



ECONOMICS OF DOWNTOWN REVITALIZATION

Modesto Downtown
Specific Plan

October 2019

AGENDA

- I. What is “*Revitalization*” and how does it work?**
- II. Trends in downtown development and land use**
- III. Market and development trends in Modesto**
- IV. Challenges and Opportunities in Downtown**
- V. Questions and Group Discussion**

WHAT IS DOWNTOWN REVITALIZATION?

Suburbs redirected community energy

- Populations shifted outward and so did retail
- Slow disinvestment in downtown environments
- Reputation as crowded, unclean, and unsafe

Downtowns are undergoing a renaissance

- Renewed appreciation for urban places
- Diversity of influences and opportunities
- Driven by the young, but benefiting all
- Often occurs organically, but not always

WHAT IS DOWNTOWN REVITALIZATION?

Encourage revitalization through planning

- Revitalization occurs in response to demand
- Planning helps to articulate community vision
- Forces communities to think about the market
- Allows for strategic and coordinated investments
- Helps to concentrate demand and build it up

TRENDS IN DOWNTOWN DEVELOPMENT

Downtown residential is a key component

- Downtowns have relied too much on workers
- Limiting opportunities for dining and retail
- Growing demand for urban living statewide
- Resident demand helps create unique character
- Supports amenities and encourages 24/7 activity

*“Pay the bills on the residents...
make your profit on the visitors”*

TRENDS IN DOWNTOWN DEVELOPMENT

What is the right mix of uses?

- Each community is unique, with some similarities
- A diversity of housing types creates opportunities
 - High density apartments/condos create an urban feel
 - Townhomes create more intimate/rooted places
 - Single-family homes blend with existing neighborhoods
- Offices add daytime activity and link jobs/housing
- Civic uses identify downtown as the city's core

TRENDS IN DOWNTOWN DEVELOPMENT

What is the right mix of uses?

- Some industrial uses can be appropriate
 - “maker spaces,” specialty and food manufacturing
 - Art studios and breweries are also entertainment
- Retail remains a critical downtown use
 - Online retailing is changing the market
 - Greater focus on “experiential retail”
 - Food service, fitness, beauty, etc.
 - Modern downtown retail is more specialty

MARKET AND DEVELOPMENT TRENDS

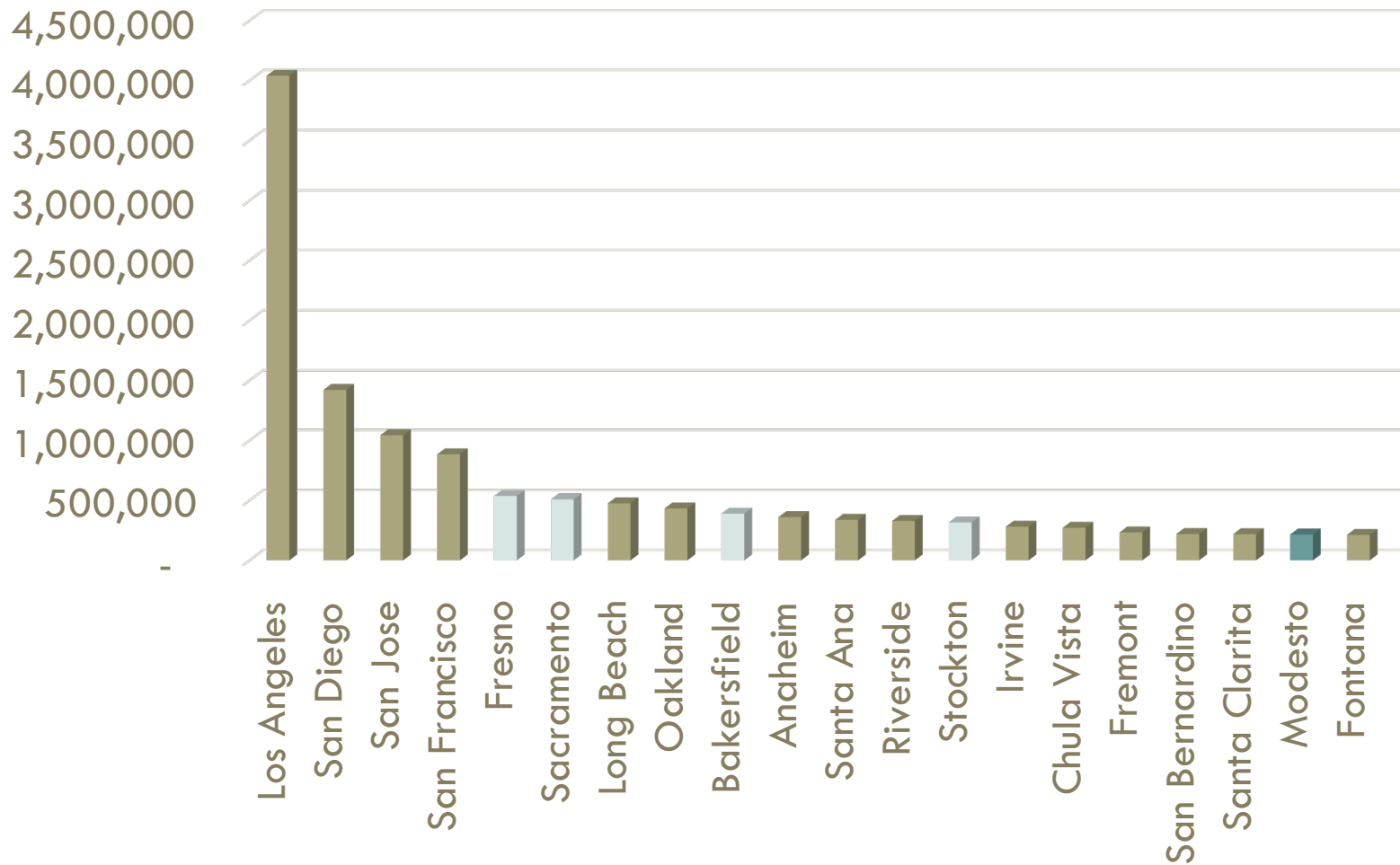
Modesto is 19th largest city in California

- Among the top 5 largest in the Central Valley
- Total population of 215,200 as of 2019
- According to the Department of Finance

Population growth matches statewide trend

- Other cities grew more quickly, but are smaller
- Modesto was still 32% of countywide growth, while smaller high-growth cities were 24%

TOP 20 CITIES BY POPULATION



DOWNTOWN DEMOGRAPHICS

Downtown is growing much more slowly

- Added only 119 residents/30 HHs since 2010

The downtown population is quite small

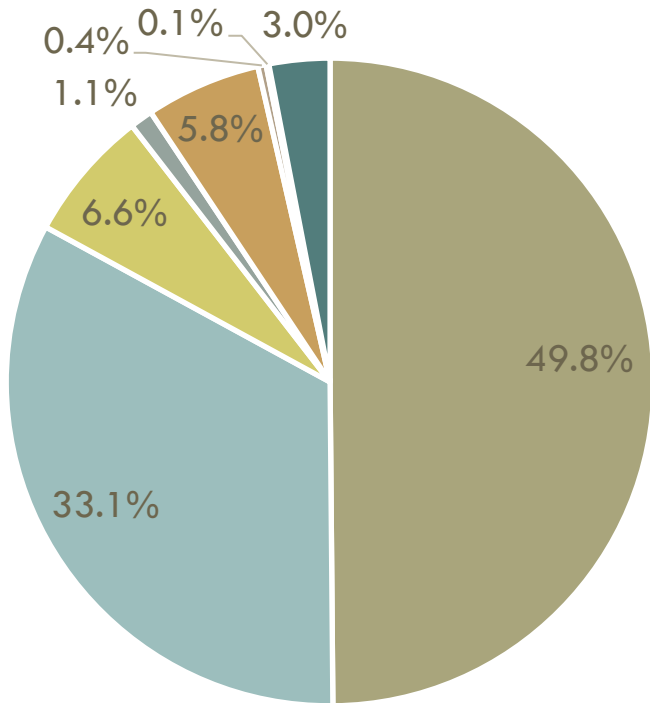
- 1.4% of the citywide population

Downtown residents/households are unique

- Younger than average
- Racial/ethnic minorities
- Lower-income/wages

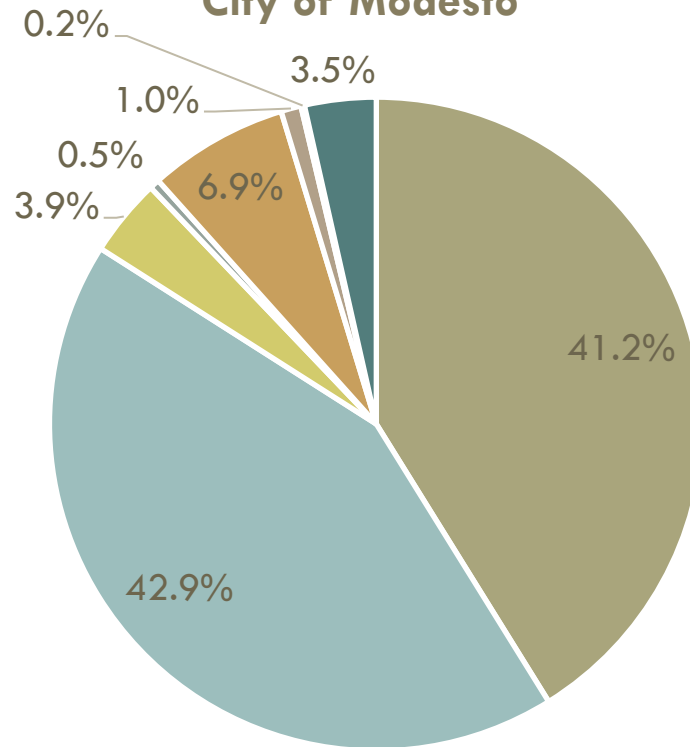
RACIAL/ETHNIC DISTRIBUTION

Downtown Modesto



% Minority: 66.9%

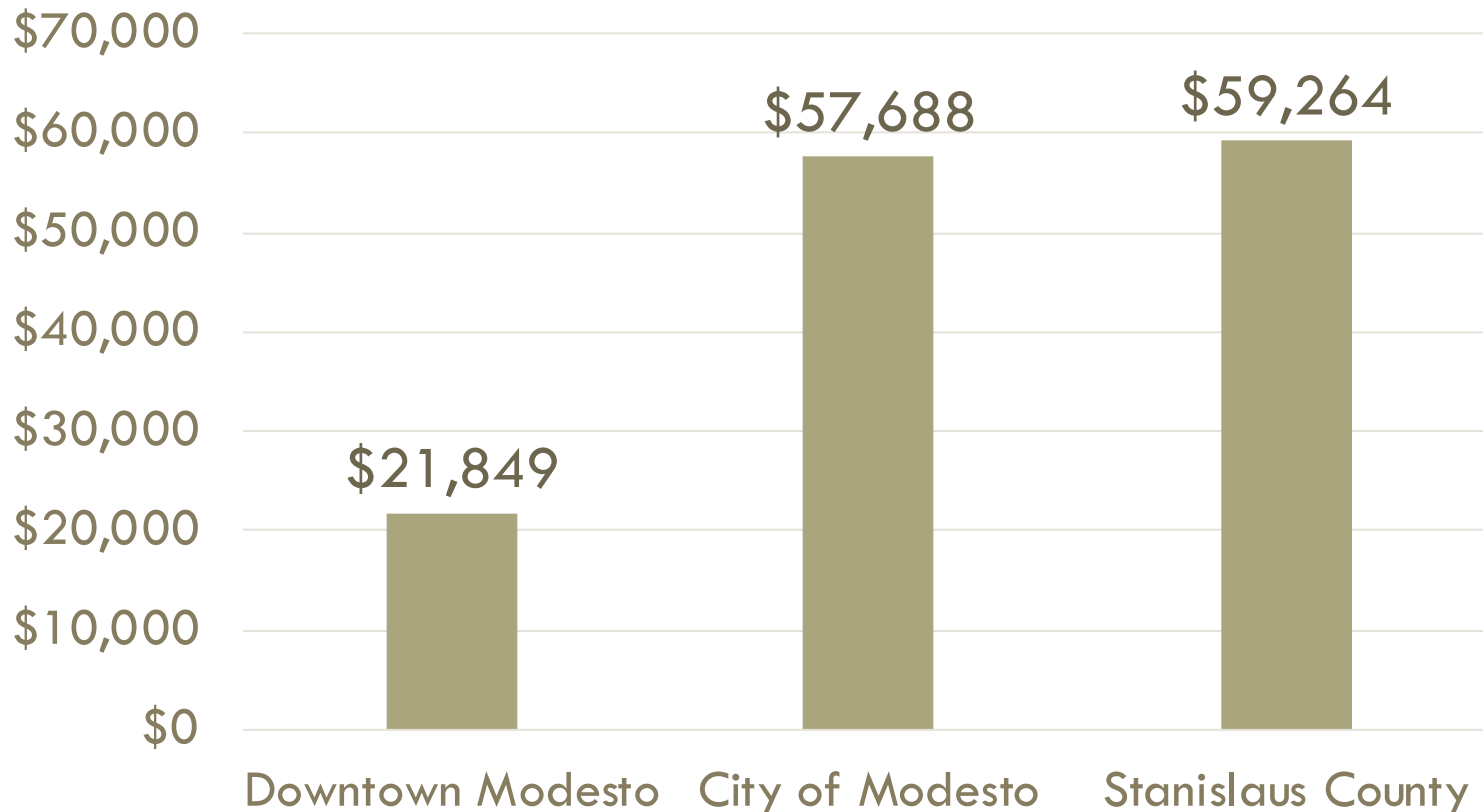
City of Modesto



% Minority: 57.1%

- Hispanic/Latino
- White
- Black/African American
- Native American
- Asian
- Native Hawaiian/Pacific Islander
- Other

MEDIAN HOUSEHOLD INCOME CHARACTERISTICS



DOWNTOWN EMPLOYMENT PROFILE

Jobs concentrated in professional services

- 49% of all jobs are in Professional Services, Healthcare, and Public Administration

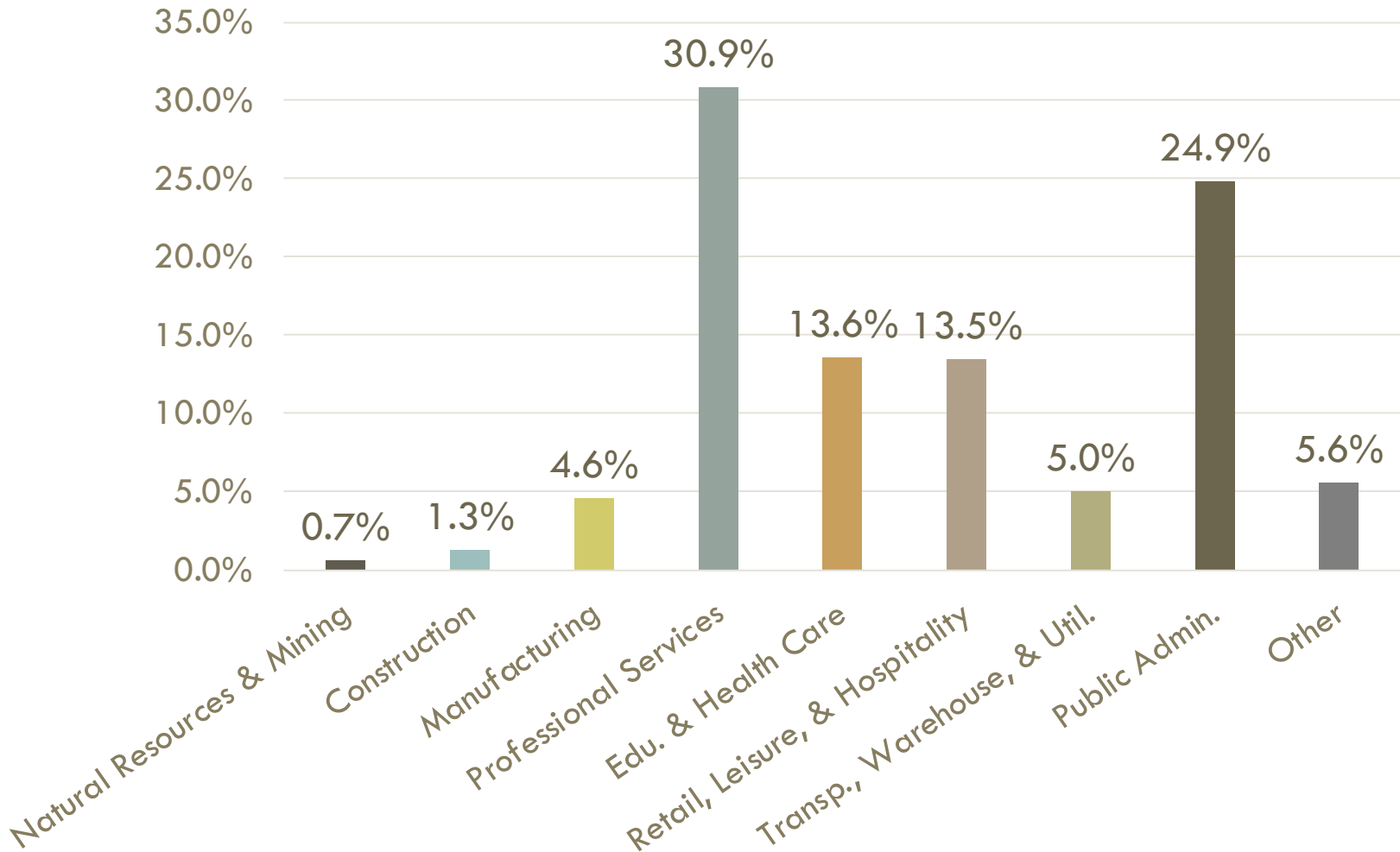
Consumer industries are under-represented

- Only 13.5% are in Retail, Food Service, and Arts and Entertainment

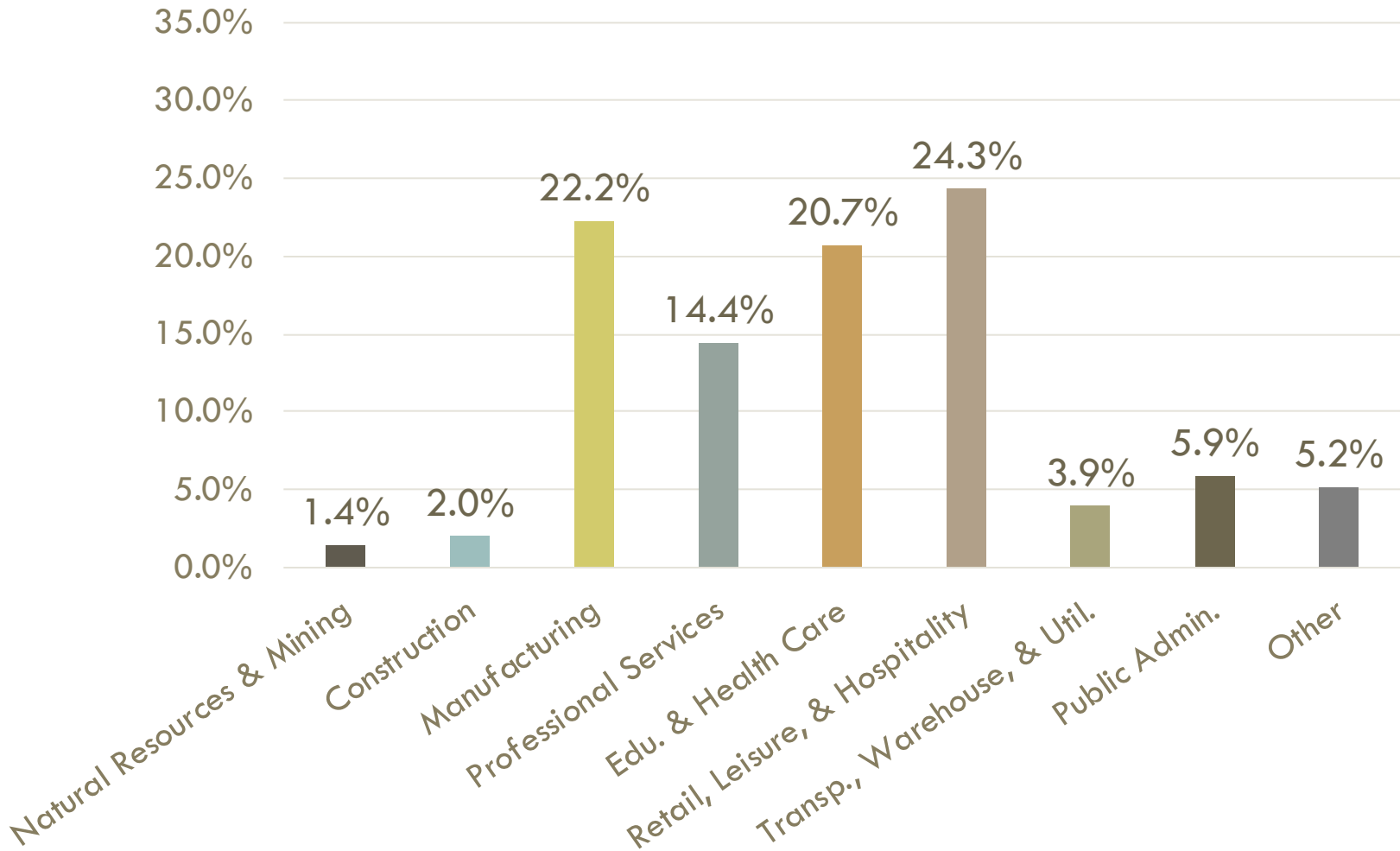
Citywide employment base is more diverse

- 50% in Manufacturing, Healthcare, and Retail Trade

JOBS BY INDUSTRY IN DOWNTOWN MODESTO



JOBS BY INDUSTRY IN CITY OF MODESTO



RESIDENTIAL MARKET CONDITIONS

Housing market skewed toward rental housing

- 91% in Downtown, 42% citywide

Mostly older, smaller housing units

- ~515 sf in Downtown, ~804 sf citywide

Lease rates are also notably lower

- \$651 per unit Downtown, \$1,222 per unit citywide

Vacancy is healthy at 4.4 percent

RETAIL MARKET CONDITIONS

Downtown functions as a major destination

- 12 percent of the retail inventory, but only 1.4 percent of the population

The retail market is fairly healthy

- Reported vacancy is only 1.5 percent
- Net absorption of 14,548 sf (Q2 2018/19)

Lease rates have fluctuated significantly

- \$1.89/sf in Q2 2018, \$1.15/sf in Q2 2019
- Market average is ~\$1.22/sf

OFFICE MARKET CONDITIONS

Downtown is a major destination for office

- Represents 34 percent of the office market

The office market is fairly healthy

- Reported vacancy is only 3.4 percent
- Net absorption of ~12,000 sf (Q2 2018/19)
- Lease rates on par with citywide average (~\$1.34/sf)

No new deliveries of space since 2010

INDUSTRIAL MARKET CONDITIONS

Only 0.4 percent of citywide inventory

The industrial market is quite healthy

- Vacancy is below three percent
- No rent data available
- Negative net absorption of ~10,000 sf

Opportunities for new industrial are limited

- Leverage proximity to the cannery
- Complementary retail/entertainment

FEASIBILITY OF NEW DEVELOPMENT

Current lease rates don't justify residential

- 3-over-1 podium is not feasible
- Garden style apartments are better
- Subsidized affordable is an option

Stand-alone retail is also a challenge

- Current lease rates do not justify development

Office rents would justify new construction

- Could be leveraged to make mixed-use feasible

OPPORTUNITY ZONE PROGRAM

Tax Cuts and Jobs Act of 2017

Investment in “undercapitalized” communities

- Poverty rate of 20% or more
- 80% of the median family income

Qualified Opportunity Funds (QOFs)

- Investments in QOFs defer capital gains

Downtown is an Opportunity Zone

- Three designated Census Tracts

WEAKNESSES AND CHALLENGES

Lack of a robust/diverse population base

- Not enough residents to support retail/amenities
- Most existing residents are lower-income

Current lease rates don't justify development

- Residential and retail aren't currently feasible
- How to incentivize/encourage new residential?

Lack of awareness about the Downtown

- Many city residents don't know what's there

STRENGTHS AND OPPORTUNITIES

Downtown is already a major destination

- Downtown is quite vibrant for a Central Valley city
- Diverse dining and entertainment
- Well-established community of entrepreneurs
- Persisting due to efforts of “local champions”
- Clear desire to make Downtown something more

There is a large daytime office workforce

- Functions as a captive pool of demand

STRENGTHS AND OPPORTUNITIES

Growing interest in downtown/urban living

- Younger generations (e.g., millennials) are poised to become the largest market segment
- These households are much more interested in urban and downtown living

Lack of awareness about the Downtown

- Many city residents don't know it's there
- Expand local reach through marketing

WHAT CAN THE SPECIFIC PLAN DO?

The Specific Plan will lay the groundwork

- It functions as a signal to the private market
- Documents the community's vision for the future
- Identifies strategic investments/improvements

Good planning facilitates new development

- Indicates what the community wants to see
- Streamlines the development process
- Identifies incentives for desirable projects

EXAMPLE STRATEGIES/ACTIONS

Pursue creative catalyst projects

- Focus on adaptive reuse projects
- Incentivize small scale residential projects
- Focus on high quality development
- Leverage office in mixed-use buildings

Better marketing of what is already there

- Focus more on the domestic Modesto market
- Use programming to make a daily/weekly destination
- Better connect to the surrounding neighborhoods

EXAMPLE STRATEGIES/ACTIONS

Further develop the “district” character

- Enhance distinctions and create unique identity
- Use placemaking to up the “romance” factor

Make the most out of what you have

- Don't always wait for the perfect use/tenant
- Structure lease terms to allow flexibility
- Encourage active uses that engage the public
- Do focus on high-quality services/products
- Look for low cost ways to enhance the environment

QUESTIONS OR COMMENTS?

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