

appendix E

ECONOMIC ANALYSIS



APPENDIX E:

Economic Analysis

1. Downtown Napa Specific Plan Land Use Plan Memorandum
2. Table E-1: Estimated Existing Fee Program Revenue by Source and Land Use
3. Table E-2: Estimated Fee Capacity by Land Use
4. Table E-3: Special Tax/Assessment Capacity

Findings

The Downtown Napa Specific Plan creates a policy framework for revitalization and redevelopment of Downtown Napa consistent with community aspirations, recent development trends, emerging public facility improvements, and market opportunities. This revitalization will include redevelopment of existing sites, including an increment of development above what presently exists and what is allowed under existing development regulations. The “net new” development capacity of the Specific Plan for each major use is estimated to be as follows:

- Roughly 600 additional residential units, including 50 units of “live-work” space included in a flex-space format.¹
- About 87,000 square feet of new retail space, including a portion (49,543 square feet) that could be developed as flex space.
- Roughly 426,000 square feet of new office space, including a portion (31,141 square feet) that could be developed as flex space.
- Approximately 253,000 square feet of lodging space (hotel).

These capacities generally represent a maximum physical development potential for the given uses and proposed density and height restrictions. In fact, a variety of circumstances, including site-related constraints, owner interest, and market conditions, will influence the amount of development that is actually constructed. Nonetheless, it is necessary for planning purposes to estimate how much of this capacity will be used in the near- to mid-range future. The following previous analyses inform creation of a development forecast:

- Evaluation by EPS of market dynamics in the Planning Area, as summarized in the Downtown Napa Specific Plan Existing Conditions Report.
- Discussion of key market and feasibility issues for the Town Center, the Cinedome, and the former COPIA site, described in an October 2009 Memorandum prepared by EPS for the City.
- Review of the HVS hotel market study, prepared in January 2008.

Based on this earlier work, EPS estimated the portion of projected development capacity that can be reasonably expected to occur in Downtown Napa over the next 20 years, as shown in **Table 1**. Overall, EPS found the development capacity created by the Specific Plan, both in type of development and net new development capacity created, is realistic and appropriate, given expected market trends. It is likely that much of this capacity will be used, along with other redevelopment activity, over the next 2 decades.

¹ For purposes of the Specific Plan, flex space is considered a mixed use designation that will allow a range of uses, including light industrial (art and ceramic studios, food and wine production, etc.), office, retail, and residential uses that will be driven by market demand and support the eclectic nature of development in the COPIA area.

Table 1
Development Forecast

Land Use Category	Specific Plan Opportunity Sites Total Development Capacity [1]	Development Forecast (0-10 years)		Development Forecast (0-20 years)	
		Potential Market Range	Analysis Amount	Potential Market Range	Analysis Amount
Residential Units [2]	595	250-300	250	500-600	500
Retail (Sq. Ft.) [3]	87,488	30,000	30,000	60,000	60,000
Office (Sq. Ft.) [4]	426,003	150,000	150,000	375,000-400,000	375,000
Lodging (Sq. Ft.) [5]	252,569	0	0	200,000	200,000

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Source: MIG (development capacity), EPS.

- [1] Reflects the amount of net new development that could occur on a series of opportunity sites in the Specific Plan.
- [2] Includes 50 residential units planned within a flex space category, which is a mixed use format.
- [3] Includes 49,543 square feet of flex space.
- [4] Includes 31,141 square feet of flex space.
- [5] Does not reflect a conference-center hotel, which would probably be closer to 300,000 square feet.

Residential Forecast

The Association of Bay Area Governments (ABAG) projects citywide growth of approximately 2,000 units between 2010 and 2030. Development of 500 to 600 units Downtown over a 20-year timeframe would yield an average of 25 to 30 units annually, including inclusionary housing units. This amount of growth Downtown would represent about 12 to 15 percent of citywide growth. Given anticipated trends in baby-boomer housing preferences and the burgeoning desire for young people to seek out "urban" settings, Downtown Napa appears to be poised to attract 500 to 600 units of high-density development targeted to these demographic segments.

Some of these units could occur in a live-work format, targeted on the former COPIA site. A previous EPS memorandum contained a recommendation that various building forms and residential products are possible there, particularly those targeted to different market segments, including resort second homes, age-restricted retirement units, or units for local workers and residents. Live-work units (which combine personal and work space) would provide a new residential format in Napa that would be compatible with re-use of existing commercial or industrial buildings—live-work units are typically designed for artists and other professionals seeking large open work spaces. Occupancy by these artists and businesses can create a 24-hour presence in the area and could help catalyze other nearby development projects. Development timing for live-work units will depend on market dynamics, but these units are often among the first uses in a revitalization/re-use plan because of their relatively low construction costs (particularly compared to other high-end uses, like a hotel). However, because this product is untested in the Napa market area, it may take 20 years or more for the full capacity to be used. For purposes of the development forecast, roughly 50 units of live-work space are included in the residential land use category.

Retail Forecast

The capacity analysis indicates potential for an additional net new 87,000 square feet of retail space in Downtown Napa, including about 31,000 square feet in flex space. Recent data indicates Downtown is achieving a taxable sales rate of roughly \$215 per square foot;² this rate represents a blended average of restaurants, department stores, and various specialty retail stores. Going forward, 87,000 square feet of new retail space would require additional retail generated by a combination of increased retail “capture” in the Downtown, new sales from additional residential development, and increased visitor expenditures. Initially, the City can expect that additional demand will increase sales for existing retailers, thereby generating higher average sales per square foot. As this average rate reaches approximately \$300 per square foot, creating new retail space will become feasible; at this higher sales rate, developers can expect tenants would be able to pay the lease rates required for a new building to be profitable.

As described in the October 2009 Memorandum, Downtown Napa is not positioned to compete for large national anchor tenants and is instead more suited for a mix of some smaller national and regional retailers with specialty retail and eating and drinking establishments. These retailers will tend to seek smaller format spaces consistent with existing occupied retail space. In view of these considerations, the development forecast estimates that this capacity will be absorbed as redevelopment occurs over the next 20-year timeframe. In fact, the earlier market analysis indicated that as much as 125,000 square feet could be demanded, although it is likely that some of this indicated demand will be absorbed by the improved performance (fewer vacancies and higher sales per square foot) of existing retail space—in addition to increasing the quantity of retail space, it is hoped that the Specific Plan and related improvements will improve the quality of existing retail space.

The actual level of retail development will be determined by the amount of new local residents and their desire for convenience goods (neighborhood retail), increased visitor sales (eating and drinking and specialty retail categories), capture of sales from growth throughout Napa County (County) (eating and drinking and specialty retail categories), and capture of sales from employees (County workers, office, etc.). Several economic development and marketing endeavors can help to enhance retail opportunities Downtown. Improvements to local infrastructure, parking access, and other amenities, as well as the addition of housing, will generate demand for additional retail space. The City can leverage these improvements to attract higher quality retail tenants in the Downtown, which will in turn create a more vibrant Downtown. An active marketing campaign also could increase the capture of visitors from the larger area. While focusing efforts on obtaining higher value retail tenants, particularly restaurants and other specialty retail, may not yield as large an increase in overall retail space, it will create a stronger sense of place for Downtown Napa suited to its identity in the local region as a cultural, dining, and specialty retail destination; moreover, these high-quality retail uses will still substantially increase taxable sales revenues to the City. For purposes of the Financing Plan, the development forecast includes 60,000 square feet of new retail within the 20-year timeframe.

² Data provided by the City for 2nd Quarter 2009 through 1st Quarter 2010.

Office Forecast

Capacity for 426,000 additional square feet of office space Downtown would accommodate roughly 1,400 employees.³ This demand mostly would derive from FIRE (finance, insurance, and real estate) categories but also professional services and some corporate offices (e.g., wine-industry business). Institutional space, including additional City and County public facilities currently in the planning stages, could constitute another segment of demand, though this category is excluded from this analysis. According to ABAG, approximately two-thirds of anticipated job growth in Napa over the next 20 years⁴ is related to financial and professional services, as well as health, education, and recreational services. However, while many of these jobs could be accommodated Downtown, some also will be associated with wineries and other institutions and agencies located in other industrial and commercial areas of the City.

Given these considerations, the development forecast estimates a range, from 375,000 to 400,000 square feet. For purposes of the Financing Plan, the development forecast applies 375,000 square feet, which would accommodate a total of about 1,300 employees, including more than 800 new financial and professional services employees and about 450 employees in health, education, and recreation services. Once again, any significant new or expanded institutional uses, which are excluded from this analysis, would add proportionately to this office space demand.

Lodging (Hotel) Forecast

The Specific Plan designates an area for a new hotel on the former COPIA focus area.

In 2008, the City commissioned a hotel market study from HVS; this analysis concluded the City's existing hotel market was experiencing a shortage of hotel rooms, as well as meeting space, in a 3- to 4-star full-service hotel. Since this report was prepared, the Napa Mill was restored and the Avia Hotel and Westin Verasa were completed, adding nearly 370 rooms,⁵ as described in the Downtown Napa Specific Plan Existing Conditions Report. Consistent with these previous studies, a hotel of up to 250 rooms in the COPIA focus area, in conjunction with new mid-density residential uses, public or quasi-public space, and recreational amenities, will contribute to the broader re-use and redevelopment of the COPIA area. This size hotel would yield about 200,000 square feet of space, including common spaces, such as the lobby and standard-size meeting rooms. Alternatively, a conference-center hotel would be larger, potentially sized closer to 300,000 square feet.

In combination, the Specific Plan envisions a vibrant community-serving and visitor-serving area. The timing of hotel construction will depend on market dynamics; the development forecast estimates that the 250-room hotel (comprising roughly 200,000 square feet) will occur during the 10- to 20-year timeframe as demand exceeds the capacity of existing (and currently proposed) hotels in the Downtown.

³ Assuming about 300 square feet per employee. This figure reflects a suburban-style office layout.

⁴ ABAG forecasts nearly 6,400 total new jobs for Napa between 2010 and 2030.

⁵ The Napa Mill has 66 rooms, the Avia has 141 rooms, and the Verasa has 160 rooms.

**Table E-1
Downtown Napa Specific Plan Financing Strategy
Estimated Existing Fee Program Revenue by Source and Land Use**

Item [1]	2010 Fee	Phase 1 Fee Revenue	Buildout Fee Revenue
Street Improvement Fee	per unit/ 1,000 sq. ft.		
Residential units	\$3,198	\$799,500	\$1,599,000
Retail sq. ft.	\$7,853	\$235,590	\$2,944,875
Office sq. ft.	\$3,508	\$526,200	\$1,315,500
Lodging	\$2,383	\$0	\$476,500
Subtotal		\$1,561,290	\$6,335,875
Park Development and Dedication Fee			
Residential	\$4,835	\$1,208,750	\$2,417,500
Retail	\$0	\$0	\$0
Office	\$0	\$0	\$0
Lodging	\$0	\$0	\$0
Subtotal		\$1,208,750	\$2,417,500
Domestic Water Service			
Residential	\$6,260	\$1,565,000	\$3,130,000
Retail	\$8,094	\$242,829	\$3,035,357
Office	\$4,078	\$611,625	\$1,529,063
Lodging	\$816	\$0	\$163,100
Subtotal		\$2,419,454	\$7,857,520
Fire and Paramedic Development Fee			
Residential	\$759	\$189,633	\$379,265
Retail	\$481	\$14,430	\$180,375
Office	\$165	\$24,750	\$61,875
Lodging	\$481	\$0	\$96,200
Subtotal		\$228,813	\$717,715
Napa Sanitation Connection			
Residential	\$5,660	\$1,415,000	\$2,830,000
Retail	\$2,190	\$65,700	\$821,250
Office	\$2,190	\$328,500	\$821,250
Lodging	\$5,338	\$0	\$1,067,688
Subtotal		\$1,809,200	\$5,540,188
Grand Total		\$7,227,506	\$22,868,798

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Source: City of Napa Public Works; Napa Valley Unified School District; Napa Water Department; Napa Sanitation District; Napa Fire Prevention Bureau; and EPS.

**Table E-2
Downtown Napa Specific Plan
Estimated Fee Capacity by Land Use**

Item	Multifamily [1]	Retail	Office	Lodging [1]	Total
Assumption	22 units/acre	3,500 sq. ft./bldg	40,000 sq. ft./bldg	800 sq. ft./room	
	<i>Per Unit</i>	<i>Per 1,000 Sq. Ft.</i>	<i>Per 1,000 Sq. Ft.</i>	<i>Per 1,000 Sq. Ft.</i>	
Estimated Assessed Value of Unit/1K Sq. Ft.	\$343,000	\$400,000	\$400,000	\$250,000	
Existing Fees					
Street Improvement Fee	\$3,198	\$7,853	\$3,508	\$2,383	
Park Development Fee	\$639	-	-	-	
Park Dedication Fee	\$4,196	-	-	-	
Domestic Water Service and Meter [2]	\$6,260	\$8,094	\$4,078	\$816	
Fire Water Connection Fee [3]	\$605	\$809	\$408	\$82	
Irrigation District and Meter [4]	\$416	-	-	-	
Toilet Retrofit In-Lieu Fee [5]	\$648	\$326	\$326	\$1,459	
Fire and Paramedic Development Fee	\$759	\$481	\$165	\$481	
Napa Valley Unified School District Fee	\$5,750	\$470	\$470	\$470	
Napa Sanitation Connection [6]	\$5,660	\$2,190	\$2,190	\$5,338	
Inclusionary Housing In Lieu Fee [7]	-	\$800	\$1,000	\$1,400	
Estimated Total per Unit	\$28,130	\$21,023	\$12,144	\$12,428	
<i>As a % of Assessed Value</i>	8.2%	5.3%	3.0%	5.0%	
Potential Funding From a New Specific Plan Fee					
<i>Total Fee Capacity</i>	15.0%	15.0%	15.0%	15.0%	
<i>Additional Potential Fee Capacity</i>	6.8%	9.7%	12.0%	10.0%	
Potential New Fee Per Unit/1,000 sq. ft.	\$23,320	\$38,977	\$47,856	\$25,072	
Total Potential Fee Revenue: 0-10 years	\$5,830,004	\$1,169,297	\$7,178,405	\$0	\$14,177,706
Total Potential Fee Revenue: 0-20 years	\$11,660,008	\$2,338,594	\$17,946,013	\$5,014,345	\$36,958,960

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Source: City of Napa Public Works; Napa Valley Unified School District; Napa Water Department; Napa Sanitation District; Napa Fire Prevention Bureau; and EPS.

- [1] Assumes high density development of 22 units per acre, with an average unit size of 1,000 sq. ft. Lodging assumes the inclusion of a 5,000 sq. ft. restaurant.
- [2] Residential: assumes 3/4" connection per unit. Retail: one 2-inch connection. Office/Lodging: assumes two 4" connections per building. Excludes excavation. Connecting to existing main may be available for significant savings.
- [3] Residential: Assumes share of one complete lateral and fire hydrant installation per acre for residential. Nonresidential: Assumes 10% of water connection charge.
- [4] Residential only, assumes share of one 1" tap, meter, and service pipe (w/o excavation).
- [5] Builders are required to offset existing high water users elsewhere in the City. This analysis assumes the builder pays the Toilet In Lieu fee instead. The fee is \$600 per certificate. The city has adopted new green building standards, which reduces the water demand by approx. 30%. Lodging prototype includes an assumed 5,000 square feet of restaurant space. All water demand factors provided by the City.
- [6] Sewer EDU factors were not provided. Napa Sanitation charges \$5,660 per EDU. For comparative purposes, commercial EDU's were derived from the Fairfield-Suisun Sewer District as listed:
Retail/Office = 1.0 EDU for 1st 1/4 acre, 0.25 EDU for each add'l or portion of 1/4 acre; Lodging = 1.0 EDU for 1st room, 0.5 EDU for each add'l room.
- [7] Multifamily development assumes 10% affordable units are constructed onsite.

**Table E-3
Downtown Napa Specific Plan Financing Strategy
Special Tax/Assessment Capacity**

Item	Residential	Retail	Office	Lodging	Total
	<i>per unit</i>	<i>per 1,000 sq. ft.</i>	<i>per 1,000 sq. ft.</i>	<i>per 1,000 sq. ft.</i>	
Estimated Sale Price	\$350,000				
Estimated Assessed Value	\$343,000	\$400,000	\$400,000	\$250,000	
Existing Taxes and Assessments					
Property Tax (1%)	\$3,430	\$4,000	\$4,000	\$2,500	
Other Taxes/Assessments					
School and Napa Paramedic Taxes [1]	\$390	\$454	\$454	\$284	
Other [2]	\$129	\$2,921	\$1,349	\$37	
Subtotal	\$518	\$3,375	\$1,804	\$321	
Total Taxes/Assessments	\$3,948	\$7,375	\$5,804	\$2,821	
<i>As a % of Assessed Value</i>	1.15%	1.84%	1.45%	1.13%	
Additional Tax/Assessment Capacity					
Tax/Assessment Value Maximum	1.50%	1.50%	1.50%	1.50%	
Remaining Special Tax/Assessment Capacity					
Percentage	0.35%	-0.34%	0.05%	0.37%	
Corresponding Annual Amount	\$1,197	\$0	\$196	\$929	
Estimated New Development (0-10 Years)	250	30	150	0	
Total New Annual Revenue Capacity: 0-10 Years	\$299,188	\$0	\$29,451	\$0	\$328,639
Estimated Number of New Units (0-20 Years)	500	60	375	200	
Total New Annual Revenue Capacity: 0-20 Years	\$598,376	\$0	\$73,627	\$185,700	\$857,703
Bonding Capacity: 0-20 Years					
Delinquency and Admin Costs (14%)					\$120,078
Remaining Amount Avail for Debt Service					\$737,624
Gross Bonding Capacity [3]					\$9,153,211
Minus Interest, Reserve, and Issuance Costs (25%)					\$2,288,303
Estimated Bond Proceeds					\$6,864,909

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[1] Includes Napa Valley College Bond, Napa Valley USD 2002 Bond, Napa Valley USD 2006 Bond, Napa Valley USD 1996 Bond, and City of Napa Paramedic tax.

[2] Includes potential assessments for Mosquito Abatement, Downtown Napa PRP/BID, Napa Valley County Flood Maintenance, Napa Sanitary Sewer, and City of Napa Storm Drainage. Retail APN Sample: 003-191-007-000; Office Sample: 003-142-014-000; Lodging Sample: 003-330-003-000 (Avia Hotel).