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City of Chico
General Plan Update:

Market Opportunities and Land Absorption Projections

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Overview

This paper presents the results of research to estimate the potential demand for developable land within the City of Chico, through the General Plan Update's 2030 time horizon. Although this paper does include information about the land currently available within the existing General Plan framework to support continuing development within the City, it is not the primary objective of this paper to judge whether there is adequate land available at the present time to support projected buildout through 2030. Rather, this paper provides information about the anticipated need for developable land, which will need to be combined with other research that is under way and yet to be completed, in the evaluation of various General Plan land use alternatives that are under development at this time. Local residents, stakeholders, and public officials will need to consider all of this information in light of their own knowledge, perceptions, and values in the coming months in order to select the General Plan land use alternative that will best serve the community's needs, considering market factors as well as other important planning considerations.

The information in this paper includes an assessment of current market conditions, to help set the context for the land use projections. A retail leakage analysis is included, to assess the extent to which there are current opportunities to expand the local retail base by meeting unmet retail demand from within the City or the surrounding communities. Based on findings from the first two sections, plus analysis of population and employment projections, the third section of this paper presents absorption projections for the City's major land use sectors, including residential, office, retail, and industrial. Finally, the paper concludes with an assessment of market opportunities for the Downtown Element of the General Plan to help promote new retail, office, and residential uses in the downtown area.

Current Real Estate Market Conditions

The Chico residential real estate market is relatively sound at present, with a healthy balance between prices and vacancy. Though the local market is anticipated to achieve full correction during the next year, future considerations will likely center around the availability of developable land and whether there will be a shift in Chico residents' current tendency to desire low-density single-family detached housing over higher-density multifamily housing types.

Under existing conditions, the industrial market will continue to grow slowly but steadily in light manufacturing, warehousing, and distribution. In addition to the unique 400,000 square foot space that is vacant in the Chico Municipal Airport Industrial Park, there is a recently vacated 100,000 square foot light manufacturing building, three or four 10,000 square foot concrete tilt up buildings, and multiple spaces between 2,000 and 3,000 square feet for distributors available in Chico.[1] Looking into the future, the industrial land in various locations throughout the City can accommodate additional demand; however, due to constraints on the available land (e.g., infrastructure, environmental issues) it is quite possible that not all potential users can be accommodated given the currently available land supply. This may mean that Chico is not capturing its full growth potential in the industrial sector.

In the current retail market, national chains have severely curtailed their expansion efforts throughout the country and local brokers state this is impacting the local market. Nevertheless, there continue to be notable retail projects planned and proposed within the City, including major expansions of existing retail facilities and several new retailers than are approved or proposed. As the prospects of national retailers improve, real estate professionals expect the Chico market will also improve and return to its historic average vacancy rate of around five percent. While some local real estate professionals believe land exists to expand the supply of retail space to the extent that the market demands at present, City staff recognize that the City would have difficulty meeting certain site requirements, such as ready to build parcels large enough to accommodate big-box users with freeway visibility/frontage. As the Southeast area, identified by many of the real estate professionals as the strongest retail market in Chico, reaches saturation, further retail growth may occur to the north of the city, where redevelopment opportunities exist along East Avenue and around the North Valley Plaza Mall. Additionally, the site formerly proposed for a Wal-Mart in north Chico is zoned service commercial and may present an opportunity for a different retail development proposal in the future. The City will need to consider its retail land inventory carefully to make sure that it can accommodate long-term growth for a variety of retail facility types that will demand a variety of parcel sizes and locations throughout Chico.

The local office market is likely to continue to expand, with tenants including doctors, stockbrokers, insurance agencies, and lawyers filling the available space. While the demand for office space in Chico increases slowly, consistent growth matched with no increase in supply could drive office prices higher. Though the current supply of office space sufficiently meets demand, local real estate professionals are concerned that land prices, driven by competition with other real estate sectors for limited land, are too high to make office development feasible. With the demand for office expected to grow continuously, Chico may face a shortage of supply of new offices if adequate land is not available.

In conclusion, local real estate professionals believe that, for the most part, Chico currently has sufficient inventory of housing units, commercial space, and developable land to accommodate short-term growth, with some gaps in land availability as noted above. The residential market, for

[1] Personal Communication, Frank Ross, May 5, 2008.

example, is currently stable with generally enough units to meet demand without causing an unreasonable fluctuation in price or vacancy. However, brokers estimated current land capacity for residential development at between ten and 15 years, suggesting that developable land will likely become a constraint to future development, under current plans and policies. Commercial markets in Chico are similarly healthy with a moderate supply of existing available space. However, the office real estate market is already somewhat constrained, with high land prices limiting the viability of new office projects, and although there are a variety of available buildings and vacant parcels for industrial users, some needs may not be met, at present. While there are large quantities of land available in locations such as Hegan Lane, Chico Municipal Airport Business Park, and the Butte Creek property southwest on Highway 99, they may not be sufficient to accommodate future growth through the General Plan time frame, as much of the industrially designated land is subject to various constraints. The retail sector, on the other hand, is currently experiencing mild vacancy and is considered by local real estate professionals to have a moderate availability of developable or redevelopable land at present, given slack demand in the midst of the national economic slowdown that has put a damper on retail expansion. The General Plan Update is timely, in that it can look past the immediate or short term situation, and plan pro-actively for a land supply that will meet the City's needs over the medium and long-terms while also addressing short-term gaps in land availability and readiness that have been noted.

Current Retail Leakage

Chico functions as a central retail destination for many residents of Butte County and other nearby counties in Northern California. The retail leakage analysis confirms that Chico currently captures a significant injection of retail dollars. In 2007, the Chico Urbanized Area (CUA) had total retail sales of nearly $475 million in excess of local resident's retail expenditure potential, though retail leakage did occur in several sectors within the CUA. Countywide, there was a fairly significant overall retail leakage of almost $200 million.

Within the CUA, the small amount of retail leakage equates to just over 50,000 square feet of additional clothing and clothing accessory stores and approximately seven gas stations (however, it remains to be seen how the recent rapid escalation of gas prices will affect long-term demand for gas stations). Countywide, additional supportable retail space equivalent to approximately 500,000 square feet of clothing and clothing accessory stores, restaurants and specialty food services, as well as drinking places, represents a potential market opportunity within Chico. In addition, at an average of six acres per car dealership based on BAE market research, Butte County could support approximately three to four additional dealerships that are not already represented in the market. Because of Chico's dominant position within the countywide retail market, Chico has an opportunity to capture a disproportionate share of this countywide leakage, except in convenience-oriented shopping categories.

Due to the blending of data sources and aggregation procedures used by Claritas (which furnished estimates of potential market area resident retail expenditures) to estimate consumer expenditures, there is a possibility that college student spending potential is not fully captured in the CUA's consumer demand figures. Based on national surveys, college students spend around $10,460 annually, a quarter of which is discretionary spending. This discretionary spending amounts to $44.2 million in potential retail spending, with a large portion possibly captured by Chico retailers. College student spending presents both an opportunity and a challenge for local retailers, as student spending can be very seasonal, creating inventory management challenges. Additionally, the transient nature of college students means that local retailers must work hard to continually establish awareness in the local market, and they must also compete with retailers in students' hometowns for expenditures. Finally, college students are exceptionally tech savvy, meaning that web-based merchants will also be formidable competitors for student expenditures.

Land Use Absorption Projections

Through 2030, Chico is projected to absorb in the range of 2,100 to 2,700 gross acres of residential development, depending on the distribution of new residential units among single-family and multifamily units, to accommodate a projected increase of approximately 16,400 new housing units. At present, it appears that the City's vacant residential land supply will accommodate about 66 percent of the residential demand over the life of the General Plan.

In housing demand Scenario A, described in more detail in the main body of the report, single-family units would represent 70 percent of new housing, resulting in greater demand for residential land relative to Scenario B, in which single-family units would represent just 55 percent of new units. Even in Scenario B, single-family units are projected to represent nearly 80 percent of total new residential development acreage due to lower densities relative to other housing products. Increased densities in single-family detached housing would result in a decrease in the amount of residential acreage needed to accommodate both housing absorption scenarios.

Commercial absorption is projected to be just less than 900 gross acres, with approximately 350 gross acres of retail, 100 gross acres of office, and 210 gross acres of industrial land estimated for absorption in Chico by 2030. Increasing employment in the health, education, and "other" categories would demand approximately 230 additional acres of land for development. Comparing these figures to the information in the City's Vacant Business Use Land study, it appears that currently available commercial land (considering Neighborhood Commercial, Community Commercial, Downtown Commercial, Service Commercial, Restricted Commercial, and General Commercial districts) falls short of the potential by a large margin, even setting regulatory readiness aside. The Office Residential and Office Commercial districts also have much less net total available acreage (56.1 acres) than projected office demand. Meanwhile, although the various manufacturing/industrial districts combine for a net total available acreage of over 570 acres compared to projected industrial demand of about 210 acres, the small number of readily developable parcels over five acres suggests that this land may also not entirely meet the City's current and future needs to support industrial development.

The absorption projection figures presented above represent the amount of land that is needed for development. It is not recommended that the City plan strictly for this amount of land to be available, but rather to include a "cushion" in the available land inventory for each of the different land use categories, to allow for the likelihood that some property owners will not be interested in selling or developing their land, and unforeseen factors may constrain land development beyond the assumptions incorporated into this analysis. This buffer may be achieved in a number of ways, including designating areas as "urban reserve" or some similar designation, to be converted for specific urban uses at such time that absorption of previously designated land requires increases to the available land inventories. The City should also consider its economic development objectives, and allow sufficient available land to accommodate an increase in the amount of job-generating land uses that it captures, beyond the level currently projected. Finally, it is desirable to ensure that there is sufficient vacant land available for different uses, so that there is reasonable competition among landowners to sell to interested buyers, reducing the possibility of any sort of monopolistic control of land available for development.

Market Opportunities for Downtown Element

The downtown retail and office markets currently represent niche markets for local retailers and small office users. Local real estate professionals feel that broadening the appeal of downtown to additional consumers, however, requires the expansion of a variety of retailers downtown as well as an increase in larger office users. Additionally, downtown has strong potential to serve as an entertainment hub for the community; however, this opportunity is not being fully exploited. The lack of a functioning movie theater in the core area is a prime example, but the City should consider opportunities for additional performing arts and other types of entertainment venues as well.

Furthermore, the current high demand for low-density housing types poses a distinct problem for the feasibility of high-density mixed-use residential development in the downtown commercial core. Although niche demand does exist for luxury condominium and apartment units, prospective rent and sales prices are currently insufficient to justify the costs of construction, including off street parking and demolition. However, as demand increases for such housing types in Chico, it is likely that the financial viability for this type of development will improve.

The consensus among local real estate professionals is that parking is the primary infrastructure constraint to future downtown real estate development. Parking constraints limit the retailers who can locate downtown, challenges further office development, and hinders the introduction of high-density housing to the downtown urban mix. Finally, the scarcity of vacant development sites means that most new downtown development will face the additional layers of complexity associated with infill development and redevelopment, suggesting a role for City cooperation if downtown infill development and redevelopment are priorities.

Introduction

The purpose of this paper is to provide information to assist in development of the Chico General Plan Update. Specifically, this paper seeks to provide the City and interested stakeholders with an assessment of the likely magnitude of demand for developable land during the General Plan time horizon, to accommodate anticipated community growth. Although some discussion is included regarding the balance of supply and demand in today's marketplace, as well as some discussion regarding the amount of vacant land currently available within the City in relation to projected demand over the General Plan time horizon, it does not attempt to fully evaluate the suitability of the currently available vacant land to meet current or future needs. Rather, the information in this paper will serve as a starting point to determine needs for consideration of General Plan land use alternatives.

For context, this paper begins with a description of current market conditions in Chico for residential, industrial, retail, and office uses. In addition, a retail leakage analysis further informs the assessment of the Chico retail markets. This information then serves as background for the development of residential and commercial land use absorption projections for the General Plan time horizon. As mentioned above, information is also presented regarding the existing vacant land inventory within the City, to set the stage for a more critical evaluation of the suitability of currently available sites to meet projected growth through the General Plan time frame that will be completed subsequent to this paper. The final section of this paper draws upon the real estate market conditions overview, the retail leakage analysis, and the land absorption projection findings to identify market opportunities and challenges for residential, retail, and office development in downtown Chico.

Existing Market Conditions Overview

In May of 2008, BAE conducted a series of interviews with real estate and development professionals familiar with the residential and commercial markets in Chico. Interviewees provided local expertise regarding historic and current market trends in the single- and multifamily residential, industrial, retail, and office markets in Chico, as well as opportunities and challenges within the Chico residential and commercial markets. Appendix A contains a list of the interviewees that participated in this effort. Several interviewees, however, requested that they not be identified and are, therefore, not named. The information in this section of the paper should be viewed as background information providing context for the analyses that follow in the remainder of this paper. The findings from this section are not meant to represent a judgment of the suitability of the City's existing land resources to meet demand through the General Plan Update's 2030 time horizon. Rather the findings from this paper should be considered as part of the process of selecting a preferred General Plan Land Use Element that best meets the City's anticipated needs, considering market factors, as well as other variables.

Residential Real Estate Market

According to local real estate brokers, developers, and property managers, the residential real estate market in Chico is relatively stable compared to the Sacramento metropolitan area and other nearby jurisdictions such as Orland, Oroville, Biggs, and Gridley. After the 2005 peak housing market, single-family home sales prices declined. Sales volume dipped by an estimated 12 percent,[2] and the average number of days a property spent on the market increased. Local real estate professionals, however, reported the magnitude of these changes as less severe than in other nearby areas. Reasons for this include a lack of buildable land and a political commitment to low growth that prevented significant overbuilding, a high quality of life for local residents, and a relatively strong retail base that draws consumers from across the region. Broker interviews suggest that a full market correction within the Chico housing sector is likely to occur sometime within the next year, indicating some continued decline in sales prices, with price stabilization expected in the near future. "Buyers are still here," one broker noted, "the challenge is a lack of consumer confidence and the credit crunch." Looking forward, another residential broker suggested that it would take approximately three to ten years for the market to reach prices nearing those experienced in 2005.

As reported in the *General Plan Housing Background Report*, approximately 76 percent of the developed land area within the Chico Sphere of Influence (SOI) is zoned residential. In the City of Chico, an estimated 55 percent of housing units are single-family detached or attached homes, with an additional 40 percent comprised of multifamily units and five percent mobile homes. As of July 2007, approximately 55 percent of Chico's developed residential land was built at low densities,

[2] Chico Association of Realtors, May 2008.

while an additional 22 percent was very low-density development according to the *Housing Background Report*. The assumed median density in the General Plan for very low-density units is one unit per acre, while low density residential is approximately 4.5 units per acre.[3] While low-density single-family development was noted by local real estate professionals as the most highly demanded development type, there have been a number of projects to convert apartments to for-sale condominiums, and a new emphasis on higher density and traditional neighborhood development anchored by mixed-use neighborhood cores.

Tony Symmes of Aspire Homes, for example, is currently developing a number of “duet” or attached homes.[4] Also, New Urban Builders’ Hutchinson Green at Doe Mill project offers attached townhomes, and their Meriam Park project is being designed to include a mix of housing densities and a neighborhood commercial center.[5] Interviews revealed that the major challenge to high-density development in the Chico market, at the present time, is buyer preference. Although high-density for sale units are often useful for first time home buyers who might not be able to afford a larger, more expensive house, once buyers accrue the necessary resources, they often upgrade to single-family, low-density units in order to have more space.

Single-Family Housing

Despite General Plan policies encouraging the integration of higher density dwelling units, interviews indicated that current market demand is overwhelmingly dominated by a desire on buyers’ parts for detached single-family homes with large yards, priced in the low to medium range (between $250,000 and $450,000).

The Housing Opportunity Index (HOI), published by the National Association of Home Builders, reports the percentage of housing units on the market that are affordable to a median-income household in Chico. According the HOI, in the fourth quarter of 2007, 36.8 percent of for-sale housing units in Chico were affordable to median income households. This percentage approaches the affordability levels in the Chico housing market prior to the 2005 market peak. For example, in the fourth quarter of 2000, the HOI was approximately 43.3 percent. At the market peak, in the fourth quarter of 2005, the HOI was only 28.7 percent. According to the City of Chico, between January and October of 2007 the median sales price of a single-family detached unit was $315,000. Debbie Brodie of the Chico Association of Realtors reported that the median active list price for single-family homes within the Chico area was higher, at approximately $370,000.[6]

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[3] City of Chico. *Chico General Plan Five-Year Review and Annual Report*. Pg. 23. 2007. http://www.chico.ca.us/_mod_resource/content/Planning_Services/2007_Five-Year_Review__Annual_Report.pdf. Accessed May 15, 2008.

[4] Personal Communication, Tony Symmes, May 6, 2008.

[5] New Urban Builders, http://www.newurbanbuilders.com. Accessed on May 5, 2008.

[6] Personal Communication, May 5, 2008.

Interviews further revealed that up to approximately 85 percent of single-family housing units priced below $450,000 are purchased by households already residing in the Chico area. However, beginning with units priced above $450,000, an increasing proportion of buyers are households originating from outside the Chico area, often from the Sacramento and San Francisco metropolitan areas. Major draws have historically included Chico's high quality of life, the availability of single-family homes with large yards, and proximity to California State University, Chico (CSUC).

Chico's position in the regional economy, as an economic hub for the tri-county area of Butte, Glenn, and Tehama Counties, contributes to the resilience of Chico's housing market. Nearby communities such as Orland, Biggs, and Gridley have, in some respects, become bedroom communities for the Chico urban area, offering housing prices generally lower than those found in Chico. As housing prices have declined since 2005, and the length of time units spend on the market has increased, Chico has more homes available, and, at a lower cost overall. Local real estate professionals suggest that for households that rely on Chico for employment and shopping, recent increases in the price of gasoline potentially make locating in one of Chico's bedroom communities far less attractive, despite the lower home prices, maintaining demand for homes in Chico.

As of January 2008, Chico had a residential vacancy rate of 3.3 percent.[7] Although brokers acknowledge a surplus of single-family housing units in the current market due to marginal overbuilding during the housing boom, a majority of these units have transitioned into the rental market, either permanently or on a temporary basis, while the market corrects itself. Thus, a surplus of for-sale housing units has not corresponded to an increase in vacancy rates. This highlights the unique role of the local student population in moderating the for-sale housing market through their strong demand for rental housing. There is also a small market for student for-sale housing, primarily due to parents purchasing homes as investment properties.

Multifamily Housing

Rental apartment units dominate the Chico multifamily housing market. Brokers and property managers noted that though some apartment units have converted to for-sale condominium projects recently, these units tend to sell more slowly and at a significant discount compared to single-family units. The challenge to this segment of the residential market is the strong preference for single-family detached homes. Local brokers highlighted that although multifamily housing can be useful for beginning homebuyers; households often trade up to single-family homes when having children or simply when additional resources become available (e.g., earnings increase).

[7] California Department of Finance, "E-5 City/County Population and Housing Estimates," 2008, Revised 2001-2007, with 2000 Benchmark.

Students from CSUC and Butte Community College comprise approximately 30 percent of multifamily and apartment housing demand across Chico, according local real estate professionals. The area immediately surrounding the CSUC campus is identified as the strongest market for rental housing in Chico, with a very high concentration of student tenants. The South Campus neighborhood is slightly stronger than the neighborhood north of campus due to the additional proximity to downtown. Interviewees described housing units in the campus neighborhoods generally as having more maintenance problems than other areas in the City. Nonetheless, proximity to the University has historically offset any potential rent reductions associated with deferred maintenance for both single and multifamily rental units.

According to one property manager, typical multifamily rents in the Chico urban area range from $600 per month for a one-bedroom apartment to $1,300 per month for a four-bedroom unit. One-bedroom units are historically the most popular; although in 2008, four-bedrooms were the first to fill up. Fluctuations in the student population make the rental market somewhat volatile, yet rents are described as relatively stable, increasing between two and three percent annually. Vacancy rates are reportedly holding stable at the historic rate of around five percent.

Interviews revealed that the majority of demand for multifamily homes comes from lower income households, including students and working-class Chico residents. Outside of this demographic, executive style condominiums and apartment units represent a niche market and were in demand during the 2005 peak housing market. These households preferred not to have the upkeep and costs associated with a single-family home, yet desired the amenities of a nicer unit. As single-family prices have decreased, demand for condo units has softened.

One property manager reported marginal competition for multifamily housing with nearby communities. While the cities of Paradise and Orland offer some multifamily rental units, these areas only draw a small amount of multifamily demand from the Chico urban area, in the form of small apartment complexes. Due to the distance between these communities and Chico, transportation costs largely outweigh the cost savings associated with locating in these communities.

Multifamily housing development in Chico has been slow, historically. Interviews indicated that current rents are not sufficient to justify building more units. In addition, many multifamily rental properties in Chico are owned by small, local property owners who may lack the financial resources to pursue large-scale multifamily development.

Absorption Trends

While Chico currently boasts a healthy residential real estate market, the market's desire for low-density residential units could have implications for affordability in the long term. If the amount of available land does not keep pace with population growth, vacancy is likely to decline, increasing housing costs, and forcing people to pay more for housing, or seek housing elsewhere in the region. The increased incorporation of high-density infill units within the Chico urban area could alleviate some pressure on affordability due to insufficient land availability; however, in order to significantly impact development trends, the issue of consumer preference will need to be addressed.

Interviewees felt that much of the infill opportunities in the Chico urban area have already been developed or are too small to provide a significant number of additional housing units. Lacking large tracts of available, buildable land within the urban area, some members of the real estate community want to look beyond the current urban edge to accommodate growth, in combination with increased high-density infill development within the urban core. However, the presence of significant environmental and infrastructure constraints to outward expansion, including the Chico Greenline, wetland and vernal pool preservation, and current infrastructure capacities, challenge Chico's ability to identify land sufficient to offset a potential housing shortage and its associated impacts on affordability.

Interviewees suggested three geographic areas that likely have the capacity to absorb demand for residential development in Chico over the next ten to 15 years: the North Chico Specific Plan area, the foothill area to the southeast of the Chico Municipal airport, and the Highway 99 corridor on Chico's southern edge. Beyond ten to 15 years, interviewees felt that additional land will need to be identified to meet continued population growth and housing demand.

Commercial Real Estate Market

Historically, the supply, demand, and annual absorption in the commercial real estate market differ greatly among the industrial, retail, and office sectors in Chico. The industrial sector has never represented a large portion of the Chico commercial market. Industrial development in Chico occurs slowly and in select areas. According to interviewees, Chico has never aspired to be a center for heavy industrial uses; rather the area focuses on mainly light industrial, distribution, and warehousing.

The retail sector is traditionally the largest commercial sector in Chico. The land dedicated to retail in Chico, exceeds that of all other commercial uses. With an estimated 1,500 acres of commercial uses in Chico, 31 percent of the land fell into the "Retail/Misc. Commercial Uses Category," as of 2004.[8] In addition, according to Claritas, a private demographic data vendor, the retail sector in the Chico Urban Area (CUA) consisted of approximately 14,300 jobs (just under 22 percent) of a total

[8] Siefel Consulting, Inc., "Chico West Airport Area Business and Industrial Park Feasibility Study," June 2006.

of 65,300 jobs in the CUA in 2007.[9] The predominance of retail in the City of Chico translated into around 66 percent of the annual taxable retail sales in Butte County according the California State Board of Equalization sales data from the year period beginning fourth quarter 2005 and ending in third quarter 2006.[10] The land, employment, and sales tax revenue statistics demonstrate that retail is a major sector within the Chico market, but competition from other cities within Butte County and other cities bordering Butte County threatens the dominance of Chico in the regional retail market.

The office market in Chico is unique because there is very limited competition from other cities in Butte County. Chico is the center of the Butte County office market and no single type of user dominates the market. A variety of different medical, financial, legal and other professional services, and university-related uses occupy office space in Chico.

Industrial Market

The industrial market in Chico is relatively small (between three and four million square feet in total),[11] with light industrial, distribution, and warehousing uses dominating the market. Heavy manufacturing activity within Butte County concentrates around Oroville, where interviewees believe incentives from Enterprise Zones, lower land prices, reduced impact fees, and less stringent environmental standards serve heavy industry well.[12] Currently, the City is conducting a review of impact fee levels of competing jurisdictions, and the results of this analysis will help to quantify how Chico's overall development cost compare.

According to local industrial brokers and developers, the current Chico industrial market revolves around four primary areas, including the Hegan Lane industrial area, the area in north Chico surrounding the Municipal Airport, along the Park Avenue Corridor, and in an array of small industrial buildings along Highway 32.

Hegan Lane Industrial Area

With 74 acres developed with 971,800 square feet of industrial space currently, this 157-acre area benefits from its location near a variety of different business in Chico, as well as proximity to Highway 99 and, therefore, access to markets outside of Chico.[13] [14] The area, however, is hampered

[9] Bay Area Economics, 2008.
[10] Ibid.
[11] Personal Communication, Bill Brouhard, May, 6, 2008.
[12] Personal Communication Frank Ross and Bill Brouhard, May 5, 2008 and May 6, 2008, respectively.
[13] Hegan Lane Business District "Build Out Exhibit." The 74 acres refers to the Hegan Lane District total existing acreage. The park is expected to extend to 157 acres as full build out.
[14] Personal Communication, Frank Ross, May 5, 2008.

by only one county road offering direct access from Highway 99.[15] Bill Brouhard, manager of Guillon-Brouhard Commercial Real Estate, estimates that Hegan Lane represents less than 50 percent of the Chico industrial market. Currently, Hegan Lane absorbs about 50,000 to 100,000 square feet space per year and, and Mr. Brouhard expects that trend to continue.[16] The projections for the buildout of the Hegan Lane area estimate that it will support approximately 1,169,000 square feet of additional industrial space by 2020, almost 60,000 of which is already currently under construction.[17] Additionally, of the approximately 83 acres remaining undeveloped, about 30 are owned by Sierra Nevada Brewery with future plans, another 30 acres owned by a single developer, and much of the remaining land that is available is broken into relatively small pieces of less than ten acres.

Chico Municipal Airport Business Park

Located next to the Chico Municipal Airport, the Industrial Park opened shortly after the federal government returned the Airport to the City following World War II.[18] The Park is part of the "Amended and Reinstated Redevelopment Plan for the Chico Municipal Airport Redevelopment Project" administered by the Chico Redevelopment Agency, which is seeking to turn the Business Park into a self-sustaining business enterprise that serves as Chico's industrial base.[19] Currently, the business park has at least 400,000 sq ft of vacant industrial space due to the closing of the Kellwood Co. (formerly Koret) facility in 2007.[20] Although this represents a large amount of space within the Chico market, this large, single-user space is an anomaly in the Chico market, and will be attractive to only a limited number of potential users that can utilize such a large space, unless it can be subdivided into smaller usable spaces. While the area has a large amount of vacant land designated for industrial development, it is becoming clear that a large portion will not be developable due to various constraints. According to the City of Chico's General Plan Five-Year Review (2002-2007) and Annual Report, "approximately 150 acres of City-owned land on the west side of the airport have been designated for industrial development; however, it is constrained by lack of infrastructure, environmental issues, (e.g., wetlands) and Federal Aviation Administration (FAA) regulation. There is an additional 250 acres of available industrial land adjacent to the City-owned land, which has similar development constraints."

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[15] Personal Communication, Bill Brouhard, May 6, 2008.

[16] Hegan Lane Business District "Build Out Exhibit" 1990, 2000 and 2008 inventory of occupied space. Personal Communication, Bill Brouhard, May 6, 2008.

[17] Hegan Lane Business District "Build Out Exhibit." Difference between the building square footage of both Areas 1 and 2 in 2008 and the projected total square footage of the park in 2020.

[18] Chico Redevelopment Authority. "Amended and Reinstated Redevelopment Plan for the Chico Municipal Airport Redevelopment Project". Pg 2. June 14, 2004.

[19] *Ibid.*

[20] Personal Communication, Frank Ross and Bill Brouhard, May 5, 2008 and May 6, 2008, respectively.

Highway 32

Businesses along Highway 32 consist mainly of small "warehousing and distribution facilities, since there are no sewer lines, limiting the amount of waste a facility can produce." This makes light manufacturing and high numbers of employees infeasible.[21] The development pattern is haphazard "along the fringe of Highway 32 without any forethought." [22] Nevertheless, new development continues to occur along Highway 32.

Park Avenue Corridor

The Park Avenue Corridor contains a variety of different uses, including restaurants and retail stores, as well as some industrial uses. The Park Avenue Corridor represents only a very small portion of the industrial space in Chico, and the limited amount of available land will prevent much new development, although some redevelopment opportunities may exist.

Absorption Trends

With the lack of available data on industrial inventory in Chico, the best estimate of current vacancy and annual absorption comes from professionals in the field. The current amount of available space, inflated by the 400,000 Kellwood/Koret space, is approximately 800,000 square feet, excluding the small mom and pop operations where the total inventory is unknown.[23] Bill Brouhard estimates that the typical vacancy rate in Chico ranges from between five and seven percent, peaking at a high of eight percent. No typical absorption rate exists in Chico, since it is possible that the market will absorb next to nothing for several years and then in one year, one or more companies may enter the market and occupy large spaces, causing the absorption rate to jump substantially. However, as mentioned previously, the Hegan Lane area absorbs between 50,000 and 100,000 square feet annually and projects that absorption rate to continue through 2020.[24] Since Hegan Lane represents less than 50 percent of the market, it is possible that the entire market in Chico may average between 100,000 and 200,000 square feet of industrial space per year.

Retail

Retailers in Chico draw customers from a large geographic area. Jeff Fararr, a developer with Ingram Commercial Real Estate, estimates the primary retail trade area to be within a 10-mile radius, with downtown as the center of the market.[25] Furthermore, Farrar estimates that the secondary trade area extends halfway to other major retail centers like Yuba City and Redding.[26]

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[21] Personal Communication, Frank Ross, May 5, 2008.

[22] Personal Communication, Bill Brouhard, May 6, 2008.

[23] Personal Communication, Frank Ross and Bill Brouhard, May 5, 2008 and May 6, 2008, respectively.

[24] Hegan Lane Business District "Build Out Exhibit" 1990, 2000 and 2008 inventory of occupied space. Personal Communication, Bill Brouhard, May 6, 2008.

[25] Personal Communication, Jeff Farrar, May 12, 2008.

[26] Distance between Chico and Yuba City (47 miles), and Redding (71 miles).

When new retailers come into the area, they establish themselves in Chico first. For example, "Chico contains the only Mercedes and BMW dealers in the region, and if Macy's, or another high-end department store, were to expand they would locate in Chico before other cities in Butte County."[27] However, Chico stores compete when retailers that already exist in Chico expand to an additional location in Butte County.[28] For example, when Home Depot opened a new store in Oroville, the original Chico store did less business as Oroville area residents who once drove to Chico now shop at their local store. This trend will continue and expand as Oroville's population expands.[29]

In terms of neighborhood retail, the current General Plan designates a total of 100 acres, spread across different locales throughout the City, that are zoned for retail centers anchored by small grocery stores. This has been termed Mixed-Use Neighborhood Core zoning (MUNC).[30] The plan for the MUNC, predicated on the continued financial viability of small grocery stores, did not foresee the age of large chain grocery stores and discount food warehouses in excess of 80,000 square feet.[31]

According to local brokers, traditional small (e.g., 25,000 square foot, full-service) grocery stores are no longer a viable anchor; therefore, it is necessary to identify alternate uses for the areas designated MUNC. Opinions on the continued usefulness of these zones varied among local real estate professionals. Some interviewees saw the possible option of small retailers such as drug stores, hair and nail salons, and coffee shops filling these underutilized MUNC-zoned areas. New small-format grocers, such as Tesco's Fresh & Easy, may also create opportunities to fill in gaps in the market where unmet demand is not sufficient to support typical 50,000 to 60,000 square foot grocers. Nevertheless, the market can only sustain a limited number of small retailers, since the availability of larger retailers elsewhere in the City impacts the feasibility of these neighborhood centers. Decreasing the number of sites and acreage designated MUNC, or identifying other viable uses to anchor these centers, will be necessary during the current update of the General Plan.

Absorption Trends

In 2008, brokers estimate the Chico market will absorb between 50,000 and 75,000 square feet of new retail space, and in 2009, around 100,000 square feet of new retail space will come online in Chico.[32] Future absorption in Chico will continue to be subject to the conditions in the credit

[27] Personal Communication, John Kennedy, May 13, 2008.
[28] Personal Communication, Carlton Lowen, May 1, 2008.
[29] Personal Communication, Jeff Farrar, May 12, 2008.
[30] City of Chico General Plan. Pg.6, November 1994, updated February 1999.
[31] California Economic Research Associates. "Economic Analysis of Two Proposed Supercenters in Chico" http://www.chicocares.org/documents/WMEconRpt090706.pdf. Accessed on May 5, 2008.
[32] Personal Communication, Carlton Lowen, May 1, 2008.

market and the expansion of national chain stores. The Chico market is not large enough to influence these conditions. Currently the going capitalization rate in the Chico retail market is much lower than one year ago, reflecting a soft retail market perceived as a riskier investment by lending institutions.[33] In addition, retailers tend to come to Chico when they are expanding at the national level, so with little to no expansion occurring nationally, Chico's retail growth has slowed. However, the retail market is still relatively strong as it continues to maintain a vacancy rate below eight percent.[34] Historically, retail vacancy rates have hovered around five percent in the City. Additionally, there are several notable retail projects planned or proposed at this time, including proposals for two different Walgreen's stores, an 81,000 square foot expansion of the Chico Mall, and an 82,500 square foot expansion of the Wal-Mart store in south Chico. In addition, the City approved plans for a 50,000 square foot Sportsman's Warehouse store on Park Avenue and a 28,000 square foot expansion to the Costco store. Brokers believe that if the national market strengthens, retail expansion will follow suit in Chico.[35]

Office Market

Prices in the office market in Chico remain relatively consistent over time and increase very slowly. As stated by Fran Shelton, a real estate agent with Shelton and Associates, the "bottom line is that with enough available inventory of leasable space currently in Chico, the prices will not be pushed high very quickly."[36] Currently around 250,000 square feet of office space is available, representing a vacancy rate of around 10 percent, which is considered a normal vacancy rate in Chico.[37]

In the future, the high cost of land and the limited availability of new office buildings should cause the lease rates and sale prices of office space to rise. Already, the Chico market lacks a sufficient supply of for-sale office space, especially in the 3,000 to 3,500 square foot range, and new for-sale office space of any size will be harder to find in the future.[38] Georgie Bellin, a real estate broker with The Chico Group, noted that all land that was zoned for office or residential "was all bought by home builders who could spend $10 per square foot and office uses could not compete [at that price]. If someone wants a 'new' office their best bet is to remodel something old, since nothing new is coming online."[39]

Through 2005, Bruce Roe, a real estate agent with Chico Oaks Realty, estimated that Chico built

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[33] *Ibid.*

[34] Personal Communication, Carleton Lowen and Jeff Farrar, May 1, 2008 and May 12, 2008, respectively.

[35] Personal Communication, Georgie Bellin, May 9, 2008.

[36] Personal Communication, Fran Shelton, May 7, 2009.

[37] Personal Communication, Bruce Roe, May 9, 2008.

[38] Personal Communication, Fran Shelton, May 7, 2009.

[39] Personal Communication, Georgie Bellin, May 9, 2008.

about 100,000 square feet of office space annually, then "the land prices got too high for office use; no commercial land [was] available for less than $5.00 per sq. ft. Add construction costs of $140 to $150 per square foot, and your costs are higher than anything you could sell or lease the office space for."[40] Thus, the supply of office space will not expand in the future at current lease rates, but if demand continues to rise, albeit slowly, the price of for-sale and leasable office space will also increase, which will improve development viability.

Absorption Trends

Unlike the competition for industrial and retail tenants that Chico has with other cities within Butte County, no other City really competes with Chico for office space. Competition mainly occurs between different areas in Chico. The current annual absorption rate in Chico stands around 75,000 square feet. Fran Shelton, however, believes that the office absorption rate will inevitably fall with the limited amount of new office space,[41] suggesting that the current supply of land zoned for office uses is insufficient to meet future demand. Rodney Krebs, of Dufour Realty, predicts that the future average annual absorption rate will remain steady, between 75,000 and 100,000 square feet, down from the 100,000 to 125,000 square feet built and absorbed by the Chico office market from 2000 to 2006.[42] Current office leasing activity is spread throughout the City, with nodes of activity in the Hegan Lane area, toward the airport on Cohasset, in the airport area, and in the southeast area of the City. However, brokers expect that as the southeast area approaches full build out, the northern part of Chico and other markets will experience greater demand for office uses due to a spillover effect.

[40] Personal Communication, Bruce Roe, May 9, 2008.
[41] Personal Communication, Fran Shelton, May 7, 2009.
[42] Personal Communication, Rodney Krebs, May 14, 2008.

Current Retail Leakage

The following section analyzes current retail sales in both the Chico Urbanized Area (CUA) and Butte County. Using 2007 retail demand and sales estimates from Claritas, Inc., this portion of the report explores current portions of the retail market that may be underserved and identifies potential retail market expansion opportunities. Butte County figures encompass retail sales estimates provided for the CUA.

Estimated Consumer Expenditures

Tables 1 and 2 detail consumer expenditure potential, or retail demand, in the CUA and Butte County. These estimates of consumer demand from households located within the CUA and County are formulated using expenditure estimates from the Bureau of Labor Statistics' Consumer Expenditures Survey. Within both geographies, consumer expenditures are highest in the "Auto and Other Vehicle Dealers" category, followed by "Food and Beverage Stores," and "General Merchandise Stores." Overall, neighborhood-serving retail represents nearly 40 percent of consumer demand in the CUA and County; region-serving retail is roughly one-third of demand; and the remainder is comprised of community-serving retail. On a per-capita basis, CUA residents' potential retail expenditures amount to approximately $15,900 annually. The County per capita figure is slightly lower, at $15,200.

Existing Retail Sales

Retail sales in the CUA and County equate to retail "supply" in these two areas. Claritas utilizes various information sources to derive retail sales estimates, including the Census of Retail Trade, Census Bureau monthly surveys of retail trade, business sales estimates, business locations, employee counts, the U.S. Census Bureau's Economic Census and County Business Patterns, and state retail sales tax data. In 2007, Claritas estimates retail sales of over $2.04 billion in the CUA and more than $3.08 billion in Butte County.

In both the CUA and the County, the "General Merchandise Stores" category has the largest amount of sales, primarily occurring within the CUA. The "Building Materials and Garden Equipment" category is the second largest category in terms of sales in both the CUA and County. However, the next largest sector in the CUA is "Auto and Other Vehicle Dealers," while in the County "Food and Beverage Stores" represent the third largest sales category. This difference highlights the concentration of auto and other vehicle dealers in Chico relative to the County as a whole, as compared to grocery stores, which are more dispersed throughout the County.

Leakage/Injection

If the estimated potential consumer expenditures are greater than the actual retail sales for a given retail sector, then there is a leakage in that sector. In other words, retail dollars that could be captured locally are spent outside of the area because they are not sufficiently available within the CUA or the County, or due to other factors, such as people making expenditures when the traveling out of the area for other reasons, such as work or vacation. As noted in the Retail section of the Market Conditions Overview, Chico generally draws consumers from a broad geographic area. Therefore, as displayed in Table 1, it is not surprising that the CUA experienced an injection of nearly $475 million dollars into the retail sector in 2007. Significant retail injections occurred in the "General Merchandise Stores" and "Building Materials and Garden Equipment" categories, with supply exceeding local demand by over $200 million (117 percent of potential expenditures) and $150 million (99 percent of potential expenditures), respectively.

Within the CUA, the sectors experiencing retail leakage were "Gasoline Stations," "Clothing & Clothing Accessory Stores," and "Auto and Other Vehicle Dealers." In addition there was a $48 million leakage in "Non-Store Retailers," which includes mail-order and Internet retailers. Table 3 converts the retail sales leakage figures in Table 1 to estimates of additional supportable square feet of retail space in the CUA based on estimates of average sales per square foot for each of the retail sectors. Overall, the currently unmet demand within the CUA could support less than 52,000 additional square feet of retail, including adjustments for vacancies and non-retail uses such as salons and other personal services. However, there is some additional demand for gasoline stations, amounting to approximately seven acres of land. On average, gasoline stations tend to be one acre in size, based on BAE market research. It is also important to note that it is unlikely for the CUA to capture 100 percent of potential consumer expenditures. Some retail purchases will continue to occur in larger markets such as Sacramento and San Francisco and in other locations where local residents travel.

There is a higher level of retail leakage within Butte County as a whole. Countywide, eight retail categories experienced retail leakage in 2007, including "Gasoline Stations," "Auto and Other Vehicle Dealers," "Clothing & Clothing Accessory Stores," "Full-Service Restaurants and Specialty Foodservice," "Non-Store Retailers," "Food & Beverage Stores," "Drinking Places," and "Limited-Service Restaurants." As displayed in Table 4, these leakages amount to nearly 600,000 square feet of additional retail space. Though none of this leakage occurs in the region-serving retail sectors, there is potential for Chico to capture a large portion of the 500,000 square feet of additional supportable community-serving retail categories (this figure includes the 52,000 additional supportable square feet in the CUA). Specifically, Chico may be able to target additional clothing and clothing accessory retailers, as well as destination (fine dining) restaurants and bars that could attract patrons from across the County. On the other hand, the City should be aware of the fact that as other neighboring communities continue to grow, they will increasingly be able to support a wider variety of retail stores themselves, meaning that Chico merchants who currently capture expenditures from shoppers who reside in other communities, will face increasing competition.

Furthermore, the countywide leakage in "Auto and Other Vehicle Dealers" indicates a possible market opportunity for car dealerships not already located in Chico, such as Saturn, Mitsubishi, or Acura. However, it is likely that some portion of this leakage will continue to flow to the Sacramento and San Francisco markets, especially for higher-end luxury and specialty vehicles like Mini and Lexus. While there is also additional demand for gas stations in the County, only the CUA's seven additional supportable acres are likely to be met in the City. Furthermore, it remains to be seen how the impact of rapidly escalating gasoline prices will affect the amount of land needed for service stations.

Student Spending

With over 17,000 students attending CSU Chico in 2007,[43] and additional Butte College students residing in the Chico area, college students represent a significant portion of the local consumer market. As identified in the *General Plan Economic Development Background Report* "Community Psychographic Profile," a significant portion of Chico's college student population falls in the *City Startups* retail segment, which represents 15 percent of the Chico Urban Area's total households. To the extent that Claritas uses average figures for different segments of the population to estimate consumer demand, there is a possibility that the high proportion of college students in Chico is not fully accounted for in retail demand estimates.

Though no local studies have been conducted to estimate the amount of college student retail expenditures within Chico, several national surveys and studies help provide some rough estimates of this retail potential. According to a 2006 survey of college students conducted by Harris Interactive for Alloy Media and Marketing, college students spend an average of $10,460 annually.[44] Furthermore, nearly 80 percent of the students surveyed reported holding a job during the same survey in 2005, influencing spending patterns.[45] Both the share of students holding a job and discretionary spending have risen over time, reaching 25 percent of total college student spending in 2006. A separate survey from the National Research Federation highlights that students and their parents were expected to spend an average of $957, combined, on back-to-college items in 2007.[46]

Looking at just the estimated discretionary portion of college student spending, approximately

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[43] CSU Chico. "Chico Facts." http://www.csuchico.edu/pa/chicofacts.php. Accessed May 13, 2008.
[44] Alloy Media and Marketing. "College Students Surf Back to Campus on a Wave of Digital Connections." http://www.harrisinteractive.com/news/newsletters/clientnews/2006_alloy2.pdf. Accessed May 15, 2008.
[45] Alloy Media and Marketing. "Hard Working College Students Generate Record Campus Wealth." http://www.harrisinteractive.com/news/newsletters/clientnews/2006_alloy2.pdf. Accessed May 6, 2008.
[46] National Retail Federation. "Spending on Dorm Furnishings, Electronics Drives Back-to-College Sales Past $47 Billion." http://www.nrf.com/modules.php?name=News&op=viewlive&sp_id=354. Accessed May 6, 2008.

$2,600 per student, CSU Chico students bring a potential $44.2 million in consumer demand to the Chico retail market. Though there is some question of what portion of this spending occurs within Chico and what portion of college student spending occurs at home outside of the area, approximately 36 percent of CSU Chico students originate within the school's service area and another 24 percent are from elsewhere in Northern California,[47] suggesting a potential capture of a large portion of these students' retail expenditures year-round.

[47] CSU Chico. "Chico Facts." http://www.csuchico.edu/pa/chicofacts.php. Accessed May 13, 2008.

Table 1: Chico Urbanized Area Retail Leakage, 2007

Retail Category	Estimated Total Consumer Expenditures (Demand)	Estimated Per Capita Expenditures (a)	Estimated Retail Sales (Supply)	Retail Sales (Leakage)/Injection
Regional/Destination				
Auto and Other Vehicle Dealers (b)	$285,470,258	$2,889	$276,063,579	($9,406,679)
Furniture & Home Furnishings Stores	$38,191,566	$387	$67,629,400	$29,437,834
Electronics & Appliances Stores	$38,366,375	$388	$81,522,853	$43,156,478
Building Material, Garden Equip Stores	$151,785,392	$1,536	$302,726,138	$150,940,746
Community				
Automotive Supply Stores	$24,930,114	$252	$34,921,097	$9,990,983
Clothing & Clothing Accessories Stores	$72,753,124	$736	$60,955,867	($11,797,257)
Sporting Gds, Hobby, Book, Music Stores	$31,684,506	$321	$75,572,563	$43,888,057
General Merchandise Stores	$185,520,744	$1,878	$401,689,244	$216,168,500
Miscellaneous Store Retailers	$41,443,421	$419	$58,861,175	$17,417,754
Full-Service Rest. and Specialty Foodservice	$90,829,659	$919	$99,363,946	$8,534,287
Drinking Places	$7,273,648	$74	$10,196,157	$2,922,509
Neighborhood				
Food & Beverage Stores	$193,353,885	$1,957	$196,085,006	$2,731,121
Health & Personal Care Stores	$67,306,536	$681	$88,409,805	$21,103,269
Limited-Service. Rest.	$71,657,136	$725	$101,264,574	$29,607,438
Gasoline Stations	$177,701,477	$1,799	$146,107,156	($31,594,321)
Non-Store Retailers	$91,398,676	$925	$43,083,400	($48,315,276)
Total	**$1,569,666,517**	**$15,887**	**$2,044,451,960**	**$474,785,443**

Notes:
(a) Based on 2006 ACS population estimate of 98,804 for the Chico Urbanized Area.
(b) Includes auto and other motor vehicles.

Sources: Claritas, 2008; 2006 American Community Survey, 2007; BAE, 2008.

Table 2: Butte County Retail Leakage, 2007

Retail Category	Estimated Total Consumer Expenditures (Demand)	Estimated Per Capita Expenditures (a)	Estimated Retail Sales (Supply)	Retail Sales (Leakage)/Injection
Regional/Destination				
Auto and Other Vehicle Dealers (b)	$578,240,426	$2,679	$379,992,006	($198,248,420)
Furniture & Home Furnishings Stores	$80,859,935	$375	$92,716,977	$11,857,042
Electronics & Appliances Stores	$76,995,291	$357	$102,771,038	$25,775,747
Building Material, Garden Equip Stores	$342,705,303	$1,587	$480,459,010	$137,753,707
Community				
Automotive Supply Stores	$51,941,198	$241	$55,257,017	$3,315,819
Clothing & Clothing Accessories Stores	$139,493,430	$646	$71,528,970	($67,964,460)
Sporting Gds, Hobby, Book, Music Stores	$60,430,994	$280	$98,346,970	$37,915,976
General Merchandise Stores	$386,202,774	$1,789	$488,096,015	$101,893,241
Miscellaneous Store Retailers	$86,547,916	$401	$88,576,998	$2,029,082
Full-Service Rest. and Specialty Foodservice	$181,537,203	$841	$116,583,995	($64,953,208)
Drinking Places	$14,382,244	$67	$13,254,999	($1,127,245)
Neighborhood				
Food & Beverage Stores	$414,950,645	$1,922	$383,621,973	($31,328,672)
Health & Personal Care Stores	$157,481,641	$729	$199,297,021	$41,815,380
Limited-Service. Rest.	$143,520,808	$665	$143,459,980	($60,828)
Gasoline Stations	$374,282,884	$1,734	$241,140,983	($133,141,901)
Non-Store Retailers	$189,275,774	$877	$125,588,980	($63,686,794)
Total	**$3,278,848,466**	**$15,188**	**$3,080,692,932**	**($198,155,534)**

Notes:
(a) Based on 2006 ACS population estimate of 215,881 for Butte County.
(b) Includes auto and other motor vehicles.

Sources: Claritas, 2008; 2006 American Community Survey, 2007; BAE, 2008.

Table 3: Chico Urbanized Area Additional Supportable Retail Square Feet, 2007

Retail Category	Retail Sales (Leakage)/Injection	Sales Per Square Foot	Additional Supportable Square Feet	Non-Retail Adjustment (a)	Total Supportable Square Feet (b)
Regional/Destination					
Furniture & Home Furnishings Stores	$29,437,834	$312	n.a.	n.a.	n.a.
Electronics & Appliances Stores	$43,156,478	$830	n.a.	n.a.	n.a.
Building Material, Garden Equip Stores	$150,940,746	$300	n.a.	n.a.	n.a.
Community					
Automotive Supply Stores	$9,990,983	$264	n.a.	n.a.	n.a.
Clothing & Clothing Accessories Stores	($11,797,257)	$294	40,161	46,699	51,888
Sporting Gds, Hobby, Book, Music Stores	$43,888,057	$241	n.a.	n.a.	n.a.
General Merchandise Stores	$216,168,500	$370	n.a.	n.a.	n.a.
Miscellaneous Store Retailers	$17,417,754	$335	n.a.	n.a.	n.a.
Full-Service Rest. and Specialty Foodservice	$8,534,287	$427	n.a.	n.a.	n.a.
Drinking Places	$2,922,509	$330	n.a.	n.a.	n.a.
Neighborhood					
Food & Beverage Stores	$2,731,121	$419	n.a.	n.a.	n.a.
Health & Personal Care Stores	$21,103,269	$615	n.a.	n.a.	n.a.
Limited-Service. Rest.	$29,607,438	$478	n.a.	n.a.	n.a.
Non-Store Retailers	($48,315,276)	n.a.	n.a.	n.a.	n.a.
Total Retail Sales (Leakage)/Injection	**$515,786,443**				
SUBTOTAL: Retail Square feet			**40,161**	**46,699**	**51,888**

		Sales Per Acre	Additional Supportable Acres
Auto and Other Vehicle Dealers (c)	($9,406,679)	$8,897,333	1.1
Gasoline Stations (c)	($31,594,321)	$4,652,970	6.8
Total Retail Sales (Leakage)/Injection	**($41,001,000)**		
SUBTOTAL: Retail Acres			**7.8**

Notes:

(a) Adjustment to account for an additional 14 percent for non-retail outlets (business and personal services).

(b) Includes adjustment to account for a ten percent vacancy allotment.

(c) Calculated on a sales per acre basis.

Sources: Claritas, 2008; BAE, 2008.

Table 4: Butte County Additional Supportable Retail Square Feet, 2007

Retail Category	Retail Sales (Leakage)/Injection	Sales Per Square Foot	Additional Supportable Square Feet	Non-Retail Adjustment (a)	Total Supportable Square Feet (b)
Regional/Destination					
Furniture & Home Furnishings Stores	$11,857,042	$312	n.a.	n.a.	n.a.
Electronics & Appliances Stores	$25,775,747	$830	n.a.	n.a.	n.a.
Building Material, Garden Equip Stores	$137,753,707	$300	n.a.	n.a.	n.a.
Community					
Automotive Supply Stores	$3,315,819	$264	n.a.	n.a.	n.a.
Clothing & Clothing Accessories Stores	($67,964,460)	$294	231,372	269,037	298,930
Sporting Gds, Hobby, Book, Music Stores	$37,915,976	$241	n.a.	n.a.	n.a.
General Merchandise Stores	$101,893,241	$370	n.a.	n.a.	n.a.
Miscellaneous Store Retailers	$2,029,082	$335	n.a.	n.a.	n.a.
Full-Service Rest. and Specialty Foodservice	($64,953,208)	$427	152,065	176,819	196,466
Drinking Places	($1,127,245)	$330	3,411	3,966	4,407
Neighborhood					
Food & Beverage Stores	($31,328,672)	$419	74,696	86,855	96,506
Health & Personal Care Stores	$41,815,380	$615	n.a.	n.a.	n.a.
Limited-Service. Rest.	($60,828)	$478	127	148	164
Non-Store Retailers	($63,686,794)	n.a.	n.a.	n.a.	n.a.
Total Retail Sales (Leakage)/Injection	**$133,234,787**				
SUBTOTAL: Retail Square feet			**461,670**	**536,826**	**596,473**

		Sales Per Acre	Additional Supportable Acres
Auto and Other Vehicle Dealers (c)	($198,248,420)	$8,897,333	22.3
Gasoline Stations (c)	($133,141,901)	$4,652,970	28.6
Total Retail Sales (Leakage)/Injection	($331,390,321)		
SUBTOTAL: Retail Acres			**50.9**

Notes:

(a) Adjustment to account for an additional 14 percent for non-retail outlets (business and personal services).

(b) Includes adjustment to account for a ten percent vacancy allotment.

(c) Calculated on a sales per acre basis.

Sources: Claritas, 2008; BAE, 2008.

Land Use Absorption Projections

The following section presents projections of the amount of new acreage needed to meet demand in Chico for various uses through 2030. The estimates are based on projections from the Butte County Association of Governments (BCAG), combined with data from other State and Federal sources, such as the California Department of Finance (DoF), U.S. Department of the Census ZIP Code Business Patterns, as well as Claritas, Inc., a private demographic data provider, along with information from knowledgeable real estate professionals reported in the "Existing Market Conditions Overview" section.

Housing

Table 6 displays BCAG population and total housing projections for the City of Chico. These projections do not include growth that would occur as a result of annexations. Rather, they are based on an assumption of a two percent annual growth rate for population and housing within Chico between 2006 and 2030. Over that time, BCAG estimated that the number of Chico residents would increase by over 51,000 people while the number of housing units would grow by over 21,600 units. Based on State DoF estimates, Chico's population as of January 1, 2008 was 86,949, so the increase in population by 2030 would be 40,262 people, while the increase in housing units would be 16,376. These growth projections are consistent with the growth projections being used by all of the other Butte County jurisdictions that are updating their General Plans, and they are also consistent with the BCAG regional housing need plan allocations that Butte County jurisdictions are required to use in the current round of Housing Element updates.

In order to determine how the increase in housing units should be distributed between single-family and multifamily units, BAE consulted current distribution figures from DoF as well as data on housing permits issued, from the U.S. Department of Housing and Urban Development (HUD), as reported in the *General Plan Housing Background Report*. In addition, interviews with local real estate professionals pointed to a dominance of single-family units in the Chico residential market relative to multifamily housing. As a result of differing distribution trends in recent history relative to longer-term trends, BAE developed two housing unit projection scenarios.

Housing permit data from HUD indicates that multifamily units have, in the recent past, represented between 27 and 34 percent of new residential units. Between 1990 and 2006, multifamily units comprised just 30 percent of new housing permits. However, DoF estimates that 40 percent of Chico's 2007 housing stock consists of multifamily units, suggesting higher levels of multifamily construction in the decades prior to 1990.

Therefore, two housing land use absorption scenarios were developed in Table 6. Scenario A assumes that future housing production will parallel more recent trends, with single-family housing dominating the market and multifamily representing only 30 percent of new units. Scenario B presents a distribution of new housing units based on the DoF 2007 estimates of 55 percent single-family housing, 40 percent multifamily, and five percent "other."

Table 7 translates these projected units from both scenarios into estimates of residential acreage needed. The calculations apply a housing density of seven units per acre for single-family, 20 units per acre for multifamily, and 15 units per acre for "other" housing types in Scenario A. The density assumptions for the same residential categories in Scenario B are 8, 22, and 15, respectively. In addition, the estimates take into consideration a five percent vacancy rate for multifamily and "other" housing, and two percent for single-family units. The estimate of gross acres projects that 15 percent of the land will be set aside for environmental and other constraints and an additional 15 percent will be used for on-site circulation and other infrastructure and landscaping needs. Note that these land yields assume that the General Plan Land Use Element will be revised to remove residential designations from lands that have such extraordinary development constraints that they cannot be reasonably developed as such. This may include properties such as the 266-acre Schmidbauer property located on Bruce Road between E. 20th Street and The Skyway, which is currently zoned for a mixture of residential uses, but has been identified as "environmentally constrained" in the Chico General Plan 2007 Annual Report.

Though both housing scenarios project a total of about 16,400 new housing units in Chico from 2008 through 2030, Scenario A calls for 11,463 new single-family units and Scenario B includes 9,007 single-family units. In Scenario A approximately 2,313 acres will be needed to meet new single-family unit production through 2030, compared to 1,590 acres in Scenario B. Approximately 358 gross acres would be needed under Scenario A to accommodate the 4,913 new multifamily units. In Scenario B, the 6,550 new multifamily housing units projected for Chico require about 434 gross acres zoned for this higher density residential development type. An additional 80 gross acres are needed in Scenario B to absorb the remaining five percent of projected new units, which includes mobile homes. These "other" units are not modeled in the Scenario A distribution. In all, Scenario A would require 2,671 acres to accommodate residential growth while Scenario B would require 2,103 acres of land.

As noted in the "Existing Market Conditions Overview" section, local real estate professionals expressed concern that beyond ten to 15 years the amount of residential land in Chico will be insufficient to meet the housing demands of a growing population. As indicated above, a residential unit mix like Scenario A that places a major emphasis on single-family detached housing to meet future demand will put significantly more pressure on the local land supply than a mix like Scenario B, which accommodates a greater share of demand in higher-density multifamily housing. A multifamily unit requires less than one-third the amount of land needed to accommodate a medium-density (6 dwelling units per net acre) single-family unit. As such, multifamily residential projects represent an opportunity to address the land constraints in Chico as well as the potential housing affordability issues that a restricted housing supply might cause. In addition to densification, targeted infill housing is one mechanism to address a potential land supply shortage.

There is some sense among local real estate professionals that buyers' demand for higher-density for-sale units will increase in Chico as the City grows. As housing costs increase due to the foreseen buildout of residential land, market pressures are likely to impact the affordability of low-density housing products. Moreover, the CSUC Campus Master Plan 2004 calls for an increase of nearly 3,000 full time equivalent students and an expansion of only 1,300 bed-spaces on campus.[48] The remaining 1,700 students would need to find accommodation off-campus, likely in multifamily rental developments. The lifestyle preferences of the growing college student population, aging baby-boomers, and recent college graduates choosing to remain in Chico, will all further contribute to an increase in demand for higher-density housing types, and these types of housing preference shifts are already starting to become quite evident in California's more urban areas.

Beyond these anticipated shifts in the market, the General Plan will also need to consider the City's short-term ability to accommodate its affordable housing unit allocations from the 2007-2014 Regional Housing Need Plan (RHNP) from BCAG. Approximately 127 net acres of land zoned for high-density residential development are required to accommodate the City's regional housing need allocation for 2,539 very low- and low-income units, assuming a density of 20 units per net acre. As this land is consumed during the General Plan time horizon, it can be expected that the City will need to make additional high-density residential land available to accommodate future RHNA allocations that will occur for time periods after 2014.

Commercial

Commercial land use absorption projections are based on BCAG's countywide employment projections. U.S. Census 2005 County and ZIP Code Business Patterns data indicate that employment in Chico represents approximately 70 percent of countywide employment. This percentage is used to estimate total employment projections for Chico through 2030. In order to determine the allocation of these jobs among different industry sectors, Claritas employment data reported in Table 5 are used to distribute total jobs across the retail, office, industrial, health, education, and all other industry sectors. Estimates of the average number of building square feet per employee for these various sectors and average building floor area ratios (FAR) then provide the mechanism for converting these projections into estimates of land absorption potential for each land use.

[48] CSU Chico. *Draft EIR: Chico Campus Master Plan 2004.* Pg. 2-3. January 2005. http://www.csuchico.edu/fcp/masterplan/mpindex.shtml. Accessed May 13, 2008.

Retail

According to local real estate professionals interviewed as part of this study, Chico is expected to absorb between 50,000 and 75,000 square feet of retail space in 2008 with an additional 100,000 square feet tentatively planned for 2009. With current retail development activity considered relatively slack, it is likely that higher levels of retail square feet will be absorbed in future years. As displayed in Table 7, a projected increase of over 4,900 retail jobs by 2030 equates to demand for approximately 350 gross acres of retail land by 2030. This estimate assumes 500 square feet of retail space per employee, a vacancy rate of ten percent, a floor area ratio (FAR) of 0.25, and that 15 percent of the land will be set aside for physical site constraints and an additional 15 percent will be used for on-site infrastructure needs. Based on BAE's classification of retailers into different categories, projected expenditure amounts, and average productivity (i.e., sales per square foot) for different store types shown on Table 3, it is possible to estimate the general distribution of new retail land needs as follows:

Auto Dealers (5% to 6% of total acreage). These users will generally seek to occupy freeway visible and freeway accessible locations. The most strategic location will likely be in south Chico along the Highway 99 frontage, which dealers can be conveniently accessed by shoppers from Chico as well as those traveling from the County's other major population concentrations in Paradise, Oroville, and Gridley.

Regional/Destination Retail (25% to 35% of total acreage). Similar to the Auto Dealers, for the same reasons, Regional/Destination Retail Centers will likely be most attracted to sites along the Highway 99 frontage in south Chico. Additionally, there is potential for additional retailers to generate synergies with the many other existing retailers that have concentrated in the south Chico area. In this category, there will be a limited number of new retailers, but they will tend to be the "big-box" variety, and they will require large sites of five to ten acres in size, minimum. Thus, it will be necessary to identify where these types of larger users can physically fit and enjoy high levels of freeway visibility and convenient access.

Community Retail (40% to 50% of total acreage). This store category includes stores ranging in size from under a couple of thousand square feet to "mid-box" size retailers, to "big-box" general merchandisers. There will likely be two or more new retailers representing each of the different Community Retailer categories; thus, these centers will tend to spread into several locations around the City. For example, retail brokers suggested that as south Chico becomes saturated with retail, north Chico will become increasingly attractive, particularly sites with Highway 99 frontage. If they aggregate into community retail centers, they will likely need sites of 20 to 30 acres in size; however, some of these retailers can also operate as stand-alone stores, on busy commercial corridors. In addition, with Chico's strong downtown, it should be expected that downtown can capture a significant share of the retail demand in the Community Retail Centers category, as the category includes such retail segments as full-service restaurants, various specialty store types, and drinking places, which are all attracted to downtown. Under present conditions, constraints to retail expansion in downtown will likely limit available space, requiring redevelopment and infill development. One alternative location with significant commercial development potential is Meriam Park, in southeast Chico. The plan would allow a maximum of 287,000 square feet of retail space. Meanwhile, "greenfield" locations, including Meriam Park, may represent a path of least resistance for retailers who might consider developing space in downtown Chico too costly or complicated, suggesting that the City may need to provide assistance to encourage downtown retail development.

Neighborhood Retail (25% to 35% of total acreage). In today's retail marketplace, neighborhood retailers tend to thrive when they are grouped into neighborhood retail centers anchored by a supermarket or some other strong anchor tenant, such as a large drugstore. Most typically, neighborhood retail centers aggregate between 100,000 and 150,000 square feet of retail space and requires sites ranging between 10 and 15 acres. This would suggest potential for approximately six new neighborhood retail centers through 2030. Site location considerations will include the need to distribute the centers conveniently throughout the City, to maximize the access of residents to convenience shopping facilities from their neighborhoods. Sites that will be most valuable to neighborhood retailers will be those that provide easy accessibility to adjacent neighborhoods, but also enjoy visibility and access from major thoroughfares connecting with the rest of the City.

Gas Stations (6% to 8% of total acreage). Gas stations are primarily a convenience retail category. They seek corner locations on busy intersections and freeway interchanges along major commute routes, particularly where they are easily accessible to commuters on their way home from work or on their way to work. Increasingly, gas stations are also being integrated with grocery stores (Neighborhood Retail centers), with other convenience services such as car washes and fast food (Neighborhood Retail centers) and with big-box stores, such as Costco (Community Retail centers); thus, it should be expected that gas stations will be scattered on small 1-2 acre sites throughout the City, often in conjunction with larger retail centers. Given rapidly increasing gas prices and development of new auto fueling technologies, it is likely that there will be shifts in consumption of fuel and potentially in the physical infrastructure needed for fueling. It remains to be seen how these types of changes will affect this particular land use over the General Plan time horizon; thus, it will be important that the General Plan incorporate flexibility to adapt to changing needs in this sector.

Summary. The absorption estimates for retail presented in Table 7 amount to an annual average of approximately 125,000 building square feet, including the ten percent vacancy adjustment. The retail sector is very dynamic and, in reality, there is increasing overlap between the

Regional/Destination, Community, and Neighborhood retail centers. Examples of a given store type may be found in any of the given retail center categories. Where a given type of retailer locates is often a function of where there is available space at the time that they enter a local marketplace; thus, it will be important for Chico to plan pro-actively to accommodate its growing retail sector in a very strategic manner, strengthening existing retail nodes where possible, and establishing new nodes where necessary to serve the growing community or where an opportunity exists to capture retail expenditures from the larger regional market area.

Office

The projection of 3,935 new office jobs, shown in Table 7, translates to approximately 100 gross acres of office land absorption through 2030. Assumptions for commercial office uses parallel the assumptions used for the retail absorption estimate, though office jobs generally require 250 square feet of space per employee, and it is assumed that office developments will be built at a higher (0.35) FAR on average. Including the ten percent vacancy assumption, this absorption projection suggests an annual average absorption of about 50,000 square feet of office space per the 2008 to 2030 period. Local real estate professionals suggest that historically, Chico has absorbed around 100,000 square feet on annual basis with future office absorption levels anticipated at between 75,000 to 100,000 square feet per year.

However, in its 2004 to 2014 employment projections for Butte County, the California Employment Development Department (EDD) anticipates the entire County will add approximately 2,100 office jobs over that ten-year period.[49] That employment growth equates to an annual average of just over 58,000 additional office square feet throughout the County. Despite Chico's dominance of the office sector in Butte County, some portion of this office industry growth will occur elsewhere in the County, including the County seat of Oroville. Therefore the annual absorption projection of about 50,000 square feet seems to better align with other growth projections.

Industrial

The absorption projection for industrial uses is based on an estimate of 700 square feet of building space per industrial job as well as an FAR of 0.4. All other assumptions mirror those used for the other commercial uses. The projected 3,371 new industrial jobs by 2030 amount to a potential absorption of about 208 gross acres, or an annual average of about 120,000 building square feet. Based on projections of between 50,000 and 100,000 square feet of industrial space absorbing annually in the Hegan Lane industrial area through 2020 representing perhaps half of the local market absorption, this estimate falls within the range of potential industrial absorption for Chico

[49] Office employment is estimated using total employment projections for the Information, Finance and Insurance, Real Estate and Rental Leasing, Professional and Business Services, Federal Government, Non-Education State Government, and Local Government sectors.

overall; however, by providing a larger and more diverse inventory of vacant, ready to build industrial parcels within the City than has been available historically, Chico may have the opportunity to significantly increase its absorption beyond these projections.

Health

For the health sector, City staff have provided an estimate that approximately 750 of the projected increase in jobs through 2030 would be accommodated in the Enloe Medical Center master plan area and thus would not involve additional land elsewhere in the community, thus, the City will need to plan to accommodate just under 5,100 new health services jobs through 2030. Additionally, City staff have indicated that recent medical facilities developed elsewhere within the City have tended to be low-rise, multistory buildings and have relatively high employment densities. For the purposes of this analysis, we assume that medical facilities will average 250 square feet of building space per employee, and be developed at an average FAR of 0.50. Overall, it is estimated that 90 gross acres of land will be necessary to accommodate projected employment increases in health services, through 2030.

Education

With a projected increase in employment in education fields that is just under 1,000 through 2030, there will be a need for additional land to accommodate growth in this sector. However, this analysis assumes that the majority of the educational sector employment increases will occur through continued buildout of the CSUC campus, and on sites designated in the General Plan for development of public schools. To the extent that the City attracts development of additional private educational facilities, it is assumed that these uses will be accommodated in commercial zones that permit such uses.

"Other" Employment

As indicated on Table 5, "other" employment involves a range of sectors, including agriculture and natural resources, construction, other services, and "other." This diverse range of sectors may employ people in a range of settings, from low-intensity industrial/flex buildings, to higher density offices. In order to establish a working assumption for General Plan purposes, it is assumed that the average employment density will be one employee per 400 square feet of building area, and an average FAR of 0.35. Based on these assumptions, the other sector would require an additional 142 gross acres of land.

Current Vacant Land Inventories

This section presents information on current vacant residential and non-residential land supply within the City of Chico, based on information compiled by City staff, based on the existing General Plan and zoning.

Residential

The 2007 Chico General Plan Five-Year Review and Annual report includes an analysis of residential holding capacity of vacant residential land within the City's sphere of influence. The data included in the report indicate that, as of June 2007, the City currently had capacity for 7,830 new housing units on property that had either tentative subdivision maps (6,008 units), remaining units on recorded maps (822) that were fully entitled, and units that were supported by General Plan policy LU-I-56 on the Diamond Match property (1,000). In addition to these known units, the City also identified development potential for as many as 5,980 units on vacant residentially-designated land. Although this figure is reduced to account for any vacant residential land that lies within Resource Management areas, City staff indicate that these figures are likely to be further reduced, thus it is most likely that the City's 2007 inventory will support less than 13,810 additional units, in total. City staff estimate that the breakdown of these potential units is 56 percent single-family residential, 41 percent multifamily residential, and three percent of units in mixed-use projects. While there may be no immediate shortfall of available residential land, this 13,810 maximum figure represents only 84 percent of the projected increase in residential demand through the 2030 General Plan time horizon.

Again, the 13,810 figure provides a maximum potential housing unit capacity from June 2007. City staff have subsequently estimated a further informed and up-to-date figure for the purposes of this report. After removing all land that is constrained in the Habitat Conservation Plan data as well as all land in airport compatibility zones A, B, and C, as well as making additional reductions for units that have been developed on entitled sites, the estimated remaining holding capacity within the sphere of influence is 10,890 units, with approximately 57 percent single-family residential units, 40 percent multifamily residential units, and 3.6 percent of units in mixed-use projects. This potential unit yield represents 66 percent of projected demand.

Appendix B contains additional calculations in regard to the estimated mix of potential housing units relative to the projected increase in housing units (demand) through 2030, for both Scenarios A and B. These calculations show that, depending upon assumptions about what the distribution of future demand among single-family units and other types of units, and the updated assumptions about the actual unit yield potential, the current shortfall of residential yield potential relative to projected demand varies by type of unit.

As shown in Appendix B, for Scenario A, the potential supply of new housing units would supply 54 percent of the single-family demand through 2030 and 95 percent of the multifamily demand for the period. For Scenario B, the potential supply would meet 69 percent of the single-family demand through 2030, and 64 percent of the multifamily demand.

The calculations in Appendix B also show that, even with significant variation in the assumptions about the allocation of new units among single-family versus other unit types, by 2030 the effect on total distribution of unit types by buildout is not drastic. In order to make a significant shift in the City's total unit inventory by 2030, it would be necessary to make much more dramatic changes in the allocation of new units between single-family and other unit types.

Non-Residential

City of Chico Economic Development staff prepared a draft Vacant Business Use Land study, amended September 15, 2007. This study started with identification of vacant parcels and then through application of various criteria, including infrastructure availability and regulatory constraints, determined the supply of vacant land in non-residential zoning districts. In summary, the City estimates a net total of about 926 acres of vacant land for business development, after making a 50 percent allowance for environmental constraints. The supply of land was further reduced to 234.5 acres, after evaluating the parcels to determine those that are ready for development, pending any site-specific issues. Staff further analyzed the 234.5 acres to determine readily available parcel sizes. The results of the analysis indicate that the City has very few readily developable parcels over five acres in size. In the Office Commercial, Downtown Commercial, Service Commercial, Restricted Commercial, General Commercial, Manufacturing/Industrial Park, Airport Commercial, and Airport Manufacturing/Industrial districts, the City identified no readily available sites over five acres in size. The City identified only one readily available site over five acres in each of the following districts: Office Residential, Neighborhood Commercial, and General Manufacturing/Industrial, and only two sites over five acres in the Community Commercial district. As an example of land that is theoretically available, but not readily available, Meriam Park is entitled for a maximum of 287,000 square feet of retail space and up to 900,000 square feet of commercial and civic uses; however, the site is not yet prepared with the necessary infrastructure to make development imminent. Light Manufacturing/Industrial, with ten readily available sites over five acres, was the only district with more than two such sites.

While various City and private sector actions may facilitate bringing some of the existing land to "readily developable" status during the course of the General Plan time horizon, the statistics indicate that there is certainly a short term need to address development readiness issues on existing sites (in particular, larger sites of five or more acres), as well as a long-term need for the City to ensure that its overall supply of land is both appropriate for targeted non-residential development, and provided with the necessary infrastructure and regulatory approvals. In addition, to support long-term economic development objectives, the City may wish to consider strategically acquiring parcels of land and preparing them for development, to ensure an adequate supply of ready-to-build land for business recruitment targets.

Table 5: Chico Urban Area Employment, 2007

Industry Sector	Employment	Share of Total
Commercial Retail Sectors		
Retail Trade	14,315	22%
Commercial Office Sectors		
Public Administration	1,975	3%
Finance, Insurance, & Real Estate	4,253	7%
Business and Professional Services	5,168	8%
Commercial Industrial Sectors		
Manufacturing	4,318	7%
Transportation, Warehousing, and Utilities	2,653	4%
Wholesale Trade	2,793	4%
Health and Social Services Sector	16,882	26%
Educational Services Sector	2,703	4%
Other Sectors		
Agriculture & Natural Resources	1,266	2%
Construction	3,124	5%
Other Services	5,265	8%
Other	551	1%
Total	**65,266**	**100%**

Sources: Claritas, 2008; BAE, 2008.

Table 6: Population, Housing, and Employment Growth Projections, 2006-2030

	2006 (BCAG)	1/1/2008 (Ca. DoF)	2010	2015	2020	2025	2030	Percent Change 2006-2030
Population								
Chico (a)	79,091	86,949	90,009	98,140	107,006	116,672	127,211	61%
County Total	217,209	220,407	232,075	254,224	276,277	297,882	321,315	48%
Housing Units (b)								
Chico Scenario A (a)(c)	32,864	36,484	37,768	41,180	44,900	48,956	52,860	61%
Single-family	*17,900*	*20,160*	*21,059*	*23,447*	*26,051*	*28,890*	*31,623*	*77%*
Multifamily	*13,203*	*14,470*	*14,855*	*15,879*	*16,995*	*18,212*	*19,383*	*47%*
Other	*1,643*	*1,854*	*1,854*	*1,854*	*1,854*	*1,854*	*1,854*	*13%*
Chico Scenario B (a)(d)	32,864	36,484	37,768	41,180	44,900	48,956	52,860	61%
Single-family	*18,075*	*20,160*	*20,866*	*22,743*	*24,789*	*27,019*	*29,167*	*61%*
Multifamily	*13,146*	*14,470*	*14,984*	*16,348*	*17,836*	*19,459*	*21,020*	*60%*
Other	*1,643*	*1,854*	*1,918*	*2,089*	*2,275*	*2,478*	*2,673*	*63%*
County Total	93,383	95,692	99,655	109,010	118,271	127,384	137,266	47%
Total Jobs								
Chico (a)(e)	61,810	63,540	64,226	68,356	72,104	79,878	86,075	39%
County Total	88,714	91,196	92,181	98,109	103,487	114,646	123,539	39%
Chico Jobs By Sector (f)								
Retail	13,557	13,936	14,087	14,993	15,815	17,520	18,879	39%
Office	10,793	11,095	11,214	11,936	12,590	13,947	15,029	39%
Industrial	9,247	9,506	9,608	10,226	10,787	11,950	12,877	39%
Health	15,988	16,436	16,613	17,681	18,651	20,662	22,264	39%
Education	2,560	2,632	2,660	2,831	2,986	3,308	3,565	39%
Other	9,666	9,936	10,043	10,689	11,275	12,491	13,460	39%

Notes:

(a) Chico estimates refer to the incorporated City of Chico and are derived from BCAG 2030 projections developed in 2006 that are based on historical City growth rate of two percent (BCAG, 2006). Projections do not include growth due to annexations of already inhabited land. City of Chico staff estimate that annexations will add another 5,220 residents to the City population over the life of the General Plan (2,175 housing units; 1,247 single-family and 928 multifamily).

(b) Does not include group quarters housing such as dormitories, group homes, or nursing homes.

(c) Based on the 1990-2006 annual average distribution from HUD of housing building permits, as reported in Table 10-6 of the General Plan Update Background Report.

	Single-family	Multifamily	Other
Chico	70%	30%	n.a.

(d) Based on the 2007 DoF estimates of the distribution of housing types reported in Table 10-7 of the General Plan Update Background Report.

	Single-family	Multifamily	Other
Chico	55%	40%	5%

(e) Based on Census ZIP Code business pattern data indicating that the following Chico ZIP Codes represent 70 percent of total County jobs: 95926, 95927,95928, 95929, and 95973. To the extent that these ZIP Codes extend beyond the Incorporated Chico Area and there are jobs in the portions of those ZIP Codes not in the incorporated City, this estimate may overstate the share of Butte County jobs in the Chico Incorporated Area.

(f) Based on 2007 employment distribution reported in Table 5 and Table 6-9 of the General Plan Update Background Report.

Sources: BCAG, 2006; HUD, 2007; DoF, 2008; Census 2005 County and ZIP Code Business Patterns, 2008; Claritas, 2008; BAE, 2008.

Table 7: City of Chico Land Use Demand Projections, 2030 (DRAFT)

Land Use	New Units or Jobs 2008 to 2030	Non-Residential Sq. Ft. Per Employee	Vacancy Adjustment	Density		Net Acres	Gross Acres (a)
Residential (Units)							
Housing Scenario A							
Single-family	11,463	n.a.	2%	7	DU/net acre	1,671	2,313
Multifamily	4,913	n.a.	5%	20	DU/net acre	259	358
Other	n.a.	n.a.	5%	15	DU/net acre	n.a.	n.a.
Total	**16,376**					**1,930**	**2,671**
Housing Scenario B							
Single-family	9,007	n.a.	2%	8	DU/net acre	1,149	1,590
Multifamily	6,550	n.a.	5%	22	DU/net acre	313	434
Other	819	n.a.	5%	15	DU/net acre	57	80
Total	**16,376**					**1,520**	**2,103**
Non-Residential (jobs)							
Commercial (jobs)							
Retail	4,943	500	10%	0.25	FAR	252	349
Office	3,935	250	10%	0.35	FAR	72	99
Industrial	3,371	700	10%	0.40	FAR	150	208
Health Facilities (b)	5,079	250	10%	0.50	FAR	65	90
Education Facilities	933	(c)	(c)	(c)		(c)	(c)
Other	3,524	400	10%	0.35	FAR	103	142
Total	**21,785**					**642**	**888**

Notes:
(a) Estimates of gross acres based on assumption that gross acreage will be reduced 15 percent due to environmental constraints/site constraints, and that net acreage will be further reduced 15 percent for land that will be used for on-site circulation and other infrastructure and landscaping needs.
(b) Health employment growth has been discounted by approximately 750 jobs, to account for health employment growth that will be accommodated in the Enloe Medical Center.
(c) Employment growth associated with education facilities is assumed to be accommodated primarily on the CSUC campus, and General Plan sites designated for public school development. Education employment in private institutions is assumed to be absorbed primarily within acreage designated for office development.

Sources: BCAG, 2006; DoF, 2008; Census 2005 County and ZIP Code Business Patterns, 2008; Claritas, 2008; City of Chico Planning Services, 2008; BAE, 2008.

Market Opportunities for Downtown Element

Downtown Chico presents its own unique set of real estate opportunities and challenges. Local real estate professionals offered ideas on the opportunities available for residential, retail, and office development in Downtown Chico, and presented a wide variety of suggestions on how to overcome challenges in the downtown residential and commercial markets. In addition, data that BAE has collected and analyzed elsewhere in this report, as well as in the *General Plan Economic Development Background Report,* highlight certain market opportunities and challenges.

Retail

Overall, local real estate professionals expressed the need to broaden the appeal of the downtown retail market by increasing the quality and selection of retail establishments. They felt that a mixture of both chain and local retailers is key to future retail development in downtown. Georgie Bellin, a real estate broker with The Chico Group, stressed the need for additional stores downtown given her recent trip to San Luis Obispo with other local real estate brokers. She noted that San Luis Obispo has stores like Victoria's Secret and GAP, which do not exist in downtown Chico (but do have stores in the mall).[50] Jeff Fararr, a developer with Ingram Commercial Real Estate, expressed a similar sentiment saying that there is an excess supply downtown of "C grade uses," including antique stores, tattoo parlors, etc., and that attracting more quality stores downtown was essential. This renewed emphasis on quality would bring about higher downtown rents and limit the number of "C grade uses" in downtown.[51] The idea is to have a stronger downtown economy through a combination of local retailers and chains. Chains currently exist in the downtown primarily as eating and drinking places, but an appropriate mix that includes chain "merchandising" retailers may better strengthen the market for locally based businesses, by bringing more shoppers into the downtown in general.

The retail leakage analysis for the Chico Urbanized Area and Butte County also highlighted some short term potential for attracting community-serving retail to Chico. Specifically, Chico, as the retail center for the County, has an advantage in capturing a large portion of the current retail leakage in clothing and clothing accessory stores, and higher-end destination restaurants and bars. Moreover Downtown Chico possesses a competitive advantage for these types of retail uses, including:

- location that is central to the region's largest population concentration
- Adjacency to the CSUC campus puts downtown in close proximity to the very

[50] Personal Communication, Georgie Bellin, May 9, 2008.
[51] Personal Communication, Jeff Farrar, May 12, 2008.

large number of students, faculty, and staff on a daily basis
- downtown has a strong entertainment component (performing arts venues, art galleries, etc.) that is complementary to retail and dining
- downtown's overall physical setting and design provides a strong sense of place that makes it attractive as a shopping destination

To broaden the appeal of downtown, interviewees expressed a need to increase the parking supply, and many thought that on-street parking alone would not likely meet future demand. Many of the real estate professionals felt that new parking facilities in the downtown would become necessary in the future. In addition, office expansion is crucial to the viability of retail in the downtown. An increase in downtown employment would mean more daytime pedestrian traffic and increased retail spending. Similarly, downtown housing, which would result in more activity in downtown outside of the weekday business hours, would also help to enliven the area, and create additional demand for stores and restaurants. Although movies were historically an important downtown entertainment offering, none of the movie theater buildings are currently functioning as such. Meanwhile, movie theaters have played a central role in the revitalization of many commercial districts.

In terms of the long-term demand for increased retail development as the City grows, this study has estimated potential demand for approximately 252 net acres of additional retail space, 40 to 50 percent of which might fall within the community retail category, which in turn includes many types of users, including specialty retailers and eating and drinking establishments, that would potentially be attracted to the downtown area.

Office

The downtown currently has a strong market for small office users. Tenants such as attorneys, real estate professionals, and computer companies seem to prefer downtown and, overall, help keep the office vacancy rates relatively low. Again, parking was cited as a major reason why larger office users are not prevalent downtown. Illustrating the impact of parking on the office market, Carlton Lowen, a real estate broker with Lowen Real Estate, stressed how Morgan Stanley, who is in the process of opening offices downtown, had to rent 17 private parking spaces to accommodate their workers.[52] Not all larger office users will be willing take such steps to increase their parking availability. Thus, the presence of a strong office market for small users will continue in downtown Chico, but attracting larger users would require additional, possibly structured, parking.

Downtown Chico will be positioned to capture a portion of the projected 72 net acres of demand for office space in Chico.

[52] Personal Communication, Carlton Lowen, May 1, 2008.

Residential

Local real estate brokers and property managers noted a distinct niche demand for high quality luxury apartments or condominium units in the downtown commercial core. These units might be part of a high-density residential structure or in a mixed-use residential and commercial format. Units would offer proximity to the lively downtown commercial core, drawing young, relatively affluent professionals and university affiliates, as well as a small number of students.

However, interviews highlighted significant challenges facing potential high-density housing development in Chico's downtown commercial core. While a small number of these units already exist in the downtown, interviewees indicated that prospective sales prices and rents would likely be insufficient to offset the costs of construction, likely to include the demolition of existing structures and provision of off-street parking. In addition, the anticipated future increase in demand for high-density downtown housing is likely to improve upon the current market conditions, which hamper the financial or market feasibility for these projects. Trends in more urbanized areas suggest that Downtown Chico will be one of the most competitive locations to attract a portion of the City's long-term demand for high density residential development. Prospective residents will likely place a high value on easy access to the shopping, dining, and entertainment uses that abound in the downtown area as well as the central location near Bidwell Park, the University, and local employment centers.

Establishing a Unique Role for the Downtown

Overall, the downtown has tremendous potential as a residential and commercial focal point within the City of Chico. At the same time, this role should not be taken for granted, as existing and planned developments elsewhere in the City may compete with the downtown for the finite demand stemming from Chico's overall growth. For example, it should be acknowledged that the proposed Meriam Park project in southeast Chico has the potential to compete in the same market niches as downtown. Meriam Park is proposed as a mixed-use "traditional neighborhood development." The project could include up to 3,200 dwelling units, including residential units above ground floor commercial. The project could also accommodate as much as 287,000 square feet of retail space and another 900,000 square feet of commercial and civic buildings. While none of these maximums are likely to be reached, it is evident that tenants who might be attracted to downtown might also be attracted to Meriam Park. Thus, it will be important for the City to clearly differentiate which particular uses might be appropriate in downtown versus in Meriam Park or other "peripheral" locations so that development in these other locations does not undermine efforts to strengthen downtown. Meanwhile, the City must ensure that there are adequate locations provided within the City for those developments that cannot be accommodated in the downtown.

Appendix A: Contact List

1. Georgie Bellin
   The Chico Group

2. Debbie Brodie
   Chico Association of Realtors

3. Bill Brouhard
   Guillon Brouhard Real Estate

4. Tim Edwards
   North Valley Apartment Brokers

5. Jeff Farrar
   Ingram Commercial Real Estate

6. Dan Herbert
   Sheraton Real Estate Management

7. John Kennedy
   Kennedy Commercial

8. Rodney Krebs
   Coldwell Banker Commercial, Dufour Realty

9. Carlton Lowen
   Lowen Real Estate

10. Bruce Roe
    Chico Oaks Realty

11. Frank Ross
    The Chico Group

12. Scott Chalmers
    RSC Associates

13. Fran Shelton
    Shelton Associates

14. Tony Symmes
    Aspire Homes

Note: Four additional real estate and development professionals were interviewed but requested to remain un-identified.

Appendix B: Analysis of Residential Unit Potential vs. Projected Growth in Demand

	Projected Growth Housing Units 2008-2030	Current Residential Unit Potential Units	Current Residential Unit Potential % of Demand	Projected Total Units Through 2030	Percent of Total
Scenario A, Total	**16,376**	**10,890**	**66%**	**52,860**	
Single-family Units	*11,463*	*6,207*	*54%*	*31,623*	*60%*
Multifamily and Other Units	*4,913*	*4,683*	*95%*	*21,237*	*40%*
Scenario B, Total	**16,376**	**10,890**	**66%**	**52,860**	
Single-family Units	*9,007*	*6,207*	*69%*	*29,167*	*55%*
Multifamily and Other Units	*7,369*	*4,683*	*64%*	*23,693*	*45%*

Sources: City of Chico, Planning Services, 2008; BAE, 2008.