

Draft Memorandum

TO: Century Communities

FROM: James Edison

DATE: November 30, 2022

SUBJECT: East Garrison Town Center Retail Feasibility Analysis

OVERVIEW

Willdan has been engaged by Century Communities to evaluate the feasibility of the commercial/retail development for the town center at the East Garrison, a mixed-use project on the former Fort Ord, and assess the current and future supply and demand for commercial/retail development at this location.

The approved East Garrison Specific Plan includes 1,400 residential units, plus 70 potential ADUs, and a minimum of 34,000 SF of commercial/retail/civic uses required to be developed. As indicated in the East Garrison Specific Plan, the town center area was purposely designed with a flexible zoning overlay to be responsive to market demand and “assimilate changes in response to prevailing market conditions”. At the time the Specific Plan was approved in 2005, it was anticipated the town center commercial uses might include a variety of shops, art galleries, services, bank, professional offices, cafes, and restaurants. 4,000 SF of institutional use was allocated for a sheriff’s field office and public library within the town center area. A total of 40 residential apartments/condos and 49 live/work type units were also anticipated within the town center.

It should be noted that the East Garrison Town Center commercial demand and capacity assumed that approximately 3,000 residential units, the majority of the County’s allocation of residential units under the Fort Ord Reuse Plan, would eventually be planned and built within the East Garrison Track Zero area and on lands just south of Watkins Gate Road and along Barloy Canyon Road. The County has since transferred 1500 residential units to other locations of Fort Ord, including Parker Flats, reducing the number of households that could support retail at the town center by approximately half.

The Arts District is planned for up to 70,000 SF of affordable artist spaces within 24 rehabilitated historic buildings along with 66 affordable newly constructed live/work units. To date, none of the Arts District has been initiated or completed and there is no firm timeline to begin development. This portion of the development is not the responsibility of Century Communities.

COMMERCIAL/RETAIL OUTLOOK

Retail generally has faced increased competition in the past decade from online shopping, and a shift toward “experiential retail” (such as food and entertainment) and away from durable goods. The past 18 months have been particularly difficult, with much in person retail activity shut down or severely curtailed, many retail businesses closed, and storefronts vacant across the country and in the Monterey region. Willdan believes that COVID-19 has accelerated these trends, rather than causing any fundamental shift in them. Willdan believes that the shift away from certain categories of in person retail toward online purchasing will continue, including both goods and food services such as restaurant delivery services or so-called “ghost kitchens” that are commercial kitchens that distribute prepared food without any dining facilities. For the town center area at East Garrison the retail environment is now even more challenging than when originally envisioned in the mid-2000s and will continue to become more challenging for the types of small-scale, in-person retail planned for a town center with significantly limited existing and future demand for these types of uses.

Additionally, the market for General Commercial uses, such as professional office is completely saturated in the Monterey Area. In discussions with real estate brokers from the Monterey Real Estate brokerage firm Mahoney & Associates, who worked on The Dunes in Marina, and many other retail and office projects in Monterey County their view of the East Garrison location is “sub par” for office uses and would not be an appropriate location for this type of use. Willdan agrees with this assessment.

ANALYSIS

Willdan has prepared an estimate of the commercial/retail development that could potentially be supported in today’s market conditions and by the approved residential development units at East Garrison.

East Garrison consists of single family and multifamily residential units (market rate and affordable) along with parks, open spaces, trails and a yet to be developed town center and arts district. Phases 1 and 2 of the East Garrison Specific Plan have been constructed, and Century Communities is proposing to modify the plan for the town center to bolster the long-term viability of the retail component of the town center and better support the two affordable housing projects yet to be constructed. Prior to starting the final phase, Century Communities



reached out to Willdan to determine what and how much retail/commercial use would not only be viable now but sustainable in the future.

Table 1, below, details the existing development and proposed Town Center and associated development. The proposed development includes 1,377 total units. For comparison, Table 1 also includes the current entitlement of 1,400 residential units.

Table 1
Development Program
East Garrison Retail Analysis

Type	Existing Entitlement	Proposed Plan
Residential Medium Density	964	929
High Density Affordable	130	130
Town Center Lofts	46	0
Live/Work	40	0
Hig Density Residential (condo/apt)	154	0
Rowhouse/Townhouse MF	0	104
30x55 lots	0	82
30x70 lots	0	66
Affordable MF	<u>66</u>	<u>66</u>
Total Units	1,400	1,377

Source: Urban Design Associates, Century Communities

Willdan, 2022



The Town Center is envisioned to provide smaller convenience retail resources to serve local residents, such as a convenience store, casual dining (coffee, pizza, sandwiches, etc.), and neighborhood services (dry cleaners, beauty salon, shipping and business service, etc.). Larger scale retail is already provided by significant large format (aka Big Box) shopping centers such as the Dunes on Monterey Bay in Marina and the complex of strip centers along North Davis Road in Salinas, along with online sources such as Amazon. The Town Center supplements these uses, and therefore is expected to represent a relatively small portion of retail spending by East Garrison residents and draw few customers from outside the community. Table 2 below provides the existing retail supply and demand within a 15-minute drive time radius of East Garrison. In Table 2 the demand is the total disposable income available for retail expenditures (excluding purchases by businesses) and supply is the total retail sales in the area. As shown on Table 2, there is an oversupply (retail supply/square footage exceeds retail demand) of over \$325 million annually in retail establishments overall, \$300 million annually in retail trade and \$25 million annually in food and drink establishments. Given this surplus, there does not appear to be any existing demand for new retail in the area around the town center, and any new retail would compete with existing retail for customers, including residents of East Garrison.

Willdan has also considered the potential for retail demand from visitors and tourists. While Willdan believes that there will be some degree of business generated from such visitors, Willdan believes that weekly and seasonal variability, along with uncertainty of degree, mean that it cannot be counted on to support retail businesses in the Town Center. Willdan has also considered the possibility that other non-retail uses, such as day care or non-profit activities could lease space in the Town Center.

Any of these potential additional uses are permitted in the Town Center plan, and to accommodate them space in the Town Center will be designed to be flexible, such that additional retail square footage would be available should demand exceed these calculations.



Table 2: Current Retail Market Supply and Demand



esri Retail MarketPlace Profile

13900 Sherman Blvd, Marina, California, 93933
 Drive Time: 15 minute radius

Prepared by Esri
 Latitude: 36.65496
 Longitude: -121.73634

Summary Demographics	
2020 Population	96,422
2020 Households	32,445
2020 Median Disposable Income	\$55,585
2020 Per Capita Income	\$30,806

NOTE: This database is in mature status. While the data are presented in current year geography, all supply- and demand-related estimates remain vintage 2017.

2017 Industry Summary	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus Factor	Number of Businesses
Total Retail Trade and Food & Drink	44-45,722	\$ 12,193,359,806	\$ 1,545,170,151	-\$325,810,345	-11.8	857
Total Retail Trade	44-45	\$ 1,097,979,349	\$ 1,398,422,434	-\$300,443,085	-12.0	611
Total Food & Drink	722	\$ 12,138,045,7	\$ 146,747,717	-\$25,367,260	-9.5	246
2017 Industry Group	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus Factor	Number of Businesses
Motor Vehicle & Parts Dealers	441	\$ 225,591,734	\$ 322,735,729	-\$97,143,995	-17.7	84
Automobile Dealers	4411	\$ 178,808,422	\$ 278,043,118	-\$99,234,696	-21.7	41
Other Motor Vehicle Dealers	4412	\$ 27,006,545	\$ 16,772,917	\$ 10,233,628	23.4	7
Auto Parts, Accessories & Tire Stores	4413	\$ 19,776,767	\$ 27,919,695	-\$8,142,928	-17.1	36
Furniture & Home Furnishings Stores	442	\$ 40,250,695	\$ 29,945,970	\$ 10,304,725	14.7	38
Furniture Stores	4421	\$ 21,333,221	\$ 10,253,759	\$ 11,079,462	35.1	18
Home Furnishings Stores	4422	\$ 18,917,474	\$ 19,692,211	-\$774,737	-2.0	21
Electronics & Appliance Stores	443	\$ 40,400,766	\$ 42,249,553	-\$1,848,787	-2.2	23
Bldg Materials, Garden Equip. & Supply Stores	444	\$ 62,554,473	\$ 96,035,065	-\$33,480,592	-21.1	63
Bldg Material & Supplies Dealers	4441	\$ 58,316,358	\$ 79,866,602	-\$21,550,244	-15.6	48
Lawn & Garden Equip & Supply Stores	4442	\$ 4,238,116	\$ 16,168,463	-\$11,930,347	-58.5	15
Food & Beverage Stores	445	\$ 180,934,149	\$ 150,686,204	\$ 30,247,945	9.1	108
Grocery Stores	4451	\$ 154,655,807	\$ 116,531,512	\$ 38,124,295	14.1	52
Specialty Food Stores	4452	\$ 12,862,179	\$ 27,778,405	-\$14,916,226	-36.7	43
Beer, Wine & Liquor Stores	4453	\$ 13,416,163	\$ 6,376,287	\$ 7,039,876	35.6	13
Health & Personal Care Stores	446,4461	\$ 74,794,138	\$ 70,898,541	\$ 3,895,597	2.7	32
Gasoline Stations	447,4471	\$ 98,232,549	\$ 242,378,859	-\$144,146,310	-42.3	38
Clothing & Clothing Accessories Stores	448	\$ 80,883,407	\$ 54,148,037	\$ 26,735,370	19.8	64
Clothing Stores	4481	\$ 57,712,772	\$ 36,754,998	\$ 20,957,774	22.2	42
Shoe Stores	4482	\$ 10,021,737	\$ 9,219,201	\$ 802,536	4.2	10
Jewelry, Luggage & Leather Goods Stores	4483	\$ 13,148,898	\$ 8,173,838	\$ 4,975,060	23.3	13
Sporting Goods, Hobby, Book & Music Stores	451	\$ 35,358,260	\$ 38,112,017	-\$2,753,757	-3.7	40
Sporting Goods/Hobby/Musical Instr Stores	4511	\$ 30,419,463	\$ 35,293,517	-\$4,874,054	-7.4	34
Book, Periodical & Music Stores	4512	\$ 4,938,796	\$ 2,818,500	\$ 2,120,296	27.3	6
General Merchandise Stores	452	\$ 186,070,881	\$ 269,360,321	-\$83,289,440	-18.3	29
Department Stores Excluding Leased Depts.	4521	\$ 111,336,600	\$ 173,231,036	-\$61,894,436	-21.8	14
Other General Merchandise Stores	4529	\$ 74,734,281	\$ 96,129,285	-\$21,395,004	-12.5	15
Miscellaneous Store Retailers	453	\$ 40,274,904	\$ 69,137,045	-\$28,862,141	-26.4	87
Florists	4531	\$ 1,879,930	\$ 3,842,547	-\$1,962,617	-34.3	10
Office Supplies, Stationery & Gift Stores	4532	\$ 9,375,497	\$ 13,870,152	-\$4,494,655	-19.3	19
Used Merchandise Stores	4533	\$ 4,357,420	\$ 7,521,582	-\$3,164,162	-26.6	18
Other Miscellaneous Store Retailers	4539	\$ 24,662,057	\$ 43,902,763	-\$19,240,706	-28.1	40
Nonstore Retailers	454	\$ 32,633,393	\$ 12,735,095	\$ 19,898,298	43.9	4
Electronic Shopping & Mail-Order Houses	4541	\$ 28,060,313	\$ 269,898	\$ 27,790,415	98.1	1
Vending Machine Operators	4542	\$ 504,160	\$ 91,422	\$ 412,738	69.3	1
Direct Selling Establishments	4543	\$ 4,068,920	\$ 12,373,775	-\$8,304,855	-50.5	2
Food Services & Drinking Places	722	\$ 12,138,045,7	\$ 146,747,717	-\$25,367,260	-9.5	246
Special Food Services	7223	\$ 2,462,982	\$ 3,594,251	-\$1,131,269	-18.7	6
Drinking Places - Alcoholic Beverages	7224	\$ 2,621,780	\$ 1,338,085	\$ 1,283,695	32.4	5
Restaurants/Other Eating Places	7225	\$ 116,295,695	\$ 141,815,381	-\$25,519,686	-9.9	235

Data Note: Supply (retail sales) estimates sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at retail establishments. Supply and demand estimates are in current dollars. The Leakage/Surplus Factor presents a snapshot of retail opportunity. This is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A positive value represents 'leakage' of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. The Retail Gap represents the difference between Retail Potential and Retail Sales. Esri uses the North American Industry Classification System (NAICS) to classify businesses by their primary type of economic activity. Retail establishments are classified into 27 industry groups in the Retail Trade sector, as well as four industry groups within the Food Services & Drinking Establishments subsector. For more information on the Retail MarketPlace data, please click the link below to view the Methodology Statement.

<http://www.esri.com/library/whitepapers/pdfs/esri-data-retail-marketplace.pdf>

Source: Esri and Data Axle. Esri 2020 Updated Demographics. Esri 2017 Retail MarketPlace. ©2020 Esri. ©2017 Data Axle, Inc. All rights reserved.



Considering the clear oversupply of retail detailed in Table 2, retail at East Garrison may not be feasible at all. Even with residential development at East Garrison any new retail would have to compete against this existing oversupply identified above. In addition, plans have been announced for an additional phase of retail development at the Dunes in Marina, which will increase the existing oversupply. For this analysis, however, Willdan has assumed an essentially steady state of existing demand for retail, and that therefore a certain portion of retail spending by East Garrison residents would be available to support local retail development in the town center. This calculation will result in an estimate of the potential maximum supportable retail in the town center.

Table 3 details the pricing of existing units in Phases 1 and 2 as well as the current entitlements and the proposed units in the final phase. As shown on Table 3, the proposed entitlements are a slight reduction in units overall.



Table 3
Valuation Calculation
East Garrison Retail Analysis

Units	sf/dsc	Valuation (1)	Existing Entitlement		Proposed Plan	
			Units	Valuation	Units	Valuation
Residential Medium		823,173	964	793,538,509	929	764,727,464
Residential High (Affordable)			130	0	130	0
Arts District (affordable)			0	0	0	0
Town Center Lofts		550,000	46	25,300,000	0	0
Live/Work		566,034	40	22,641,360	0	0
High Density Residential (condo/apt)		490,530	154	75,541,620	0	0
Rowhouse/Townhouse MF	1,700	739,990	0	0	25	18,499,750
	1,900	766,990	0	0	26	19,941,740
	2,050	786,990	0	0	0	0
	aff 1,330	240,000	0	0	33	7,920,000
	wf 1,700	430,000	<u>0</u>	0	<u>20</u>	8,600,000
Mean			0		104	528,476
30x55 lots						
	1900	851,990	0	0	27	23,003,730
	2100	883,990	0	0	27	23,867,730
	2225	902,990	0	0	<u>28</u>	25,283,720
			0		82	879,941
30x70 lots						
	1,437	818,990	0	0	20	16,379,800
	1,649	852,990	0	0	20	17,059,800
	1,866	886,990	0	0	20	17,739,800
	wf 1,437	525,000	<u>0</u>	0	<u>6</u>	3,150,000
			0	0	66	823,173
Affordable			<u>66</u>		<u>66</u>	
Total Units			1,400		1,377	

(1) Affordable valuations are rough assumptions subject to further refinement and underwriting.

Source: Century Communities

Willdan, 2022

To estimate potential retail expenditures in the proposed final phase, it is necessary to estimate the income of existing and new residents. Table 4 estimates household income based on the cost



of housing, using standard mortgage underwriting assumptions to establish the minimum amount of household income that would be required to purchase each of the unit types at East Garrison. The one exception to this is the affordable units, where Willdan has assumed an overall income level equal to the qualification for low-income housing according to HUD guidelines for Monterey County. As shown in Table 4, Willdan estimates a total of \$216 to \$223 million in income among the residents at East Garrison.

Table 4
Income Calculation
East Garrison Retail Analysis

Unit Type	Valuation	Implied Income (1)	Units	Total Income
Existing Entitlement				
Residential Medium	\$823,173	\$180,183	964	\$173,696,100
Residential High (condo/apt)	490,530	107,371	154	16,535,158
Residential high (affordable)		81,350	130	10,575,500
Affordable MF		81,350	66	5,369,100
Town Center Lofts	550,000	120,388	46	5,537,868
Live/Work	566,034	123,898	<u>40</u>	<u>4,955,923</u>
Total			1,400	\$216,669,649
Proposed Plan				
Residential Medium	\$823,173	\$180,183	929	167,389,706
Residential High (condo/apt)	490,530	107,371	0	0
Residential high (affordable)		81,350	130	10,575,500
Rowhouse/Townhouse MF	528,476	115,677	104	12,030,414
30x55 lots	879,941	192,609	82	15,793,907
30x70 lots	823,173	180,183	66	11,892,057
Affordable MF		81,350	<u>66</u>	<u>5,369,100</u>
Total			1,377	\$223,050,683

(1) Assumes 10% down payment, 30 year mortgage, 25% of income, 4.5% interest rate. Affordable income based

Willdan, 2022

Next Willdan calculated the amount that would be expended on a variety of goods and services by East Garrison households. Table 5 below details the national expenditure patterns of households in the United States by percentage, including housing, health care, food, and other items. Of these, Willdan estimates that approximately 21 percent of household expenditures are



on items that could be offered by retailers in the town center, including food, entertainment, and apparel and services.

Table 5
Household Expenditure Data
East Garrison Retail Analysis

Item	Proportion
Housing	33%
Food	13%
Healthcare	8%
Cash Contributions	3%
Transportation	17%
Personal Insurance and Pensions	11%
Entertainment	5%
Apparel and Services	3%
Town Center Expenditures (1)	21%

(1) Includes Food, Entertainment, and Apparel

Willdan, 2022

Table 6 details the overall taxable expenditures in Monterey County in 2018, by category. Willdan estimates that of the retail categories, approximately 56 percent are goods and services that could potentially be offered by retailers in the proposed town center.¹ Willdan further estimates that, of these categories, fifteen percent of total household spending in these categories could be captured by town center retailers.² Combining these factors Willdan estimates that eight percent of total retail spending by East Garrison households could potentially be captured by businesses in the town center. As a point of reference, Willdan also calculated the taxable transactions in Monterey county per household, which totaled \$36,960.

¹ For example, it appears unlikely that an auto dealer, gas station, or home improvement center would locate in the town center given its location.

² It is important to note that the relatively limited amount of square footage in the town center means that there could likely only be stores covering a few of these categories, and that therefore the effective capture rate would be higher in covered categories and zero in uncovered categories.



Table 6
Monterey Sales Tax Data 2017
East Garrison Retail Analysis

Type of Business	Taxable Transactions	%	Per Capita	Per Household
Motor Vehicles and Parts Dealers	1,044,644,362	23%	2,502	8,333
Home Furnishings and Appliance Stores	22,824,929	0%	55	182
Building Materials and Garden Equipment and Supplies	414,811,365	9%	993	3,309
Food and Beverage Stores	339,792,208	7%	814	2,711
Gasoline Stations	539,012,628	12%	1,291	4,300
Clothing and Clothing Accessories Stores	358,539,039	8%	859	2,860
General Merchandise Stores	497,782,828	11%	1,192	3,971
Food Service and Drinking Places	855,376,845	18%	2,049	6,823
Other Retail Group	<u>560,410,598</u>	<u>12%</u>	<u>1,342</u>	<u>4,470</u>
	4,633,194,802	100%	11,096	36,960
Town Center Retail Categories (1)		56%		
Capture Ratio (2)		15%		
Total Allocation		8%		

(1) Includes Food and Beverage Stores, clothing and clothing accessories stores, general merchandise stores, food and drinking places, and other retail group applicable to town center.

(2) Willdan estimate of proportion of expenditures that could be captured by town center retailers.

Source: California Department of Tax and Fee Administration, California Department of Finance

Willdan, 2022

Finally, to estimate total supportable retail in the proposed final phase Willdan applied the allocation factors from Tables 5 and 6 to the calculated household income from Table 4. As shown in Table 7, below, this results in total retail expenditures in the proposed town center of approximately \$3.8 to \$3.9 million annually. Willdan estimates that a typical new retail store will need sales of approximately \$350 per square foot to be viable. To determine the total number of square feet of retail development that can be supported in the town center Table 7 divides the estimated expenditures by the required sales per square foot. As shown in Table 7, this results in total potential supportable retail square feet of up to approximately 11,000 for the current entitlements and proposed final phase.



Table 7
Retail Expenditures and Supportable Retail Development
East Garrison Retail Analysis

Item	Existing Entitlement	Proposed Plan
Total Resident Income	\$216,669,649	\$223,050,683
Retail Expenditure Proportion of Income	21%	21%
Resident Retail Expenditures	\$45,283,957	\$46,617,593
Town Center Categories Capture	8%	8%
Potential Town Center Expenditures	\$3,829,234	\$3,942,007
Required Sales/Square Foot (1)	350	350
Supportable Square Feet	10,941	11,263

(1) Willdan estimate of sales per square foot needed to support a new retail store.

Willdan, 2022

To provide a rough check of the above methodology against other data sources, Willdan also compared the calculated spending per household at East Garrison to overall retail spending per household countywide. As shown in Table 8, Willdan estimates approximately \$2,900 to \$3,000 in spending per household per year in the town center, which is just over \$200 per month. This compares to total spending of \$36,960 per household countywide, so the estimated town center spending is approximately seven percent of all taxable spending for a mean household at East Garrison. Given that the countywide number also includes spending by businesses and other entities, as a rough approximation the estimate of town center spending appears reasonable, perhaps even a bit aggressive considering the oversupply of retail establishments within a 15-minute drive of the project.



Table 8
Methodology Comparison
East Garrison Retail Analysis

Item	Existing Entitlement	Proposed Final Pf
Total Resident Town Center Spending	\$4,066,123	\$4,159,304
East Garrison Households	1,400	1,377
Town Center Spending per HH	\$2,904	\$3,021
Countywide Retail Spending per HH	\$36,960	\$36,960
Town center spending percentge	7.9%	8.2%

Source: California Department of Tax and Fee Administration

Willdan, 2022

Conclusion

Based on our review and analysis of the current and expected future market conditions for commercial/retail in the East Garrison area, including existing residents in East Garrison, as well as the potential future residents under the current entitlements and the proposed development alternative, Willdan estimates that a maximum of approximately 11,000 square feet of retail development are feasible in the East Garrison Town Center under both the existing and proposed alternatives. Given the current challenges to retail, and the competitive context (and local oversupply of retail establishments), Willdan believes a lower target, such as 5,000 square feet, might be appropriate to ensure that retail development in the Town Center is viable and does not result in any empty storefronts.³ Based on discussions with local brokers there appears to be zero demand for general commercial (office) uses and Willdan therefore does not recommend this use for the town center.

³ As noted above, however, space Town Center space will be built flexibly to accommodate additional retail demand should it arise.

