costs than available in the preferred submarkets.

Prior to the Great Recession, our analysis of secondary employment and office space supply data indicates a close relationship, as would be expected, between job growth and the absorption of office space in Solano County. Table VIII-3 below summarizes the historical relationship between job growth and office space absorption.



TABLE VIII-3	
Historical Relationship Between Job Growth and Office Space Absorption: Solano County	
	2000 – 2007
Estimated Office Space-Using Employment Growth (# Jobs) ¹	6,389
Net Office Space Absorption ² (# Square Feet)	1,593,145
Estimated Change in Occupied Office Space Per Added Job (# Square Feet per Job)	249
¹ Using GG+A's SPACEWALK model, which decomposes employment growth by sector into space usage categories.	
² Includes all types of office space (public, medical, owner-occupied, multi-tenant).	
Sources: CoStar; California Employment Development Department; Gruen Gruen + Associates.	

Based on average annual employment by sector reported by the California Employment Development Department for Solano County, an estimated 6,389 office space-using jobs were added over the 2000 through 2007 period. CoStar reported positive office space absorption of just under 1.6 million square feet during this same period. The relationship between employment growth and office space absorption equates to 249 square feet additional space occupied per added worker; an employment density that is typical of office space markets comprised mostly by smaller, local-serving businesses.

FORECAST OF FUTURE OFFICE SPACE DEMAND FOR THE VALLEJO-FAIRFIELD MSA (SOLANO COUNTY)

In order to make an estimate of when rents may begin to rise to reflect the resumption of positive space absorption and reduction of the vacancy rate, we converted the employment forecast for Solano County presented above in Chapter VII into an estimate of office space demand for the County. A forecast of future Solano County office space demand is utilized because: (1) the relevant market area within which the Fairgrounds site will compete for office users includes other submarkets in the County; and (2) a forecast of employment by sector is not available for either Vallejo or the relevant geographic market area.

GG+A's Spacewalk™ model converts employment growth by economic sector into an estimate of relevant demand for different kinds of space. Firms within a specific economic sector do not use the same type of space for all their workers. Therefore, the GG+A Spacewalk™ model assigns employment within various economic sectors to occupational categories that correspond to the types of space most likely to be used. For example, while most manufacturing firms primarily demand industrial space, managers of manufacturing companies also use office space while products are typically stored in warehouse/distribution space. The amount of space primarily depends upon the number of added workers and the associated employment densities (number of square feet of space per employee).



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A basic input into the model is an estimate of the percentage and amount of space the employees of a specific firm type utilize. These basic inputs are based on the percentage of the employees that are in various kinds of occupations. That is, it is necessary to estimate the occupational makeup of an industry in order to tie employment to space. We made this estimate based on past research and data drawn from the United States Department of Labor. The estimate of the distribution of employment base by occupational groups is presented in Table VIII-4.

TABLE VIII-4

SPACEWALK Input: Distribution of Employment Base by Occupational Groups

NAICS	Industry Sector	Management	Business & Financial Operations	Professional & Related	Services	Sales & Related	Office & Administrative Support	Farming, Forestry & Fishing	Construction & Extraction	Installation, Maintenance & Repair
21	Mining, Quarrying & Extraction	5.2%	3.6%	9.1%	0.4%	1.4%	8.6%	0.0%	41.8%	8.1%
22	Utilities	6.3%	7.0%	14.7%	1.4%	1.7%	20.6%	0.1%	5.7%	26.1%
23	Construction	5.0%	2.9%	1.5%	0.7%	1.9%	9.7%	0.0%	65.7%	7.6%
31-33	Manufacturing	5.0%	3.2%	9.9%	1.1%	3.0%	9.6%	0.2%	1.8%	5.0%
42	Wholesale Trade	5.7%	3.8%	5.8%	0.7%	26.8%	23.7%	0.9%	0.4%	6.5%
44-45	Retail Trade	2.2%	1.0%	4.2%	5.3%	54.5%	17.1%	0.1%	0.4%	5.0%
48-49	Transportation & Warehousing	2.8%	2.0%	1.2%	4.3%	1.7%	19.9%	0.1%	0.7%	6.0%
51	Information	6.8%	5.5%	34.0%	3.7%	13.4%	21.9%	0.0%	0.2%	10.1%
52	Finance & Insurance	7.9%	22.4%	7.9%	0.5%	12.5%	48.4%	0.0%	0.0%	0.2%
53	Real Estate	9.5%	4.8%	2.6%	11.3%	24.9%	22.6%	0.0%	1.5%	15.6%
54	Professional, Scientific & Technical Services	7.1%	12.6%	45.6%	2.0%	4.5%	24.1%	0.1%	0.8%	1.0%
55	Management of Companies / Enterprises	17.5%	18.1%	19.7%	2.6%	5.1%	29.3%	0.1%	0.5%	2.3%
56	Administrative Support & Waste Management	3.0%	3.6%	6.6%	32.5%	6.3%	22.2%	0.1%	3.6%	2.5%
61	Educational Services	4.4%	2.0%	67.4%	10.6%	0.3%	11.4%	0.0%	0.4%	1.2%
62	Health Care & Social Assistance	3.4%	1.4%	43.5%	32.7%	0.4%	16.4%	0.0%	0.1%	0.8%
71	Arts, Entertainment & Recreation	3.4%	1.9%	11.8%	59.0%	7.8%	9.5%	0.2%	0.5%	3.5%
72	Accommodation & Food Services	2.5%	0.3%	0.2%	86.9%	2.9%	3.7%	0.0%	0.0%	0.9%
81	Other (Personal) Services	4.3%	4.4%	24.2%	22.0%	4.4%	15.9%	0.0%	0.3%	12.4%
93	Government / Public Administration [1]	5.3%	9.9%	21.8%	25.4%	0.7%	22.6%	0.3%	4.4%	3.9%

Sources: *Employment Projections Program*, U.S. Department of Labor, U.S. Bureau of Labor Statistics; Gruen Gruen + Associates.

We distributed the employment forecast for Solano County by industry across the varying occupational categories. We then made judgments concerning the type of space used by employees of differing occupational make-ups within the economic sectors and employment densities of for office space. We used GG+A's Spacewalk™ model to carry out the calculations needed to relate employment densities by occupation within the economic sectors to produce estimates of office space building demand for Solano County. Table VIII-5 presents for the Solano County office market the resulting estimate of workers forecast to be added that will use office space.



TABLE VIII-5			
Share of Forecast Additional Solano County Employment Estimated to Utilize Office Space: 2010-2020			
	Total Jobs Added #	Office Jobs % of Total	Office Jobs Added #
Construction, Manufacturing, Wholesale Trade, Retail Trade, and Transportation/Warehousing	11,300	13.3	1,498
Information, Financial Activities, and Professional and Business Services	5,600	72.5	4,059
Education and Healthcare	4,000	37.7	1,509
Leisure, Hospitality and Other Services	2,200	13.4	294
Government	1,500	62.9	944
Total	24,600	33.8	8,303
Source: Gruen Gruen + Associates			

Of the 24,600 jobs forecast to be added within Solano County over the next decade, approximately one-third or 8,300 could potentially be housed in office space. The major source of office space-using job growth is expected to occur in the information, financial activities and professional and business service sectors. Collectively, these sectors are forecast to add just under 4,100 office space-using jobs over the next decade representing 73 percent of total jobs forecast to be added. Approximately 38 percent of job growth, or 1,500 jobs, in the private education and healthcare sectors may result in institutional and medical office space needs. The construction, manufacturing, wholesale and retail trade, and transportation and warehousing sectors are forecast to comprise nearly one-half of all employment growth over the next decade. Only 13 percent of growth in these sectors is forecast to require office space resulting in 1,500 office space-using jobs added. Additional office space-using employment growth, although less significant, is forecast to relate to growth in the government and leisure, hospitality, and other service sectors. These sectors account for approximately 1,200 office space-using jobs forecast to be added.

Table VIII-6 presents a summary of gross office space needs within the County based on the forecast of office space-using employment growth, assuming an average employment density of 250 square feet of space per office worker.



TABLE VIII-6			
Office Space Demand Forecast for Solano County¹			
	2011 – 2015 # Square Feet	2016 – 2020 # Square Feet	Total # Square Feet
Non-Medical Office Space Demand	882,000	853,000	1,735,000
Medical Office Space Demand	162,000	179,000	341,000
Total Office Space Demand	1,044,000	1,032,000	2,076,000
¹ Employment density = 250 square feet per worker.			
Source: Gruen Gruen + Associates			

The forecast additional office space-using employment growth is estimated to generate total gross office space demand of approximately 2.1 million square feet within all of Solano County over the next decade. This timing may be optimistic because it assumes a prompt rebound in the labor market and economy. Medical office space demand, associated with forecast growth in the healthcare sector, is forecast to total 341,000 square feet or about 16 percent of total office space demand within the County.

Gross demand for traditional office space is forecast to total 1.7 million square feet. Ignoring that job growth has not yet rebounded, average annual space demand, during the first 5-year period from 2011 through 2015, is estimated at 176,400 square feet. Average annual space demand during the latter 5-year period, from 2016 through 2020, is forecast to be slightly lower at 170,600 square feet.

The forecast covers all types of non-medical office space, including space demands for owner-occupied facilities.

**BALANCE OF SUPPLY AND DEMAND
FOR OFFICE SPACE IN SOLANO COUNTY**

Table VIII-7 shows the forecast relationship between potential office building space demand and supply for office uses from 2011 through 2020, taking into account existing vacant space in Solano County. The comparison of supply and demand is presented for non-medical office uses.²¹

²¹ To present an accurate relationship between future supply and demand forces, medical office space demand is not included because: (a) the vacant office space inventory against which the demand forecast is compared does not include medical office space; and (b) interviews suggest with the recent expansions of local medical institutions (i.e. Kaiser) that medical-related space needs are likely to be accommodated at or near the campus or in locations other than the Fairgrounds.



TABLE VIII-7	
Relationship Between Future Office Space Demand and Supply In Solano County	
	2011-2020 # Square Feet
Forecast Office Space Demand ¹	1,735,000
Currently Vacant Office Space ²	766,000
Potential Net Office Space Demand	969,000
¹ Demand for non-medical office space.	
² Excluding obsolete or uncompetitive space and medical office space. This vacant space represents 27 percent of the current inventory.	
Sources: Colliers; Gruen Gruen + Associates.	

The gross office space demand forecast of just over 1.7 million square feet over the next decade, assuming a labor market and economic recovery and resumption of growth, will be initially offset by the large amount of currently available space in existing competitive buildings of approximately 770,000 square feet. In addition, many firms will begin to expand their workforce while remaining in existing office spaces that are currently underutilized.

The timing and start of future office space development in Solano County will not be linear and will also be delayed until the correction of the demand-supply imbalance occurs. Until demand and supply move closer to equilibrium, a significant gap will exist between market rent and the rent needed to support feasible new construction of speculative office space. Therefore, the space demand forecast should be considered a long-term forecast predicated upon sustained jobs growth and the end of deep rental discounts as the result of recovery of equilibrium between office demand and supply in the market area. Given rents are unlikely to begin to increase toward replacement costs until the vacancy rate declines to closer to 10 percent (and about 500,000 square feet of currently vacant space is absorbed), limited speculative office space development is likely to occur within the next three to five years and any construction that does occur is likely to be sited in preferred, already well established and entitled office agglomerations located along the Interstate 80 corridor in Fairfield. Examples of existing office clusters include Green Valley Corporate Park, Green Valley Office Park, and Fairfield Corporate Commons totaling 214 acres of business park land emphasizing office and campus style uses. These projects have over 160 acres of land available.

POTENTIAL SHARE OF OFFICE DEMAND CAPTURED IN VALLEJO

Vallejo currently contains approximately eight percent of the total Solano County office space inventory. Table VIII-8 presents an estimate of the forecast of net County-wide demand potentially captured in Vallejo assuming some existing office space users elect to replace obsolete space with new space and assuming economic development actions are taken to mitigate the comparative disadvantages described above and result in increasing the share of the total amount of office space development in the County captured in Vallejo.



TABLE VIII-8	
Potential Amount of Future Solano County Office Space Demand Captured in Vallejo	
	2011-2020 # Square Feet
Potential Net Office Space Demand in Solano County	969,000
Potential Amount of Office Space Demand in Vallejo Assuming 15 Percent of County-wide Demand	145,000
Source: Gruen Gruen + Associates	

If Vallejo can improve its appeal as an office location, provide a highly accessible location (ideally including BART service) enabling ready access to a highly-skilled and well-educated workforce with proximate support services including day-care and fitness facilities and eating and drinking establishments, and locate future office uses where an agglomeration or clustering of office uses can be created, we estimate a potential 15 percent capture rate of county-wide office space demand over the 2011 through 2020 period for Vallejo. This equates to potential obtainable office space demand of approximately 145,000 square feet of space over the 10-year forecast period.²² This compares to an estimated 284,000 square feet of office space included in the development program for the Solano County Fairgrounds site alone.

Timing and Nature of Potential Demand Opportunities

Future office space demand in Vallejo will not likely be captured at prices that amortize and generate a return on new development costs until the supply overhang throughout the broader office market is absorbed, which could occur by 2016. When this correction occurs so that obtainable rents are again sufficient to warrant the delivery of new space, alternative land supply options in well established office locations elsewhere in the County will compete for potential sources of office demand.

Based on the quantitative analysis of office space demand and supply conditions, interviews with knowledgeable office brokers, and consideration of the amount of land available for office development, speculative, multi-tenant office space development opportunities in Vallejo are unlikely to materialize prior to 2016. As indicated above, the timing of the demand may be pushed out if the labor market and economic recovery stalls and does not gain momentum relatively soon. Rents will need to rise considerably before office space development will be feasible for the private sector to undertake without significant municipal subsidy.

If a fee-simple tenure option can be provided at the Fairgrounds site, and the other requirements for successful office space development could be cultivated, some of the long-term demand opportunities that potentially apply to Vallejo could be captured at the Fairgrounds. This would also require a reconfiguration of the current physical redevelopment plan that provides for access and parking dedicated solely to office uses. The most likely office development will be a campus option for a larger user seeking to combine

²² This would nearly double the supply of competitive office space in Vallejo.



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or consolidate a variety of functions at one location which would appreciate the lower costs of a Solano County office location and the billboard effect the site could provide to highway travelers. Opportunities may also arise to attract professional and service firms which prefer the display advantages of the site in a central location between Sacramento and the Bay Area. Even if these arrangements are made, competition for office space uses will be intense. As indicated below, ample sites elsewhere in the County are available for office space development.

EXAMPLES OF LAND AVAILABLE FOR OFFICE DEVELOPMENT

According to the Solano County EDC Commercial/Industrial Available Land Report, 2009, Fairfield and Vacaville include more than 700 acres of land available for business park development. In Fairfield, the major business parks include Solano Business Park, Busch Corporate Commons, Fairfield Corporate Commons, Green Valley Corporate Park, and Green Valley Office Park. According to the City of Fairfield website, Solano Business Park has 57 acres of land available, Busch Corporate Commons has 141 acres of land available and Fairfield Corporate Commons has 47 acres of land available. Green Valley Corporate Park and Green Valley Office Park in Fairfield at I-80 and I-680 is one example with 50 acres of land remaining available for office space development (out of a total of 132 acres for both parks). Vacaville has 130 acres of land available in its Vaca Valley Business Park, 100 acres of land available in the Vacaville Business Park, and 200 acres of land available in the Interchange Business Park.

Within Vallejo, the Mare Island specific plan provides for the development of office space as does the Waterfront master planned development. A small amount of land (approximately 5 acres) also remains available, adjacent to the Gateway Plaza shopping center in the Northgate project, for office space development.

CONCLUSIONS ABOUT THE PROPOSED OFFICE SPACE PROGRAM FOR THE SITE

The synthesis of the results of quantitative and qualitative research and analysis summarized above indicate the following:

- The competition for office space users will be highly intense for the foreseeable future;
- Any supply additions at locations other than the site of the Fairgrounds over the forecast period, or increases in vacancy due to expiring leases which are not renewed or which result in the rental of less space, will further extend the office market recovery horizon;
- The disadvantages found to apply for office uses at the site, affects of the Great Recession, surplus market area office space supply, constrained construction lending, availability of buildings below replacement costs, and low effective rents suggest



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speculative office development will be limited prior to 2016 within the primary market area and that the Solano County Fairgrounds site will not be a priority development location for speculative office space before 2016;

- Based on the limited development potential for office space at the site given the identified challenging market conditions and constraints that currently apply to the site, it may not be financially feasible for a developer to pay for the land needed to site an office building prior to 2016²³; and
- The amount of office space development potentially absorbed at the site (or elsewhere in Vallejo) between 2016 and 2020 is estimated to be 145,000 square feet of space. The most likely office development will be a campus option for a larger user seeking to combine or consolidate a variety of functions at one location which would appreciate the lower costs of a Solano County office location and the billboard effect the site could provide to highway travelers. Opportunities may also arise to attract professional and service firms which prefer the display advantages of the site in a central location between Sacramento and the Bay Area. Even if these arrangements are made, competition for office space uses will be intense. Before committing to including the amount of office space in the proposed development program for the site, conduct a solicitation of office space developers/users to attempt to secure a commitment for the development of office space at the site, given the findings summarized in this report suggesting it will be challenging to do so on favorable economic terms.

²³ By 2016, office space development opportunities could begin to arise at the site if rents rise significantly at preferred locations in the San Francisco Bay Area encouraging users to consider alternative locations, necessary off-site and on-site transportation and ingress/egress improvements are made, dedicated parking is provided for an office use, the other characteristics described in this report required for successful office environments are created, and the land is sold fee simple at a relatively low cost.



CHAPTER IX

THE MARKET FOR HOTEL USES

INTRODUCTION AND PURPOSE

In order to reach judgments on the potential for development of hotel uses at the site of the Solano County Fairgrounds, GG+A conducted a reconnaissance of the hotel market. GG+A directed the reconnaissance toward identifying:

- the relevant primary market area for hotel uses and composition of hotel supply within the primary market area;
- the primary sources of demand for hotel rooms;
- the relative advantages or strengths and disadvantages or weaknesses of the location of the Fairgrounds for hotel uses; and
- hotel room demand-supply conditions.

GG+A synthesized the results of the reconnaissance, including interviews with managers of Vallejo hotels, and representatives of Six Flags Discovery Kingdom, Vallejo Convention and Visitors Bureau, and the Solano Economic Development Corporation, review of Smith Travel Research hotel market data provided by the Vallejo Convention and Visitors Bureau, hotel room supply identification, analysis of market area occupancy and room rate trends, and analysis of market area employment and occupied office space, to reach judgments on the potential type, scale, and timing of hotel demand and development opportunities for the site of the Solano County Fairgrounds.

CITY OF VALLEJO HOTEL MARKET TRENDS

Table IX-1 shows the total supply of room nights available, the total room nights occupied, and occupancy level between 2006 and 2011 for the entire City of Vallejo.



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TABLE IX-1

Hotel Market Demand and Supply in Vallejo: 2006-2011¹

Year	Annual Room Supply # Room Nights	Total Room Nights Occupied #	Annual Occupancy %
2006	525,600	285,845	54
2007	525,600	294,740	57
2008	525,600	281,205	54
2009	525,600	283,630	54
2010	525,600	262,697	50
2011	525,600	266,874	51

¹ Annual figures refer to “running 12 month periods”.

Sources: Vallejo Visitors & Convention Bureau; Smith Travel Research.

Between 2006 and 2011, the supply of the total number of room nights available of 525,600 has not changed. Occupancy rates of 65 percent or higher are typically considered a benchmark for supporting the feasible development and operation of a new hotel. Even prior to the Great Recession, Vallejo hotel occupancy rates were below this threshold and with the exception of 2007 have been below 55 percent every year, with a 50 percent occupancy rate last year.

Table IX-2 presents the average daily room rate and revenue per available room between 2006 and 2011 for the entire City of Vallejo.

TABLE IX-2

Hotel Revenue Performance in City of Vallejo: 2006-2011¹

Year	Average Daily Room Rate \$	Percent Change %	Revenue Per Available Room \$	Percent Change %
2006	63.82	---	34.71	---
2007	65.77	3.1	36.88	12.8
2008	64.61	-1.8	34.57	-6.3
2009	60.92	-5.7	30.82	-10.8
2010	55.39	-9.1	27.69	-10.2
2011	53.93	-2.6	27.38	-1.1
Compound Annual Growth Rate (%)	-3.3		-4.6	

¹ Annual figures refer to “running 12 month periods”.

Sources: Vallejo Visitors & Convention Bureau; Smith Travel Research.

From 2007 through 2011 overall average daily room rates decreased every year. Average daily room rates declined at a 3.3 percent compounded rate from \$65.77 in 2007 to under \$54 in 2011. Average room rate decreases were especially high in 2009-2010. Revenue per



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available room peaked at nearly \$37 in 2007 but has declined since then to \$27.38. The data on trends for the overall Vallejo hotel market indicates even before the advent of the Great Recession, the hotel market in Vallejo was weak.

INTERVIEWS WITH REPRESENTATIVES OF HOTEL ROOM SUPPLY

In order to obtain information and insight about the relevant market area, type of visitors attracted to 20 Vallejo hotels comprising 1,440 rooms, and sources of competition, GG+A staff interviewed managers of hotels near the Fairgrounds summarized in Table IX-3.

TABLE IX-3

Examples of Existing Hotel Room Supply in Primary Market Area

Hotel	Address	City	Number of Rooms	Year Opened	Year Renovated	Type of Hotel
Courtyard by Marriot	1000 Fairgrounds Drive	Vallejo	172	1989	2006	5-Story, Limited Service
Ramada Inn	1000 Admiral Callaghan Lane	Vallejo	131	1986	2005	2-Story, Limited Service
Best Western Inn & Suites @ Discovery Kingdom	1596 Fairgrounds Drive	Vallejo	117	1990	1998/2011	3-Story, Limited Service
Comfort Inn	1185 Admiral Callaghan Lane	Vallejo	80	1988		2-Story, Limited Service
Fairfield Inn & Suites	3800 Broadway	American Canyon	80	2004	2010	Extended Stay

Source: GG+A Hotel Interviews

(Note, the Waterfront planned development master plan includes a major hotel and conference facility component, but to date the project has not been developed).

The interviews suggest the primary market area within which a hotel use at the site of the Solano County Fairgrounds would compete for room night demand with other hotels is likely to comprise the City of Vallejo and American Canyon area. The Courtyard by Marriot adjoining the Fairgrounds at 1000 Fairgrounds Drive is the largest hotel in the market with 172 rooms in a five-story limited service facility. The hotel originally opened in 1989 and was renovated and reflagged to a Courtyard by Marriot in 2006. The manager indicated no plans to expand the hotel. The Marriot has an on-site restaurant and bar and previously



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offered food and beverage room service but due to lack of demand discontinued room service. The largest demand generator is the Six Flags amusement park for which it provides special low rates to visitors. The nearby refineries generate demand from contractors and other companies providing services for the refineries. Visitors to Touro University also generate demand for hotel rooms. Much of the overall demand is attributable to leisure as opposed to business or corporate travelers.

Occupancy rates this year at the Courtyard by Marriot are likely to approximate 50 percent, down from 65 percent prior to the Great Recession. Average daily rates peaked at \$150 over four years ago but now rates average \$100 to \$120. Vallejo has always been a price-sensitive market. Tourists visiting Napa prefer locations in Napa although some more price sensitive may also consider newer, lower priced hotels in American Canyon. Because of the limited employment base, the hotel depends upon visitation generated by Six Flags. Therefore, the peak season is Memorial Day to Labor Day with weekends more fully booked than weekdays. December through February tends to produce low occupancy and average daily rates. The hotel does serve small local social and business events with up to 130 attendees.

In addition to the disadvantage of a location not proximate to a large office base with day-time employment and support services, the neighborhood to the north of the Fairgrounds has experienced some drug and crime problems. The Courtyard by Marriot has hired on-site security for 14 hours per day due to the security concerns.

The next largest limited service hotel in Vallejo is the 131-room Ramada Inn located at 1000 Admiral Callaghan which opened in 1986 and was renovated in 2005. This two-story limited service hotel is located on the east side of Interstate 80 near the Target store. It has no plans for future expansions or remodeling. The hotel has two on-site meeting rooms with a capacity of each room of 50 people. About 125-150 days are booked at rates of \$100 to \$200 per day. Most of the meetings involve government or military related activities while a small portion of bookings are due to social activities. Unlike other highway-oriented hotels, the hotel attracts very limited corporate or business travelers. The hotel generates most of its room night demand during the summer months when Six Flags is open. The hotel manager estimates Six Flags accounts for about 85 percent of its demand, while only 10 percent of demand is due to corporate travelers, and another five percent of demand is attributable to other leisure or simply interstate travelers. School groups and school-related competitions, many of which are associated with Six Flags, make-up much of visitation and room night demand. Significant declines in average daily rates and occupancy rates have been experienced since 2006. For the previous weekend prior to the interview, the occupancy rate was under 20 percent.

The hotel primarily competes with other Vallejo hotels. Napa has an array of facilities, including full-service, resort, and boutique hotels sufficient and well positioned to capture leisure and business demand seeking a wine country environment.

The 117-room Best Western Inn & Suites @ Discovery Kingdom located at 1596 Fairgrounds Drive is as the name implies highly dependent upon room night demand



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generated by Six Flag Discovery Kingdom. Best Western is reported to be remodeling and updating its facilities, which originally opened in 1990 and were previously remodeled in 1998.

The 80-room Comfort Inn located at 1185 Admiral Callaghan Lane in Vallejo opened in 1988. The owner indicated the market is highly seasonal and dependent upon visitation to Six Flags. The property is not well located, has inadequate signage, does not appear to have been recently or significantly updated and appeared to be substantially vacant during the site visit.

The extended-stay 80-room Fairfield Inn & Suites is located about five minutes north of the Fairgrounds on Highway 29 originally opened in 2004 but has recently been renovated. The overall occupancy rate this year is expected to approximately 70 percent. The occupancy rate has declined following the opening of the 101 room Holiday Inn Express nearby at 5001 Main Street in American Canyon two years ago. Unlike the hotels in Vallejo, the primary customer base for this hotel are price sensitive Napa tourists and business travelers serving the wine industry or small companies located in the vicinity of Highway 29. As in the case of the Vallejo hotels, the Fairfield Inn & Suites and other hotels in American Canyon do not capture significant demand from business travelers due to the limited proximate employment/business base. Fairfield Inn & Suites derives a small proportion of room night demand from visitors to Six Flags although it offers packages/group rates for visitors to Six Flags. Most visitors to Six Flags, however, stay at the Courtyard, Best Western, and Ramada Inn located close to the facility. Fairfield Inn competes more directly with the Holiday Inn Express and Spring Hill Suites in American Canyon and to a lesser degree with the Courtyard by Marriot in Vallejo. The hotel does not directly compete with the nearby Gaia Doubletree Napa Valley & Spa, which is a higher-end, full-service hotel with on-site spa and facilities for weddings and other types of events. Consistent with the results of the secondary data reviewed above, the hotel manager indicate the hotel market is overbuilt and does not believe a new hotel could be supported without accompanying significant growth in demand from both leisure and corporate travelers. Any new supply will also need to siphon off demand from existing hotels.

CONCLUSIONS ABOUT THE MARKET FOR HOTEL ROOMS

Both the secondary market data analysis and results of the primary hotel market research suggest that any new hotel development will depend upon siphoning off room night demand from existing hotels and that this would still not be sufficient to support occupancy and average daily rates needed to amortize and provide a return on development costs. Even assuming above market average daily rates and occupancy rates, the real estate economics of hotel development are not favorable.

The analysis of the employment base/economic base and results of the supply analysis and interviews indicate that the market area does not generate sufficient demand from business/corporate travelers to warrant the addition of hotels, either limited service or full-service that are designed to serve and depend upon attracting business travelers. Unless



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Kaiser, Touro University or other large employers/institutions create additional hotel room night demand, the market area cannot support another hotel serving business/corporate travelers even with the siphoning of demand away from other area hotels. Given the proximity to Napa with its appealing and larger set of amenities and services, and array of lodging facilities, it will be difficult to penetrate into higher-end, leisure demands.

As reviewed in Chapter X concerning proposed new exhibition and event facilities, the market opportunities for these facilities are likely to generate insufficient room night demand to support new hotel facilities at the site of the Fairgrounds.

A major branded entertainment anchor that in conjunction with Six Flags Discovery Kingdom serves to create greater than a day-trip market than Six Flags currently obtains, may potentially support additional hotel room night demand.



CHAPTER X

THE MARKET FOR EXHIBITION BUILDING/EVENT SPACE

INTRODUCTION

From a customer’s viewpoint, the purpose of an exhibition building and related venues is to provide facilities conducive for large group gatherings. From a community’s perspective, the typical purpose is to attract out-of-town visitors who will spend money in the community on hotels, restaurants, and other goods and services. From a fair’s perspective, the purpose is to have facilities for fair exhibits and activities during the fair and facilities from which to generate net revenue during the periods of the year when the fair is not in session. Financial success depends upon attracting enough out-of-town visitors to generate hotel and sales tax revenue and attracting enough events which pay building space rent, parking, and other fees sufficient to amortize the debt and pay the operating costs of the exhibition building and related venues.

BACKGROUND

Existing Fairground Facilities

Table X-1 below summarizes the existing facilities of the Solano County Fairgrounds.

TABLE X-1	
Existing Fairground Facilities	
	Area # Square Feet
Gibson Hall	13,300
McCormack Hall	22,000
Exposition Hall	23,700
Civic Hall	12,300
Livestock Building	32,400
Sheep Barn	13,300
County Building / Warehouse	17,200
Administration	4,000
Buildings Total	138,400
Shared Plaza	28,000
Paved Venue	45,000
Open Space / Arena	26,000
Carnival / Midway Area	105,000
Lawn Venue Areas	112,500
Concourse / Main Street	83,300
Outdoor Total	399,800
Sources: Solano County Fair website; SWA Group.	



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The Fairgrounds currently includes approximately 138,000 square feet of building space. The Exhibition Hall contains approximately 24,000 square feet of space. Three additional buildings (Gibson Hall, McCormack Hall, and Civic Hall) contain an additional 48,000 square feet of building space. The Livestock Building and Sheep Barn contain about 46,000 square feet of building space. The current Administration Building approximates 4,000 square feet of space.

Outdoor venues and open spaces contain an additional 400,000 square feet of uncovered space (land area).

Fair Attendance Trends

To provide some background for evaluating the demand for exhibition and related venue space, Table X-2 presents estimates of the historical attendance at the Solano County Fair from 2002 through 2010.

	2002 #	2003 #	2004 #	2005 #	2006 #	2007 #	2008 #	2009 #	2010 #	Percent Change 2002- 2005- %	Percent Change 2006- 2010 %
Total Attendance	111,913	94,047	91,880	69,202	80,243	50,078	55,317	49,442	34,748	-38.2	-56.7
Number of Fair Days	10	10	10	10	5	5	5	5	5		

Source: Solano County Fair Association Accounting Records

Between 2002 and 2005 when the Fair was held over a 10-day period, the Fair attendance declined by 38 percent, from nearly 112,000 attendees to under 70,000 attendees. Between 2006 and 2010 the Fair was shortened to a five-day period, Fair attendance dropped another 57 percent, or to under 35,000.²⁴ Attendance in 2010 is less than half of the attendance level in 2006. The elimination of horse racing at the Fairgrounds in 2009 negatively impacted attendance. A shift in the dates of the Fair session, from the traditional July date to June also negatively impacted attendance because the Fair time overlapped with the fairs held in Alameda County, Petaluma, and Roseville. Attendance from 2009 to 2010 declined by nearly 30 percent from over 49,000 attendees to approximately 34,700 attendees in 2010.

²⁴ The uncertainty related to the future of the Fair may have also contributed to the decline in events and attendance.



Non-Fair Event Attendance

Table X-3 presents attendance at non-fair events and the number of non-fair events from 2007 to 2011.

TABLE X-3						
Attendance at Non-Fair Events: 2007-2011						
	Actual				Estimated	
	2007 #	2008 #	2009 #	2010 #	2011 #	Percent Change 2007-2011 %
Non-Fair Event Attendance	113,200	138,300	143,900	127,695	132,800	17.3
Number of Non-Fair Events	112	95	78	69	86	-23.2
Source: Solano County Fair Association 2007-2010 STOP – Schedule 5, Accounting Records & Event Calendars						

Attendance at non-Fair events has increased relative to attendance levels in 2007 but has decreased since its peak in 2009, while the number of events have decreased since 2007; although the number of events in 2011 is expected to exceed the number of events held at the site in 2009 and 2010. While non-fair event attendance increased until 2009, the number of non-fair events declined. Non-fair event attendance peaked at 143,900 attendees in 2009 and then declined in 2010. Anticipated attendance in 2011 is expected to increase slightly over 2010 figures to nearly 133,000 attendees. The number of non-fair events has declined from 112 events in 2007 to a low of 69 events in 2010. Similar with the anticipated increase in attendance, the number of events is expected to rise in 2011 to 86 events. Average attendance ranges from 200 to 500 attendees on the low end up to 3,000 to 5,000 attendees on the high end.

Types of Non-Fair Events

Table X-4 describes the number of non-fair events by type of event from 2007 to 2010.



TABLE X-4

Number of Non-Fair Events by Type of Event at Solano County Fairgrounds: 2007-2010					
Type of Event	2007 #	2008 #	2009 #	2010 #	Percent Change 2007- 2010 %
Trade shows	4	3	2	0	-100.0
Consumer Shows	44	16	14	13	-70.5
Sport/Tournaments	15	23	32	28	86.7
Fairs & festivals	1	1	1	1	0.0
Social, military, educational, religious or fraternal (SMERF)	30	41	23	19	-36.7
Other	18	12	7	7	-61.1
Total	113	96	79	70	-38.1
Source: Solano County Fair Association Administrative & Accounting Records					

In 2007, nearly two-thirds of the events were made up of consumer shows and social, military, educational, religious or fraternal (“SMERF”) events. With the advent of the Great Recession in 2007, the number of consumer shows experienced a significant decline which has not yet rebounded. SMERF events have also seen a significant drop in the number of events declining by over one-third from the number booked in 2007. The number of sports and tournament events have steadily increased and by 2010, accounted for about 40 percent of the booked events at the Solano County Fairgrounds. Trade shows make up very little of the event mix at the Fairgrounds. Average attendance per event held has increased due to a shift in the mix of events, fewer private events, and possibly differences in the way the number of events or event days have been counted over time.

According to information provided by the Solano County Fair Association, the busiest months tend to be from November to April with the number of events beginning to taper off by May. Of the 255 event days anticipated for 2011, 79 percent of them will occur between September and April.

TYPES OF NON-FAIR EVENTS AND POTENTIAL MARKETS SERVED

We understand consistent with the typical purposes outlined above for exhibition buildings and related facilities, the Solano County Fair Association wishes to increase the ability to host a variety of events in order to generate revenue throughout the year. Below, we outline the primary types of non-fair events and identify the types of events or markets potentially served.

Conventions: privately-held meetings of professional groups and associations. The convention industry constitutes a major source of income for destination cities through delegate spending on hotels, restaurants, transportation, and other related industries.



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Trade shows: consist of exhibits designed to present products and services to potential industry customers. Trade shows are sponsored and produced by trade or technical associations or by professional trade show management organizations. Trade shows are frequently accompanied by conventions, meetings, and seminars.

Conventions and trade shows are “blurring”. Convention planners often include display and exhibits of products and processes as part of conventions and trade show producers are using increasing amounts of meeting space to hold in-depth demonstrations and seminars.

Corporate events: major meetings of companies, including for sale and promotion purposes, training seminars, awards and incentives, and stockholders meetings.

Public consumer shows: attract general public and typically charge admission. Examples include boat shows, auto shows, and home and garden shows. Attendees of public shows are usually drawn from the local area. The expenditures made by these attendees, therefore, primarily reflect a redistribution of existing dollars within the local or metropolitan area economy. They typically do not generate significant hotel room-night requirements.

Banquets and receptions: involve some form of food and beverage service and typically require a ballroom or other large space. Attendees are generally drawn from local area. They typically do not generate significant levels of economic impact.

Community events: include public celebrations, public interest seminars, graduations, and many types of not-for-profit functions. These types of events typically do not generate significant levels of economic impact. They do not typically generate significant hotel room-night requirements.

Geographic Scope

A variety of geographical or rotational patterns determine the regions in which an event will rotate, as well as the extent to which a particular location or facility, can compete for events within a market segment. These include the following:

International events: draw attendees from throughout the world and tend to select major, international cities.

National events: draw attendees from all geographical regions within United States. These events, however, are limited to locations with sufficient convention/trade show and hotel facilities to accommodate them, and many rotate their events to differing regions.

Regional events: refers to a convention, trade show, exhibition or meeting held within a specifically defined group of states, usually ones from which the organization draws its membership.



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State events: usually sponsored by a state association or organization. Attendees are drawn from throughout the state.

Local events: usually held by local organizations, associations or corporations. Such events are frequently held within the boundaries of a specific city and are usually for a specific membership or targeted audience.

Based on our interviews and review of prior studies, event organizers consider the bundle of the following factors when choosing a particular destination or facility:

- Exhibition Space;
- Meeting Space;
- Facility Rental Rates and other fees;
- Hotel Room Availability;
- Air and Local Transportation Accessibility; and
- Destination Appeal.

Consideration of potentially competing supply options for attracting the market segments summarized above and interviews with users representing the primary market segments provide a basis on which to assess potential opportunities for facility development and demand acceptance at the site of the Solano County Fairgrounds.

As described below, based on the historical strengths and experience of the Fair, supply competition, and locational characteristics of the Fairgrounds, the interviews (including those with the Solano County Fair Manager and other fair managers) and related research indicate that public or consumer shows, social or SMERF, or other events which require outdoor space are likely to represent primary target “product” markets with the relevant geographic market mainly being local or within the metropolitan area.

INDUSTRY TRENDS FOR EXHIBITION AND MEETING FACILITIES INDICATE INTENSELY COMPETITIVE BROADER MARKET CONDITIONS

In a 2008 article by HVS titled “Convention Centers: Is the Industry Overbuilt”, the authors conclude that the convention center industry has reached maturity resulting in very competitive conditions. New facilities will not simply be able to rely on the “build it they will come approach”.

Between 2000 and 2010, the growth in the supply of exhibition facilities in the U.S. and Canada has increased from 379 facilities to approximately 479 facilities, or a 26 percent



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increase in the number of facilities. With this increase in the number of facilities, the square feet of exhibition space has grown from 65.6 million square feet to 92.1 million square feet, a 27 percent increase in space. This equates to an average facility size of 192,275 square feet of space.²⁵ Convention centers, exposition centers, fairgrounds, and trade centers represent the majority of space.

The demand for exhibit space declined between 2000 and 2004 as measured by the growth in net square feet of exhibit space used by exhibitors. This was primarily due to the rapid growth in the number of new expansions and projects that increased the supply of exhibit space by 15 million square feet. Since 2004, the supply of space has grown by nearly 12 million square feet. Table X-5 shows the historical supply of exhibit space, number of trade and consumer shows, and net square feet of space used.

TABLE X-5

Exhibition Space Trends: 2000-2007¹

	2000	2001	2002	2003	2004	2005	2006	2007	Percent Change 2000-2007 %
Exhibit Space – Sq. Ft. (in Millions)	65.5	67.7	72.4	77.2	80.5	82.3	85.1	85.9	20.4
Number of Trade & Consumer Shows ²	4,637	4,333	4,342	4,578	4,778	4,889	5,000	5,036	8.6
Net Square Feet of Space Used -Sq. Ft. (in Millions)	5,047	5,203	5,125	4,854	4,834	5,012	5,230	NA	3.6 ³

¹ United States and Canada.

² For shows that used at least 5,000 net square feet of exhibit space.

³ 2000-2006 period.

Sources: Convention Centers: Is the Industry Overbuilt, 2008 Update, HVS; Tinley Park Convention Center Market Study, Industry Trend 3-11, May 31, 2007, HVS Convention, Sports & Entertainment; Gruen Gruen + Associates.

A review of long-term trends (1972-2007) at business-to-business events (i.e., tradeshows) shows that attendance at tradeshows had historically grown at an average rate of 4.4 percent annually; the number of exhibitors increased at an annual rate of 4.5 percent; and the amount of space rented increased at an annual rate of 5.4 percent.²⁶ More recent trends as shown in the table above show a much slower rate of growth generally in the range of 0.5 percent for space used to three percent annual growth in the supply of exhibit space. As a result of these slower growth trends, the supply of exhibit space increased by 20 percent between 2000 and 2007 while the number of shows and amount of space used increased by a much smaller amount of 8.6 percent and 3.6 percent, respectively. In a presentation to the IEDC conference on June 7, 2010 called “New Supply Slows to a Trickle, Analysis of the Convention Center Pipeline” HVS forecasts a very small supply pipeline of new space by historical standards. Approximately 3.9 million square feet of exhibit space is forecast to be added between 2010 and 2014.

²⁵ Based on Tradeshow Week’s database of facilities that exceed 25,000 square feet.

²⁶ HVS International, “Convention Centers: Is the Industry Overbuilt,” 2008 Update.



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The Center for Exhibition Industry Research indicates that the performance for exhibitions related to consumer goods and retail trade sectors is 24 percent lower than the 2000 base index it uses to evaluate market conditions. The overall exhibition industry performance has declined to 2000 levels due to an increase in supply and a decrease in demand over the 10 year period.²⁷

The Center for Exhibition Industry Research's forecast prepared in 2010 indicates that exhibitors in the consumer goods and retail trade sector are likely to remain cautious and not spend as much as in the past on sponsorships or hosted hospitality events and exhibition attendees are not anticipated to generate as much revenue per person as they have historically.²⁸

Interviews with managers of fairs with larger exhibition and event/arena facilities in the Bay Area and Sacramento indicate that their exhibition and event facilities have been impacted by national trends. Major conventions, trade shows, and corporate meetings have been particularly challenging to attract given both the supply additions and reduction in events as firms have cut business travel and event costs. In addition these interviews revealed that video conferencing, Skype, and other communication technology innovations have reduced the need for some types of meetings held in exhibition and event facilities. Cisco, for example, has made some meetings such as its annual sales meeting virtual in 2009 and some meetings as a hybrid between virtual and in-person programs which reduces the number of conference goers²⁹.

In addition, the increase in fuel prices and other economic/income pressures, and time constraints on households has reduced attendance for some public or consumer shows. Multiple fair managers reported significant reductions in attendees for events held annually at their respective facilities.

In the next sections, we shift from consideration of broader national trends impacting the exhibition industry to the micro market conditions that apply, beginning with an identification of the primary area market area Solano County Fairgrounds is likely to serve and sources of competition for potential events that could be held at the Fairgrounds.

SOLANO COUNTY FAIRGROUNDS MARKET AREA AND SUPPLY COMPETITION

Solano County is and is likely to remain the primary market area from which most attendees for both Fair and non-Fair event are drawn. The primary market area, however, is currently somewhat bifurcated by the location of the Dixon May Fair and Cal Expo which attract

²⁷ The Center for Exhibition Industry Research (CEIR) Index, An Analysis of the 2009 Exhibition Industry and Future Outlook, p. 23.

²⁸ Ibid, p. 26.

²⁹ "San Francisco is losing major conventions because Moscone can't accommodate them", San Francisco Business Journal, March 14, 2010.



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visitation from Solano County households located north of Vallejo. The annual Fair competes primarily with the Dixon May Fair for similar attendees.³⁰

A 2009 marketing plan prepared by the Solano County Fair reports the primary market area from which the annual fair draws attendees is Solano County. The marketing plan indicates that the “Fair target audience” is family households (ages 25-54 years) with children with household incomes less than \$100,000. The existing non-Fair events such as Hispanic dance concerts and gun shows attract attendees from the local area not more than approximately a 20 mile radius around the Fairgrounds. An exception is the AKC Dog Show which has the highest attendance of existing non-Fair events at the Fairgrounds and a wider geographic area from which it draws attendees.

The existing and potential future facilities on the site of the Solano County Fairgrounds face significant geographic and product competition. Table X-6 and Map X-1 show examples of the competitive facilities to the Solano County Fairgrounds.

³⁰ As described earlier in the report, however, the Dixon Fair is located in a more rural/suburban eastern part of the county with a greater emphasis on agricultural related activities, while the Solano County Fair is located in a more dense and urbanized western part of the County that trends to draw the majority of its fairgoers from the local community.



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TABLE X-6

Summary of Competitive Facilities for Solano County Fairgrounds in Its Current Condition

ID	Facility Name	Location	Total Exhibit Space (Largest Building) # Square Feet	Total Bldg. Space # Square Feet	Number of Acres #	Parking # Spaces
	Solano County Fairgrounds	Vallejo	40,000 (20,000)	140,250	150	6,580
A	Napa Valley Expo (Town & Country Fairgrounds)	Napa	16,000 (7,200)	31,800	34	780 (est.)
B	CSU East Bay Oakland Center	Oakland	None	11,000		
C	Marin County Fair & Exhibition	San Rafael	22,500 (22,500)	22,500+ ²	14 acre lagoon for fairgrounds	
D	Dixon Fairgrounds	Dixon	10,000 est. (5,000 est.)	26,300	38	
E	Contra Costa County Fairgrounds	Antioch	21,000 (7,000)	21,000		NA
F	Sonoma-Marín Fairgrounds & Event Center	Petaluma	6,358 (6,358)	11,238	60	4,000
G	Alameda County Fairgrounds	Pleasanton	32,500 (32,500)	131,000	267	10,000
H	Napa County Fairgrounds	Calistoga	15,100 (9,400)	15,100	60	
I	Sonoma County Fairgrounds	Santa Rosa	105,838 (40,500)	105,838		9,000
J	San Mateo County Event Center	San Mateo	215,000 (104,900)	254,500		4,000

¹ Interviews with the Solano County Fair Manager and an official with the Vallejo Convention and Visitors Bureau also indicate Dan Foley Park (GVRD), Antique Car Museum, USA Classic World Event Center and other smaller facilities are available locally for social, community, and other smaller events.

²In addition to the exhibition hall (Marin Event Center), meeting space, the Veteran's Memorial Auditorium and Showcase Theatre are available.

Source: Solano County Fair Manager; Websites of facilities; Gruen Gruen + Associates.



MAP X-1: Competing Exhibition Facilities



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Nine competitive facilities of which eight are fairgrounds are located within a 60-minute drive of the Solano County Fairgrounds. One additional fairgrounds event facility, San Mateo County Event Center, is located beyond a 60-minute drive time of the Fairgrounds. The interviews and review of attendance and event data indicate the two largest fairground facilities, Sonoma County and Alameda County, represent the most competitive fairground facilities in the broader region. Alameda County Fairgrounds which had annual attendance of over 418,000 at its 2010 annual fair has over 4,000 hotel rooms nearby. Sonoma County Fairgrounds has an annual fair attendance of over 300,000. These two fairgrounds, one north and one south of Solano County Fairgrounds, are each located about an hour from Solano County Fairgrounds. This is likely to constrain the trade area from which attendees can be drawn to Solano County Fairgrounds' events to up to an approximately 30-minute drive time around the site.

Table X-7 presents existing facilities that have large exhibit facilities and are expected to represent competition to Solano County Fairgrounds should it build a 100,000-square-foot exhibition hall and 25,000-square-foot events building. According to a report prepared by ERA/AECOM for the California Exposition and State Fair, over three million square feet of competitive public exhibit space is available in northern California and Reno Nevada.³¹

³¹ "Fairgrounds Market Demand Evaluation with Arena and Redevelopment Program at Cal Expo, Prepared for National Basketball Association and California Exposition & State Fair", Submitted by Economics Research Associates, an AECOM Company, February 2009, p. 59.



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TABLE X-7

**Summary of Competitive Facilities for Solano County Fairgrounds
in Its Proposed Future Condition with 100,000-Square-Foot
Exhibition Building and Events Building**

Facility Name	Location	Total Exhibit Space/ Largest Building # Square Feet	Total Space # Square Feet	Parking # Spaces
Moscone Center	San Francisco	541,900	798,100	3,000 (nearby)
Cow Palace	Daly City	300,000	306,900	4,200
Cal Expo	Sacramento	300,000 98,000	300,000	17,000
San Mateo County Event Center	Santa Rosa	215,000 104,900	254,500	4,000
San Jose McEnery Convention Center	San Jose	143,000	194,900	700 on-site
Sacramento Convention Center	Sacramento	134,000	186,700	2,000 (nearby)
Santa Clara Convention Center	Santa Clara	90,014 43,653	302,000	
Oakland Convention Center	Oakland	48,000	64,000	Next to Marriott Center which has 25,000 of additional event space.
Craneway Pavilion	Richmond	45,000 s.f. pavilion	Seats 1,932-2,056	NA
Sources: <i>Fairgrounds Market Demand Evaluation with Arena and Redevelopment Program</i> , Prepared for National Basketball Association and California Exposition and State Fair by Economics Research Associates, July 2009; Convention Center websites; Interviews with Facilities Managers; Gruen Gruen + Associates.				

The largest convention facility in the region is Moscone Center, San Francisco’s major convention center. With nearly 800,000 square feet of total space, the convention center is used for national and international conventions and trade shows. Moscone Center competes with other major convention markets in the U.S for conventions, trade shows, and corporate meetings. The Cow Palace is the second largest facility in the Bay Area with about 300,000 square feet of space. It is a multi-purpose venue with exhibit halls that are basic buildings of 49,000 square feet each and two other exhibit buildings which can be divided into three spaces of 20,000 square feet each.³²

Cal Expo, the State Fairgrounds in Sacramento, contains over 300,000 square feet of exhibit space and is the dominant consumer show venue in the Sacramento area. The Pavilions building, the largest exhibit facility is approximately 100,000 square feet. Two other exhibit buildings are 20,000 square feet and 28,000 square feet in size. At 20 years old, the Pavilions building is not air conditioned which limits its use during warm weather months. Between 2004 and 2007, Cal Expo hosted an average of 100 non-fair events with an average of 550

³² “Fairgrounds Market Demand Evaluation with Arena and Redevelopment Program at Cal Expo, Prepared for National Basketball Association and California Exposition & State Fair”, Submitted by Economics Research Associates, an AECOM Company, February 2009, p. 59.



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annual event days (including move-in/move-out days).³³ Typical of many fairgrounds, over 40 percent of the non-fair events at Cal Expo were consumer or public show events. Another 22 percent of events are SMERF. Only two percent of Cal Expo's non-fair events are trade shows. Because Cal Expo hosts a large share of the public shows in Sacramento, the average amount of indoor space utilized is 138,700 square feet and the average amount of outdoor space utilized for public shows is 324,000 square feet (both tented and paved space)³⁴. For the larger public shows, the utilization rate of Cal Expo's three exhibit halls are 20 percent to 21 percent³⁵. The trade area from which Cal Expo can draw visitors is up to 60 minutes away which would include the City of Fairfield³⁶. This large trade area will limit Solano County Fairgrounds pulling visitors from further north than Fairfield because Cal Expo will compete for the same kinds of shows that could potentially be attracted to the Solano County Fairgrounds.

The Sacramento Convention Center hosts over 500 events annually. The convention center has a 134,000-square-foot exhibit hall which is divisible into five areas. The exhibit hall hosts large trade and association meetings and consumer shows like the California State Home & Garden Show and Easy Rider Bike Show. A larger proportion (55 percent) of the exhibit hall events are conventions and conferences and smaller proportion (21 percent) are consumer shows³⁷. Due to the type of shows the Sacramento Convention Center hosts, demand is greatest for the exhibit halls that range in size from 12,300 to 33,000 square feet with a reported 75 percent utilization rate³⁸. The higher utilization rate than reported for Cal Expo relates to the convention center serving more frequent weekday convention and conference shows. Facilities cannot be feasibly designed to serve all types of events and must be specialized to accommodate the needs of specific types of events.

The San Jose Convention Center trade show calendar from January 2011 to January 2012 lists 102 booked events. Attendance at these events is estimated to range from 500 to 1,000 for conferences and meetings to as high as 15,000 for Hispanic dance and music events. The majority of events (over 50 percent) are in the range of 1,000 to 3,000 attendees.

The San Mateo County Event Center contains nearly 105,000 square feet of exhibit space. According to a listing on the National Association of Consumer Shows website, the facility is advertising open dates for its facilities for two open weekends in July 2011, one week in August 2011, and one week in January 2012. A recent San Mateo Daily Journal article reports the San Mateo County Event Center is adding an event called First Fridays Movable Feast to its event programming to book Friday nights. The manager indicated that while weekends were booked up completely going into 2013, the weekdays were often open during the year³⁹.

³³ Ibid, p. 25.

³⁴ Ibid, p. 32.

³⁵ Ibid, p. 30.

³⁶ Ibid, p. 48.

³⁷ Ibid, p. 70.

³⁸ Ibid, p. 71.

³⁹ "Event Center expands menu", San Mateo Daily Journal, May 21, 2011.



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Some of the facilities have recently or are planning an expansion. A HVS lodging market update for January 2011 reports the San Francisco Economic Development Department has reviewed plans to expand Moscone Center by 25 percent so it can better compete for tradeshow business with Chicago and Las Vegas but that any plans are preliminary and on hold given the fragile economic recovery⁴⁰. Santa Clara Convention Center expanded to 90,000 square feet of exhibit space and 70,910 square feet of meeting space in 2009. San Jose McEnery Convention Center is planning a \$120 million expansion and renovation that will add 125,000 square feet of new space including 25,000 square feet of meeting space and 35,000 square feet of ballroom space when it is completed which is anticipated to be in 2013⁴¹.

In addition to the supply of exhibition and convention facilities, larger San Francisco hotels such as the San Francisco Hilton which historically have not significantly competed for exhibitions and public/consumer shows with fair facilities such as the Cal Expo in Sacramento have begun to compete for such events due to the downturn in the corporate meeting and business-to-business trade shows attributable to the Great Recession. Accordingly, these hotels represent sources of potential competition which may siphon off some potential demand for events at the proposed exhibition building.

Conclusions Drawn From Review of Supply

The review of the supply of convention, exhibition, trade show, and public show facilities suggest the following conclusions:

- Existing convention, exhibition and event facilities in the San Francisco Bay Area (especially San Francisco and Silicon Valley) and Sacramento have ample facility and hotel room capacity to serve a wide variety of events, including large conventions, trade shows and corporate meetings as well as public consumer shows;
- A wide variety of facilities, including the existing Solano County Fairgrounds and other county fairs and hotels have the capacity to serve smaller events, including local public or consumer shows and those events which require both interior building space and outdoor space. Competition for serving demands originating from corporate events such as meetings, seminars, product launches, exhibitions and smaller convention and trade show events is intense. The interviews suggest an increasing proportion of demand from smaller events can be expected to be absorbed in hotel facilities, which have incentives to offer conference and meeting space at highly attractive rates in order to obtain hotel room bookings; and
- Alameda County and Contra Costa County to the south, Sonoma County to the west, and Sacramento to the east of the Solano County Fairgrounds have venues to also serve the demands of medium-sized events and will constrain the trade area from which the Solano County Fairgrounds can draw attendees and attract events.

⁴⁰ “San Francisco Market Update – Recovering from Recent Economic Recession”, p. 5, HVS, January 2011.

⁴¹ “San Jose Project Advances Amid Doubts”, The Wall Street Journal, April 7, 2011.



DEMOGRAPHIC AND EMPLOYMENT ANALYSIS TO COMPARE PRIMARY MARKET AREA FOR EVENTS AT PROPOSED EXHIBITION BUILDING AND EVENTS CENTER AT THE SOLANO COUNTY FAIRGROUNDS TO CHARACTERISTICS OF OTHER VENUES WITH SIMILAR FACILITIES

The interviews confirm the ability of the Solano County Fairgrounds to draw events sufficient to support the size of the proposed exhibition building and related facilities will significantly depend upon the size of the market area population and employment and its income and spending characteristics. In order to assess the depth of potential primary market area demand for a new 100,000-square-foot exhibition building at the site of the Solano County Fairgrounds relative to the market characteristics of other venues with large exhibition buildings, we compare the Solano County Fairgrounds site to the potentially competing facilities cited above in Table X-8 in terms of market area population and socioeconomic characteristics and employment base.

TABLE X-8

Demographic, Socioeconomic, and Employment Characteristics of San Francisco Bay Area and Sacramento Venues with Large Exhibition Buildings and Event Centers Like Those Proposed for the Solano County Fairgrounds

	Moscone Center	Cow Palace & San Mateo County Event Center	Cal Expo	Oakland Convention Center	Craneway Pavilion	Santa Clara Convention Center & San Jose Convention Center	Solano County Fairgrounds
County	San Francisco	San Mateo	Sacramento	Alameda	Contra Costa	Santa Clara	Solano
Population	812,820	724,702	1,428,355	1,521,157	1,056,064	1,737,375	414,509
Households	346,491	258,214	514,913	546,390	376,435	605,274	141,856
Total Employment ¹	933,800	933,800	794,200	938,300	938,300	862,900	116,800
Average Household Income	\$102,683	\$117,895	\$68,594	\$89,361	\$100,059	\$109,569	\$79,866
Percent of Households with Income Above \$100,000	35.3	43.1	20.8	33.3	36.6	42.7	27.4

¹ Non-farm, March 2011.

Sources: California Department of Finance, Table E-5 State/Counties Population & Housing Estimates, January 1, 2011; California Employment Development Department, Local Area Profile; U.S. Census Bureau, 2009 American Community Survey; Gruen Gruen + Associates.

The eight larger facilities for which the Solano County Fairgrounds is compared against are located in counties that have populations nearly two times to more than four times larger than Solano County’s population base. Similarly, the household base of Solano County is



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the smallest of the counties compared with the closest San Mateo County being about 180 percent larger in terms of number of households. Because Solano County includes bedroom communities with a large percentage of its residents commuting out of the County, the ratio of Solano County's employment base to the other counties' bases is even more skewed. All the other counties have employment bases from which to draw businesses that may need exhibit and event facilities six times to eight times larger than Solano County's base.

Just as conference, corporate and business-to-business trade show events seek locations with dense employment and business bases including their members or characteristics of their target customers, public or consumer shows prefer locations that include households possessing the characteristics of consumers which purchase their offerings. The interviews, for example, indicate that golf-related show promoters prefer event locations with a high number of golf courses and affluent households, while home and garden shows prefer locations proximate to new housing development and communities whose residents are likely to have relatively greater disposable incomes and are in life-stages in which they are furnishing and decorating homes. All of the areas other than Sacramento have substantially higher proportions of their populations with incomes above \$100,000 than Solano County. This indication of spending power suggests other submarkets have a higher proportion as well as numbers of residents with more disposable income to spend at public or consumer shows than do residents of Solano County.

Based on the findings about broader industry trends, the likely primary market area facilities at the Solano County Fairgrounds will most likely serve, the locations, types, and sizes of potentially competing venues, and comparison of demographic, income and employment characteristics, *it is unlikely that convention, trade shows and corporate meetings and other events during the work week will comprise a large source of use and net revenue for the proposed exhibition and event facilities.*

In addition, the interviews with fair managers indicate that it is typically difficult for fairgrounds with facilities (featuring multi-purpose flat floor space) that also need to serve the requirements of fairs to compete with non-fair facilities that offer higher-quality finishes and more breakout meeting room and conference space that convention and corporate meeting users require. For larger fairs in particular, the preparation and tear down time related to fair exhibits can also limit the ability to serve the business or corporate related markets before, after, and during the fair.

Moreover, interviews with fair managers familiar with event centers and arenas described a shift that has occurred in the music or concert industry. Nationally recognized performers are now able to command significant shares of ticket revenue and therefore concert promoters must seek and rely on obtaining revenues that the performers cannot readily access such as amounts that the events centers or arenas would otherwise receive as rent, food and beverage concession revenues and parking fees. This shift explains why promoters such as Live Nation have begun to build their own facilities in order to control the revenue sources that in the past event centers and arenas were able to obtain. Local and regional ethnic-oriented performances that can be held in exhibition facilities are likely to be a more



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profitable market and one that the Solano County Fairgrounds can penetrate further with facility improvements and targeted marketing.

POTENTIAL EVENTS ANALYSIS

Accordingly to obtain more insight about the nature of potential demand for exhibition events in the proposed facilities, we conducted interviews with the event promoters listed in Table X-9 below which do not currently hold events at the Solano County Fairgrounds.

Type of Show	Doll Show	Gem/ Jewelry Show	Arts & Crafts Show	Maker (DIY) Show
Number of Annual Shows	17	30	4 (in northern California); others in Nevada and southern California	3
Size of Attendance/Exhibitors	250 attendees; 10-15 exhibitor	2,500 (est.)	11,000-17,000 attendees/200-300 exhibitors	100,000 attendees, 500 exhibitors
Amount of Space Used (in Square Feet)	4,000-5,000	20,000-25,000	48,500 + outdoor space	300,000
Current Locations/Exhibit Venues	Pleasanton	San Rafael, Pleasanton, Sacramento, Santa Rosa	Pleasanton, Sacramento, San Jose, San Mateo	San Mateo, New York, Detroit
Market Area from Which Attendees are Drawn	150-250 Miles	20 miles	2 hour drive time	San Francisco, East Bay, San Mateo/Silicon Valley region
Potential Interest in new facility at Solano County Fairgrounds	No, happy with current venue	No, does not want to add new shows	No, does not want to add new shows	No, needs facility that can provide parking for 30,000+ cars; has access from more than two highways; at least five full-service hotels in vicinity; and police and fire services.

Source: Calls to promoters/producers by Gruen Gruen + Associates

Demographic Make-up of Attendees

The arts and crafts show reports that the average income of shoppers is over \$85,000 and 87 percent of attendees are women ages 35-64 years. The gem/jewelry show producer reported



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that the attendees were primarily females with incomes above \$60,000. A travel, fishing, hunting, and outdoor sports show that exhibits in Sacramento (as well as Salt Lake City, Denver, and Phoenix) reports attendance for its four-day shows of 22,000 to 40,000 people. Attendees are 76 percent male with over one-quarter of attendees having household incomes above \$100,000 and 75 percent of attendees are home owners. The Maker DIY show representative indicated attendees' household incomes average over \$125,000 with 60 percent of attendees having attained college degrees. The interviews indicate that event producers and planners evaluate the demographic, income and educational and other characteristics of the population of the geographic areas in which venues are located to select venues in market areas that fit with the make-up of attendees of their events.

Number and Size of Shows and Amount of Building Space Utilized

The annual number produced by the promoters range from four in Northern California (and additional shows elsewhere) for the arts and crafts show to 30 for the gem/jewelry show. Attendance ranges from 250 attendees for the doll show which uses 4,000 square feet of space to approximately 2,500 attendees for the gem/jewelry show which uses 20,000 to 25,000 square feet of space to 11,000 to 17,000 attendees for the arts and crafts show which utilizes 48,500 square feet of building space plus outdoor space. The largest show, the DIY show, attracts attendance of 100,000 and uses over 300,000 square feet of both indoor and outdoor space. This show producer brings in its own structures to supplement the San Mateo County Event Center existing facilities.

Venue Locations and Geographic Areas From Which Attendees are Attracted

The shows currently hold events at the Alameda County Fairgrounds in Pleasanton, Marin Center in San Rafael, the Sonoma County Fairgrounds in Santa Rosa, Cal Expo in Sacramento, San Jose Convention Center, and the San Mateo County Event Center. The smallest and specialized event, the doll show reports attracting attendees from as far as 150 to 200 miles away. The gem and jewelry show which puts on 30 annual events has the smallest trade area of approximately 20 miles. The arts and craft show reports a draw area of up to two hours. The largest event, the Maker DIY attracts most of its attendees from Silicon Valley, San Francisco, and the East Bay. Access via multiple highways, availability of hotels and support services, and large amounts of parking (4,000 spaces available at the San Mateo facility are insufficient) are critical requirements.

Potential Interest in Holding Events at Solano County Fairgrounds

One user, the doll show, is satisfied with the current venue and would not consider moving the show to the Solano County Fairgrounds. The two other users are also satisfied with the current venues and do not currently plan to add shows at new venue locations. The largest show, the DIY show, would need large amounts of space and parking and also does only three annual shows nationwide (one other is at the New York Hall of Science and the other is at the Henry Ford Museum in Dearborn, Michigan). Interviews with both managers of event facilities and promoters suggests that many event promoters will "stick with tried and



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true” facilities and that existing venues will lower prices and offer attractive combinations of services to preempt new facilities from inducing events to move from existing facilities to the new facilities.

Conclusions About Demand Potential Drawn From Interviews of Potential Users/Events and Synthesis of Research

The facility programming and sizing should reflect the findings from the research that most events the Fair will most likely capture will tend to occur on the weekend dates (Friday-Sunday); and most events will be public or consumer shows, SMERF and community events.

Review of the prior ERA/AECom report⁴², review of financial statements for exhibition facilities and interviews with multiple fair managers of large exhibition and event facilities confirm that the capital costs of the proposed exhibition and event facilities will need to be subsidized and that even successful operations will probably need to be subsidized.

⁴² Previous findings by ERA indicate that the proposed capital facilities would require a large subsidy to develop and ERA appears to have projected that operating expenses would exceed the revenues generated from the operation of the exhibition/event facilities. See ‘Solano360 Vision Plan Financial modeling and Fiscal Analysis,’ Exhibit K, prepared by Economics Research Associates dated January 14, 2010.



APPENDIX A

SOURCES CONSULTED

Economic Development, Real Estate and Exhibition/Fair Professionals

- Michael Ammann, President, Solano Economic Development Corporation
- Joe Barkett, CEO, Cow Palace
- Mike Browne, Executive Director, Vallejo Convention and Visitors Bureau
- Chris Carpenter, General Manager, San Mateo County Event Center
- Rod Chisessi, Senior Vice President, Samuels & Company, Inc
- Eric Dakin, Associate, Colliers International
- Glen Dowling, Executive Director, Cushman & Wakefield
- Matthew Holmes, Principal, Retail West Inc.
- Michelle Hightower, Acting Planning Manager, City of Vallejo
- Dale Kaetzl, General Manager, Six Flags Discovery Kingdom
- Brian May, Deputy General Manager, Cal Expo
- Gary Morris, Real Estate Director, Bass Pro Shops
- Shauna Allison, Sales Manager, Cal Expo
- Tracey O'Neill, Crosspoint Realty Services, Inc.
- Sandy Person, Vice President, Solano Economic Development Corporation
- Michael Paluszak, General Manager, Solano County Fair
- Amy Samuelson, Site Specialist, Cabela's
- Katie Singer, Retail Associate, Terranomics
- Annette Taylor, Senior Community Development Analyst, City of Vallejo
- Dan Wald, Managing Director, Cassidy Turley BT Commercial
- Craig Whittom, Assistant City Manager, City of Vallejo

Local Retail and Hotel Operator and Event Producer Representatives

- Store Manager, The Home Depot
- Operations Manager, Best Buy
- Store Manager, Bed, Bath and Beyond
- Restaurant Manager, Olive Garden
- Owner, Comfort Inn
- General Manager, Courtyard by Marriot
- General Manager, Ramada Inn
- Director of Sales and General Manager, Fairfield Inn & Suites
- Exhibitors Association
- GemFaire Inc.
- Harvest Festival
- Maker Faire - O'Reilly Media Inc.



APPENDIX B

**RETAIL SPENDING UNLIKELY TO
RETURN TO PRE GREAT RECESSION LEVELS**

INTRODUCTION

Strong demographic, cultural, and technological factors indicate that spending at on-the-ground retail space will not return to what it was prior to the Great Recession.

While household savings rates may decrease again once the economy is healthy and job loss fears recede, it is unlikely to go negative as it was only a few years ago. Spending for goods purchased in retail outlets is expected to decline, even if the savings rate falls. Several factors account for this anticipated decrease. First, demographic shifts suggest a significant behavioral change.

DEMOGRAPHIC- AND ATTITUDINAL-INDUCING BEHAVIOR SHIFTS

The dominant population group, generation Y accounts for 76.3 million people. With the exception of technological gadgets, gen-Yers are less interested in purchasing apparel and similar goods at retail stores. In addition, though many gen-Yers have not directly felt the impact of the recession as keenly as have baby boomers, they face a challenging job market, increasingly will have less access to credit, and will not own housing that they can treat like an ATM, as baby boomers did. The second-largest age group, baby boomers (born between 1946 and 1964)—the parents of generation Y—account for 75.6 million people. But many baby boomers not only have been hurt by the recent recession, but also already own many of the goods they want and most of what they need. They frequently spend their surplus dollars on their children for college expenses, help with rent, and the like, as well as on caring for aging parents. This demographic-based behavior is confirmed by changes in consumer behavior and clear indications of the intended behavior after the current recession ends.

A consumer survey conducted in 2009 by Booz & Company, for example, produced the following findings:

- Most consumers will continue to consider saving more important than spending;⁴³
- Consumers have continued to reduce spending in 16 major categories, including retail,⁴⁴ and
- Less than 20 percent of consumers intend to revert to their pre-recession spending habits.⁴⁵

⁴³ “The New Consumer Frugality: Adapting to the Enduring Shift in U.S. Consumer Spending and Behavior,” Booz & Company, 2009, page 3. <

http://www.booz.com/media/uploads/The_New_Consumer_Frugality.pdf >

⁴⁴ Id @ page 3.

⁴⁵ Id @ page 3.



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The analysts observe that the "new frugality is encouraged by longer-term trends, such as the retail emphasis on private labels, the ease of shopper research and buying via digital media, and innovation and intensifying price competition among and within retail formats." The analysis of the survey results indicate that the behavior inherent in the "new frugality are hardening across demographics, including income, gender, ethnicity, and age."⁴⁶

The analysts conclude that "consumer behavior has changed in enduring ways and waiting out a return to the pre-recession" spending behavior "is not a viable strategy".⁴⁷

Consistent with the Booz & Company survey results, an April 20-21, 2009 Gallup Poll, as another example, found that approximately one-third of Americans had decreased their spending and intended to "solidify this behavior as their 'new normal' in the years ahead."⁴⁸ The results of the survey suggested that a "new frugality" is becoming a new cultural norm and therefore retailers can expect consumer expenditures to not return to the levels prior to the recession.⁴⁹

Persistently high unemployment rates (currently 11.6 percent in Solano County)⁵⁰ and declines in the net worth of households are likely to help entrench this cultural norm as spending power is nowhere near what it was when the housing bubble and a booming stock market helped fuel American's shopping in the absence of real income growth.⁵¹

The American consumer is still substantially indebted with stressed balance sheets. Consumer credit increased by 60 percent from \$1.5 trillion in 2000 to \$2.4 trillion in 2010.⁵² Chart B-1 illustrates the use of ever increasing debt on credit cards and mortgages to buy goods that cost more than households could pay out of current income.

⁴⁶ Id @ page 4.

⁴⁷ Id @ page 8.

⁴⁸ www.gallup.com/poll/118003/say-spending-less-new-normal.aspx, April 27, 2009 "In U.S., 32% Say Spending Less is their "New Normal", Frank Newport.

⁴⁹ Id. @ page 7.

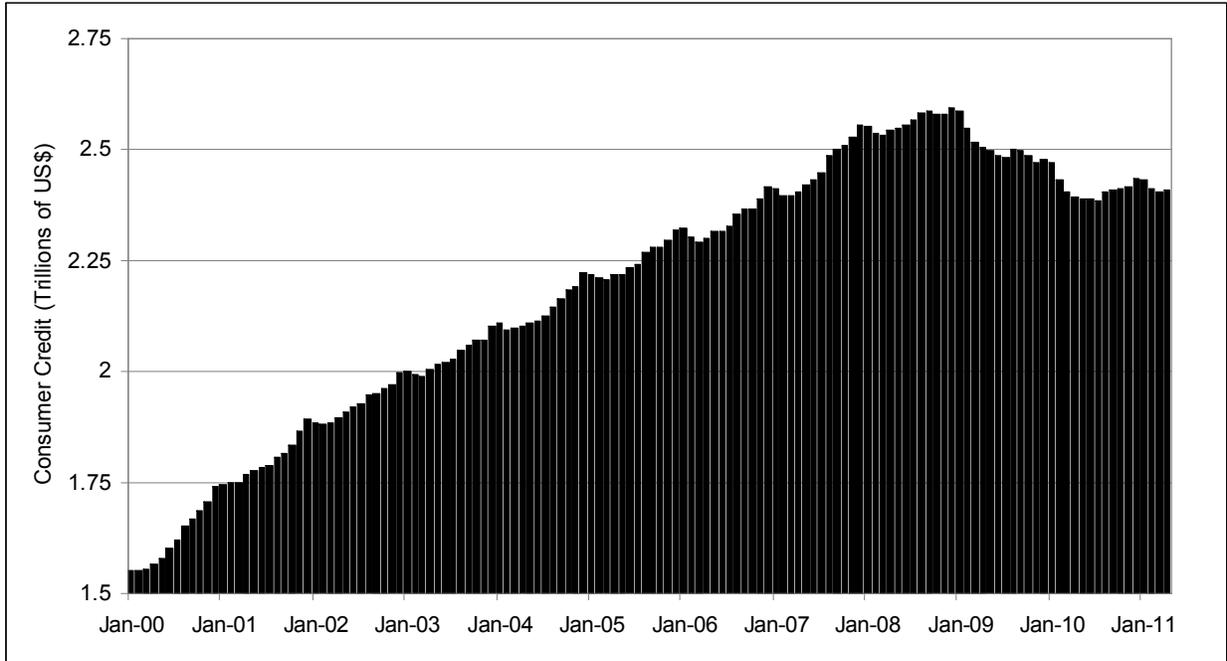
⁵⁰ According to the UCLA Anderson March 9, 2011 forecast, the statewide unemployment rate is estimated to remain high at 8.9 percent through 2013.

⁵¹ According to the February 24, 2011 fourth Quarter 2010 Target Corporation Earnings conference Call, Target's shoppers "are concerned about losing their jobs and focused on controlling household budgets..." According to the May 10, 2010 issue of Retail Traffic, "Mind Reading" by Elaine Misonzhnik, in "2005, for example, U.S. consumers extracted \$750 billion of equity from their homes through home equity lines of credit. In 2009, the figure fell to a negative \$214 billion." According to the Center for Economic and Policy research, "the net worth of households headed by those aged 45 through 54 declined 45 percent in the five years since 2004 to \$94,200. The net worth of households headed by people aged 55 through 64 dropped 50 percent during the same period, to \$159,800." See "Retailers Must Adapt as Baby Boomers and Gen Y-ers alter Their Shopping Patterns", by Elaine Misonzhnik, Retail Traffic, October 6, 2009.

⁵² "Major Retailers Hurt by Collapse of Consumer Debt-Spending", by Jim Quinn, September 13, 2010, Gurufocus.com.



CHART B-1: Total U.S. Consumer Credit



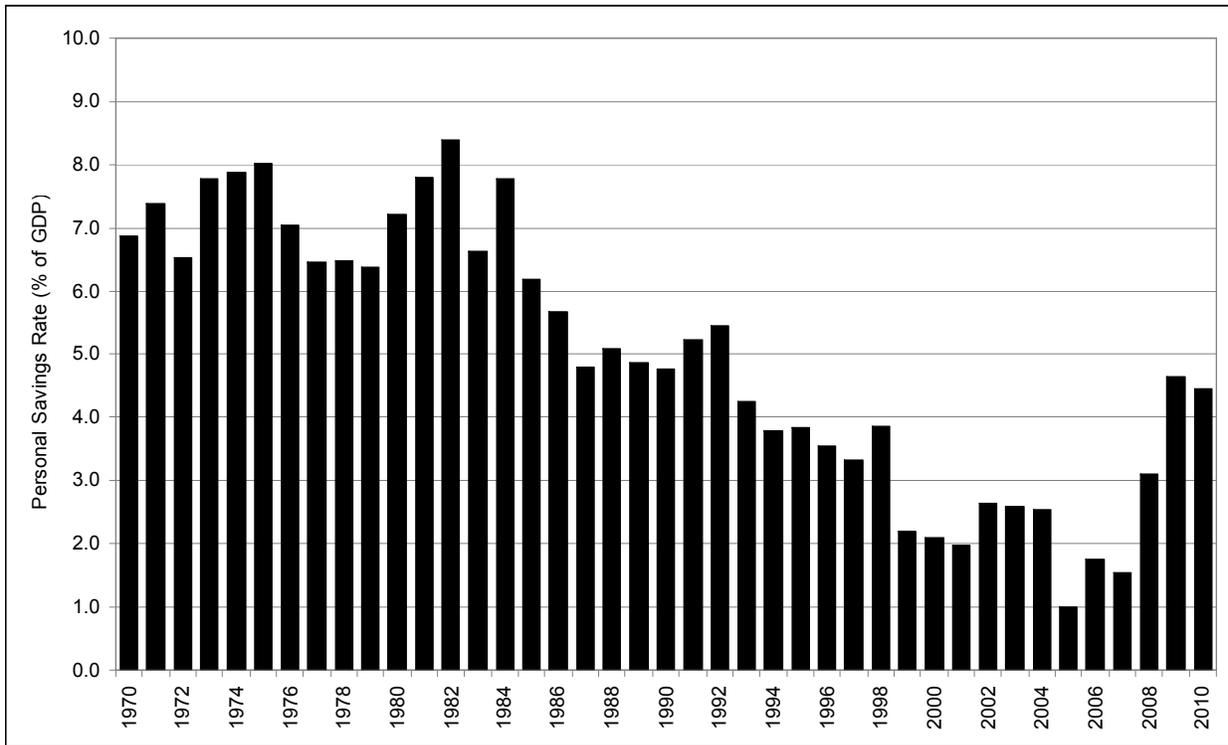
Sources: Federal Reserve Bank, *Consumer Credit Historical Data*; Gruen Gruen + Associates.

The graph below shows the amount of personal savings as a percentage of gross domestic product or GDP. GDP measures the size of the national economy. GDP is the sum of investment, personal consumption, government spending, and net exports.

The personal savings rate declined consistently for the better part of 30 years leading up to the Great Recession. Savings comprised about seven percent of gross domestic product in the 1970s, reached about eight percent in the 1980s, but then declined to about five percent from 1990 through 1994 to three percent from 1995 through 1999. Between 2000 and 2005 the savings rate declined to essentially zero percent before the effects of the recession which has created what is likely to be an enduring shift in U.S. consumer spending behavior. The personal savings rate rebounded to approximately 4.5 percent of GDP in 2008 and 2009.



CHART B-2: Personal Savings as Percent of GDP

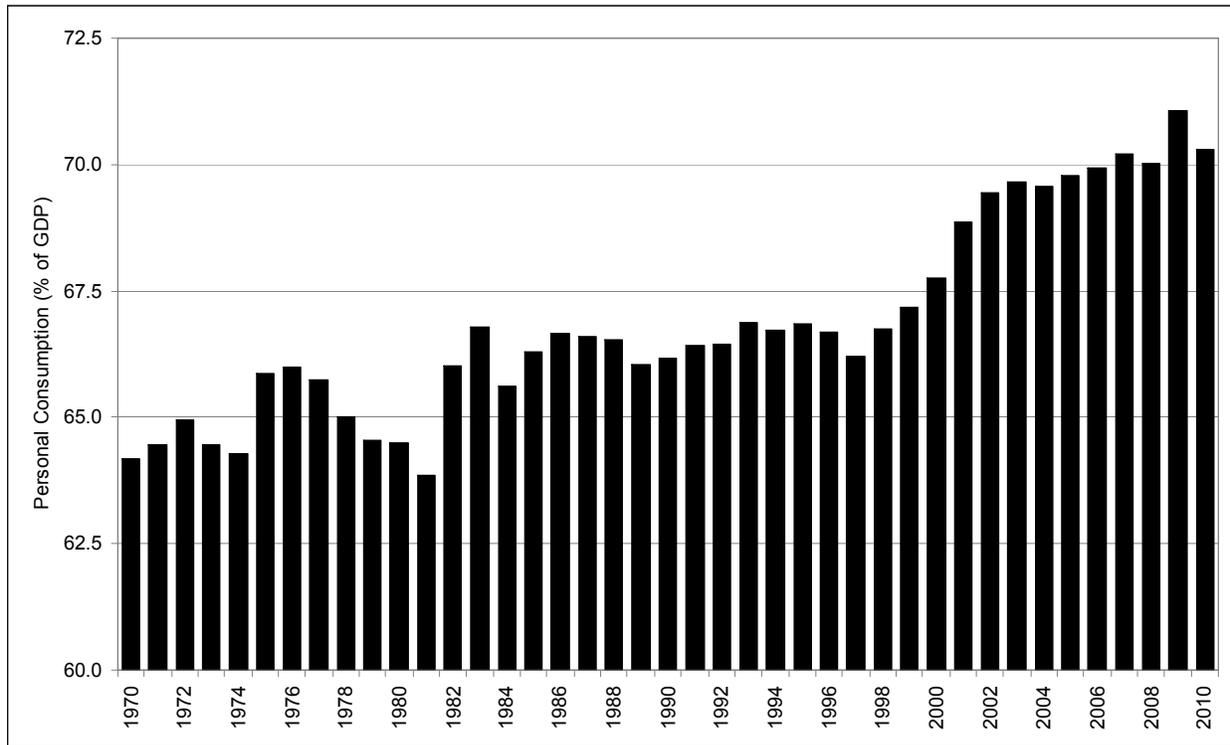


Sources: Bureau of Economic Analysis; Gruen Gruen + Associates.

The rise of consumer spending to levels never attained before the past decade is seen on Chart B-3, which shows consumption as a percentage of the GDP.



CHART B-3: Personal Consumption Expenditures as Percent of GDP



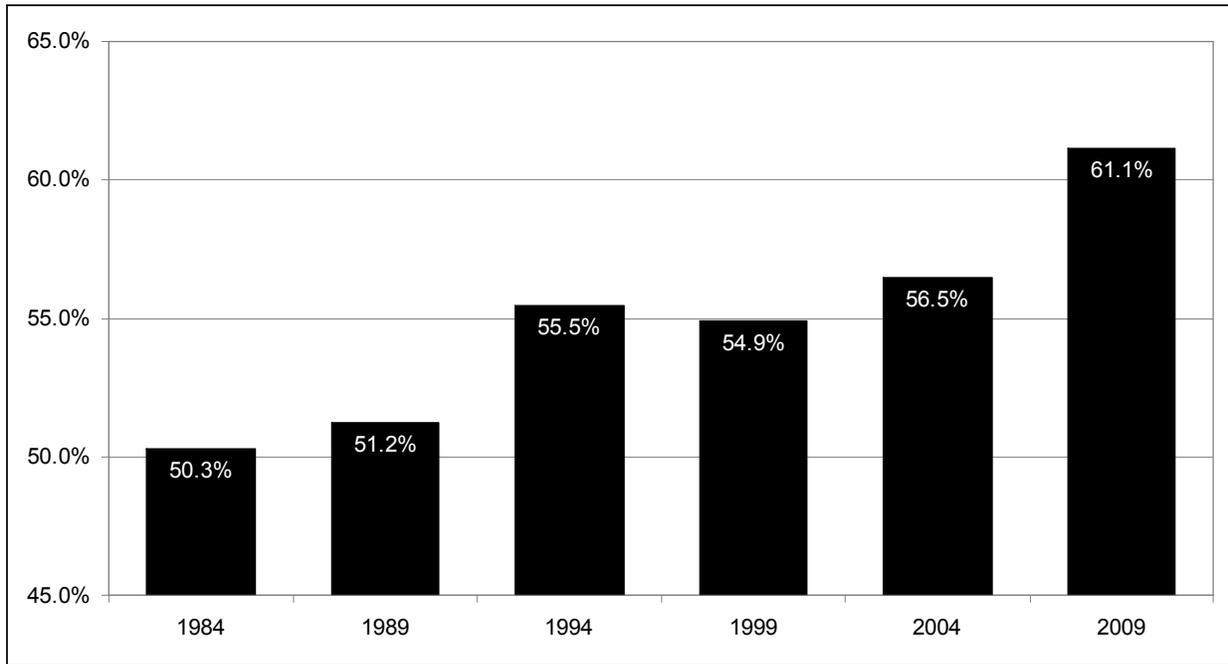
Sources: Bureau of Economic Analysis; Gruen Gruen + Associates.

The graph shows that personal consumption made up 64 percent of the GDP in the early 1970s but increased to 70 percent of our country's GDP by 2006. Consumer spending is likely to regress back to earlier measures of normal consumption (as a function of GDP) and the increased rate of savings is likely to continue.

Although consumption as a share of GDP remains higher than historically stable averages of the 1980s and 1990s (+/- 66 percent), a long-term shift in the distribution of expenditures away from retail goods has been occurring from more than two decades, as shown on Graph B-4. Housing, utilities, healthcare, and education continue to make up an increasingly larger share of household expenditures.



**CHART B-4: Share of Total Consumer Expenditures
Allocated to Housing, Utilities, Healthcare, Education, and
Personal Insurance and Pensions in the Western United States**



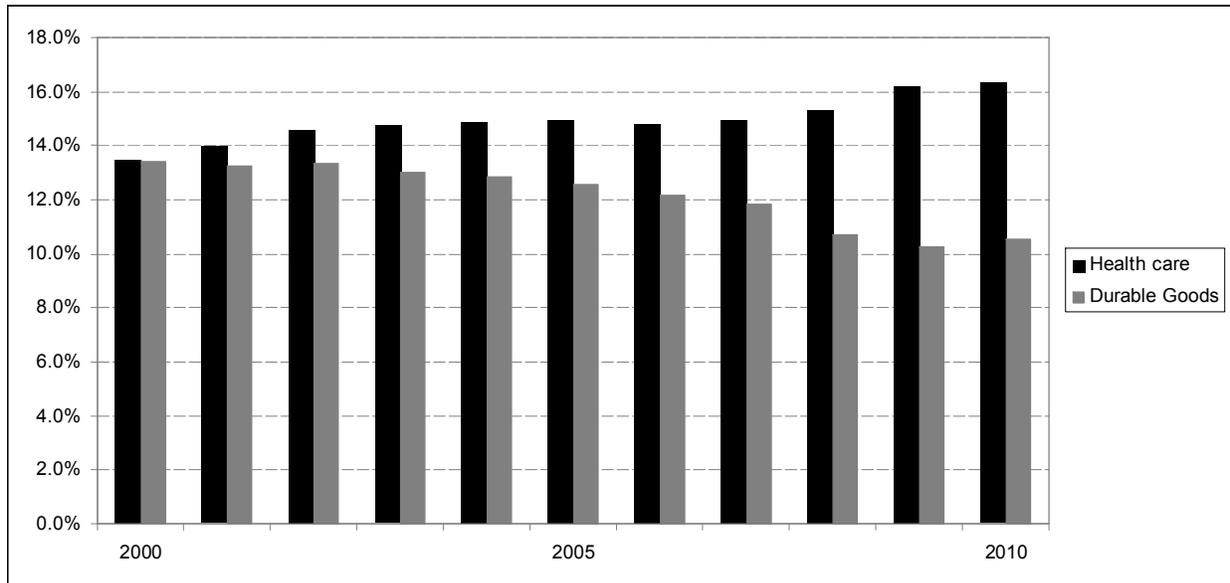
Sources: Bureau of Labor Statistics, *Consumer Expenditure Survey*; Gruen Gruen + Associates.

In 1984, approximately 50.3 percent of expenditures were comprised by housing, utilities, healthcare, education, and personal insurance and pensions. Over the 25-year period from 1984 to 2009, the share of expenditures comprised by these non-retail goods and essential services increased to more than 61 percent. Even as incomes and disposable incomes continue to grow over time, the increasing shift towards consumption of non-retail goods and services will constrain discretionary retail spending.

A particularly noticeable shift in consumption that is likely to continue given the demographic and structural shifts outlined above, and as illustrated below in Chart B-5, relates to the health care and durable goods segments.



CHART B-5: Health Care and Durable Goods Share of Total Personal Consumption



Sources: Bureau of Economic Analysis, *NIPA Accounts*; Gruen Gruen + Associates.

In 2000, health care and durable goods (primarily discretionary retail goods and automotive goods) both comprised roughly 13 percent of total personal consumption in the United States. In 2010, durable goods comprised only 10 percent while the share of consumption associated with health care services increased to above 16 percent.

SHIFT OF SALES TO INTERNET

Most significant, however, an increasing percentage of retail goods are now purchased on the Internet. According to Forrester Research, a technology and market research company, online sales now account for about six percent of all retail sales in America, up from five percent in 2008, and the number is expected to reach eight percent by 2013. Forrester forecasts online retail sales in the U.S. will be nearly \$250 billion in 2014, up from \$155 billion in 2009⁵³. This compares to online sales of \$12 billion in 1999. At \$300 per square foot, this additional \$95 billion of online sales would theoretically replace about 320 million square feet of on-the-ground retail space. For a better visual picture, imagine the loss of 320 regional shopping centers averaging one million square feet of retail space, about the size of the Solano Mall identified in Chapter IV. We do not suggest all of this theoretical loss will be subtracted from existing retail space but it does strongly suggest that significant replacement of existing space will occur and that less new retail space will be built in the future.

As an indication of the impact of Internet shopping and other technological innovations, consider that Blockbuster, Circuit City, and Border's are examples of retailers that formerly occupied significant on-the-ground facilities that were competitively impacted by the rise of Internet shopping. The growth of e-tailing, therefore, is likely to place increasing pressure on

⁵³ Forrester Forecast: "Online Retail Sales Will Grow to \$250 Billion By 2014", TechCrunch, March 8, 2010, by Erick Schonfeld.



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retailing and retail real estate to evolve and respond to the threat of loss of on-the-ground customer traffic and sales and decrease the need for retail real estate, especially that offering commodity or standard type comparison or shopper goods. Etailing will increasingly substitute for the purchase of standard commodities that are not fun or convenient to buy in person. As the competition from etailing/Internet shopping expands, the percentage of income devoted to in-store retail sales will decline. Therefore, opportunities will arise to adaptive new uses for excess and obsolete retail.



APPENDIX C

**EVALUATION OF POTENTIAL FOR ATTRACTING
AN ICONIC DESTINATION RETAILER**

The Solano360 Vision Plan includes the concept of the Fairgrounds' site serving as a location for an "iconic destination retailer." The example cited of such a retailer is Bass Pro Shops. Bass Pro Shops had previously been identified as a potential tenant of an earlier proposed Mills Corporation development that did not move forward and would have required a significant subsidy as an inducement to locate a Bass Pro Shops store at the project. Bass Pro Shops would still have interest, if a larger incentive than previously proposed could be provided. Bass Pro Shops is seeking to open one or two additional stores in the area (it opened a store in Manteca in 2008 and is searching for sites toward Sacramento or closer to San Francisco).

The other iconic destination retailers frequently cited as similar in nature to Bass Pro Shops include IKEA, which already has stores in West Sacramento and Emeryville, and Cabela's, with whose real estate representative we have had contact and which does not plan to consider opening stores anywhere in California for one to two years.

In contrast to "iconic destination stores" like American Girl and Tiffany & Co. which focus on locating their unique stores in retail agglomerations in premier, dense, urban, major tourist markets such as Manhattan and Chicago, we evaluate the concept of attracting a "magnetic" retailer like Bass Pro Shops or Cabela's, which typically sell comparison or shopper goods and whose initial store roll outs focused on the outskirts of less urban metropolitan areas.⁵⁴ Therefore, these "one-of-a-kind" stores attracted customers without "help" from other retailers, faced limited retail store supply competition, and tended to attract customers from extremely wide trade areas. These stores became destinations because their target market consumers could not find similar concepts, styles or brands, comparable pricing, and the overall experience closer to their homes. In many cases, stores were located in areas accessible to direct catalog customers which therefore were provided opportunities to also patronize the stores. In some of these cases, stores like Bass Pro Shops or Cabela's become tourist attractions (just as Apple and Niketown have become in major urban tourist markets) and helped to attract other retail stores, hotels and restaurants near their stores.

As a result of this ability to generate value spillover from the customer traffic the destination retailers generate, Bass Pro Shops and Cabela's have traditionally obtained significant municipal and/or state incentives.

⁵⁴ For example, according to its 2010 Annual Report, Cabela's opened stores in Sidney, Nebraska (July 1991), Owatonna, Minnesota (March 1998), Prairie Du Chien, Wisconsin (1998), East Grand Forks, Minnesota (September 1999), Dundee, Michigan (March 2000), Mitchell, South Dakota (August 2000) Buda, Texas (June 2005), Lehi, Utah (August 2005), Rogers, Minnesota (October 2005), Rapid City, South Dakota (August 2008), and other stores in secondary markets.



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Several trends, however, make the concept of an iconic destination retailer of the type like Bass Pro Shops and Cabela's potentially less compelling. First, destination retailers have not been immune to the decline in consumer spending on discretionary goods and have been impacted by rising gas prices and the prevailing economic conditions and insecurities which could endure beyond the end of the recession. Destination stores depend upon drawing traffic from a wide area and therefore are susceptible to declining in-store sales because they sell the type of nonessential goods for which consumers may scale back on purchasing or postpone purchasing.

Second, especially in the outdoor recreation, casual apparel and footwear markets, the supply of stores has increased. For example, destination retailers like Bass Pro Shops and Cabela's compete directly or indirectly with each other, Gander Mountain, Ovis, Sportman's Warehouse, large-format category-killer sporting good stores such as Dick's Sporting Goods, specialty retailers L.L. Bean, Lands End, and REI as well as mass merchandisers such as Wal-Mart and Target. As the destination retailers expand into more urban, built-out markets with more direct and indirect competition, their offerings and formats may be perceived as relatively less unique and one-of-a-kind and therefore may become less magnetic as tourist draws. As a result, the spillover benefits they bestow to adjoining locations may be less powerful. For example, in Hoffman Estates, Illinois (a northwest suburb of Chicago where Sears is located), a 195,000-square-foot freestanding Cabela's store located adjacent to Sears' headquarters campus along a major interstate interchange was opened in 2007. The Cabela's store in Hoffman Estate has not generated spillover commercial development. Similarly, Cabela's 189,000-square-foot store opened in 2007 along an interstate highway in Hammond, Indiana, just outside of Chicago has also not resulted in adjoining development.

Similarly, in 2005, the developer and Bass Pro Shops announced Bass Pro Shops would anchor The Promenade Shops at Orchard Falls, an approximately 700,000-square-foot "lifestyle center" development in Manteca. A significant subsidy was provided to induce Bass Pro Shops to locate its first California store in Manteca. In 2008, the first phase of the development opened with the Bass Pro Shops and a movie theater. In 2009, a Best Buy, JC Penny and Hampton Inn opened at the development. Currently, nearly 38 percent of the development remains vacant. The announcement of and opening of the Bass Pro Shops store has not served as a powerful catalyst in attracting other unique and exciting retailers and restaurants to the development that are not already found in the Vallejo market area.

An additional reason that Bass Pro Shops and Cabela's in particular do not tend to generate significant spillover in more urban areas is that their audience tend to be males, which do not tend to shop for apparel and other offerings frequently found in stores in lifestyle centers, power centers, and other retail formats.

Third, because of the proliferation of competition and alternatives related to the entry into more urban markets and the attendant traffic congestion, the trade area destination retailers like Bass Pro Shops and Cabela's serve have begun to decline and they no longer can readily attract consumers without the aid of proximity to complementary retailers and other uses. Cabela's has recognized this shift and therefore indicated it no longer builds destination



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stores. Instead, it prefers being an anchor tenant, co-tenanted with other major retailers in developments of 400,000 square feet of building space or larger.

In addition, Cabela's has developed a new, smaller format that reflects its effort to maintain sales per square foot productivity and profit margins in an increasingly competitive retail environment.⁵⁵ For example, Cabela's opened its "next generation" format of a 76,000-square-foot store in Grand Junction, Colorado in 2010 with plans to open two more similarly-sized stores in 2011. It plans to open another next generation store in Wichita in 2012. This store size is about one-half the size of the proposed iconic destination retailer use in the Vision Plan.

These types of retailers are increasingly considering the demographics and retailing environment in the geographic areas near their sites as well as interstate frontage with excellent access and visibility as key factors in their site selection. In addition, the interviews indicate that the Fairgrounds' site will also be compared to opportunities in Fairfield, Vacaville, and other locations as well as incentives available at these alternative locations and the nature and strength of potential co-tenants. The reduced size of store format increases the location and project options available to Bass Pro Shops and Cabela's. Note, however, that if provided sufficient incentives, Bass Pro Shops would use its 150,000-square-foot format at the Solano County Fairgrounds.

Given the market conditions described in the main report, the trends and shifts described above, and the fact that relatively few stores are opened in any given year by the envisioned iconic destination retailers, the probabilities of attracting an iconic destination retailer of the type previously envisioned are relatively low, or can be expected to require significant governmental incentives as inducements.

However, new retail concepts and formats will arise over time and if packaged with the potential enhancement and additions of entertainment anchors at the Fairgrounds, the planning of the Fairgrounds' redevelopment could at least provide for the possibility of the attraction of an exciting retailer or more likely a set of exciting retailers should an appropriate opportunity present itself in the future.

⁵⁵ According to Cabela's 2010 annual report, sales per square foot averaged \$308 in 2009 and \$301 in 2008.



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