

**TRACY HILLS SPECIFIC PLAN
DRAFT SUBSEQUENT ENVIRONMENTAL IMPACT REPORT
VOLUME II
DECEMBER 2014**

**APPENDIX I
URBAN DECAY ANALYSIS, DATED DECEMBER 2014**

**Tracy Hills Specific Plan
Urban Decay Analysis**

Prepared for:

City of Tracy

Prepared by:

ALH | ECON

ALH Urban & Regional Economics

December 2014

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY	1
INTRODUCTION	1
SUMMARY OF FINDINGS	2
URBAN DECAY CONCLUSIONS	5
II. INTRODUCTION	6
STUDY BACKGROUND.....	6
STUDY TASKS	7
STUDY RESOURCES AND REPORT ORGANIZATION.....	7
III. PROJECT DESCRIPTION	9
LAND USE MIX.....	9
PHASING ASSUMPTIONS	9
EMPLOYMENT GENERATION	10
IV. EXISTING AND PROSPECTIVE TRACY LAND USE SUPPLY	11
EXISTING LAND USE INVENTORY	11
TRACY BUILDOUT CAPACITY	12
TRACY HILLS DEVELOPMENT CONTEXT.....	12
V. TRACY HILLS COMPONENTS OF RETAIL SPACE.....	14
ALLOWABLE GENERAL HIGHWAY COMMERCIAL USES.....	14
COMPONENTS OF TRACY HILLS RETAIL DEMAND	15
TRACY HILLS COMPONENTS OF RETAIL SPACE.....	19
VI. TRACY RETAIL DEMAND AND RESIDENT SUPPORTABILITY.....	20
TRACY RETAIL SALES BASE CHARACTERIZATION.....	20
TRACY RESIDENT-BASED RETAIL DEMAND.....	21
VII. TRACY RETAIL BASE REGIONAL IMPLICATIONS.....	24
APPROACH TO ASSESSING SUPPORTABLE RETAIL SPACE	24
SUPPORTABLE RETAIL SPACE ESTIMATES	24
REGIONAL DEMAND REMAINING AFTER TRACY HILLS DEVELOPMENT.....	25
VIII. URBAN DECAY IMPLICATIONS OF TRACY HILLS RETAIL SPACE.....	27
STUDY DEFINITION OF URBAN DECAY AND CONTRIBUTING CAUSES	27
THE CURRENT ENVIRONMENT	27
REGULATORY CONTROLS.....	29
CUMULATIVE PROJECTS	32
URBAN DECAY CONCLUSION	34

X. REGIONAL CONTEXT FOR OFFICE AND INDUSTRIAL SPACE	36
EMPLOYMENT-GENERATING USES	36
TRACY HILLS OFFICE DEVELOPMENT CONTEXT	36
TRACY HILLS INDUSTRIAL DEVELOPMENT CONTEXT	39
IMPLICATIONS FOR URBAN DECAY.....	42
ASSUMPTIONS AND GENERAL LIMITING CONDITIONS	44

APPENDIX A: EXHIBITS

APPENDIX B: SUPPORT EXHIBITS

LIST OF EXHIBITS (Appendix A)

- Exhibit 1. Tracy Hills Specific Plan, Project Description, Key Land Use Designations Summary
- Exhibit 2. Tracy Hills Specific Plan, Project On-Site Employees, Key Land Use Designations Summary
- Exhibit 3. Existing Inventory by Land Use, Retail, Office, and Industrial, City of Tracy, 2014
- Exhibit 4. General Plan Land Use Designations, City of Tracy and Sphere of Influence, Land Use by Acres
- Exhibit 5. Buildout Capacity for Commercial and Industrial Land Uses, City of Tracy and Sphere of Influence
- Exhibit 6. Tracy Hills Specific Plan, Retail Demand Generated by All Housing Units, in 2014 Dollars
- Exhibit 7. Tracy Hills Specific Plan, Average Annual Estimated Daytime Retail Spending, Office Workers in Suburban Locations, in 2014 Dollars
- Exhibit 8. Tracy Hills Specific Plan, Retail Demand Generated by On-Site Employees, In 2014 Dollars
- Exhibit 9. Tracy Hills Specific Plan, On-Site Employment Retail Demand Generation, Cumulative Demand, In 2014 Dollars
- Exhibit 10. Hotels and Highway-Serving Retail, City of Tracy
- Exhibit 11. Tracy Hills Specific Plan, Components of Prospective Retail Demand, Phase I, 2035, and Buildout
- Exhibit 12. Household and Population Estimates and Projections, City of Tracy and San Joaquin County, 2010-2035
- Exhibit 13. City of Tracy BOE Taxable Sales Estimate, in Current Dollars, Second Quarter 2012 Through First Quarter 2013 (in \$000s)
- Exhibit 14. Adjusted City of Tracy Retail Sales Base, 2014 Estimate
- Exhibit 15. Retail Demand, Sales Attraction, and Spending Analysis, City of Tracy, 2014
- Exhibit 16. Existing Households Supportable Square Feet, City of Tracy, In 2014 Dollars
- Exhibit 17. Incremental Retail Demand Generated by Household Growth in the City of Tracy, Excludes Tracy Hills Households, 2014-2035 and 2035-2040, In 2014 Dollars

LIST OF EXHIBITS, Continued

Exhibit 18. Cumulative Existing and Future Retail Demand by Category, City of Tracy, 2014, 2035, and 2040, In 2014 Dollars

Exhibit 19. City of Tracy, Household-Supported Retail Space for 2035 Household Base, Excluding Tracy Hills Households, 2035, In 2014 Dollars

Exhibit 20. City of Tracy, Household-Supported Retail Space for 2040 Household Base, Excluding Tracy Hills Households, 2040, In 2014 Dollars

Exhibit 21. City of Tracy, Household-Supported Retail Space, 2035 and 2040

Exhibit 22. City of Tracy, Supportable Retail Square Feet from a Regional Perspective, 2035, All Figures Rounded to Nearest 10,000

Exhibit 23. City of Tracy, Supportable Retail Square Feet from a Regional Perspective, 2040, All Figures Rounded to Nearest 10,000

Exhibit 24. City of Tracy, Regional Retail Demand Remaining After Absorption of Retail Space at Tracy Hills, 2035

Exhibit 25. City of Tracy, Regional Retail Demand Remaining After Absorption of Retail Space at Tracy Hills, 2040

Exhibit 26. Identified Planned and Proposed Retail Projects, City of Tracy and Mountain House CDP, October 2014

Exhibit 27. Sectoral Employment History and Projections, San Joaquin County, 2010-2040

Exhibit 28. Office Space Demand Projection, San Joaquin County and City of Tracy, 2014 – 2040

Exhibit 29. Identified Planned and Proposed Office Development Projects, City of Tracy and Mountain House CDP, October 2014

Exhibit 30. Tracy Hills Office Space in Regional Demand Context, Tracy Hills Capture Rate of Projected Demand

Exhibit 31. Industrial Space Demand Projection, San Joaquin County and City of Tracy, 2014 – 2040

Exhibit 32. Identified Planned and Proposed Industrial Development Projects, City of Tracy and Mountain House CDP, October 2014

Exhibit 33. Tracy Hills Industrial Space in Regional Demand Context, Tracy Hills Capture Rate of Projected Demand

**LIST OF SUPPORT EXHIBITS
(Appendix B)**

Exhibit B-1. Household Income Spent on Retail, United States, in Current Dollars, 2013

Exhibit B-2. State of California BOE Taxable Retail Sales Estimate by Retail Category, in Current Dollars, 2012 (in \$000s)

Exhibit B-3. Calculation of Sales Per Square Foot Estimates, Select Retail Stores and Store Types, 2010 Through 2012, and 2014 Projected

Exhibit B-4. Annual Average Salaries for Select Industries, San Joaquin County, 2012

I. EXECUTIVE SUMMARY

INTRODUCTION

The purpose of this study is to assess the potential for urban decay resulting from development of the Tracy Hills Specific Plan, located in the City of Tracy (the “Project”). The Project comprises 2,732 acres of vacant land located near the existing interchange around Corral Hollow Road and the proposed Lammers Road interchange on Interstate 580 in Tracy. The Tracy Hills Specific Plan includes a mixture of residential, commercial, business park, office, industrial, schools, parks, and open space land uses. Generally speaking, urban decay is characterized by physical deterioration to properties or structures that is so prevalent, substantial, and lasting a significant period of time that it impairs the proper utilization of the properties and structures, and the health, safety, and welfare of the surrounding community.

The City of Tracy retained Kimley-Horn to prepare an Environmental Impact Report (EIR) for the Project. ALH Urban & Regional Economics (“ALH Economics”) was also retained by the City of Tracy to conduct the EIR’s urban decay analysis to be incorporated into the EIR. Upon full buildout, the land uses planned for Tracy Hills include 5,499 residential units, 875,300 square feet of commercial retail space, 624,200 square feet of office space, and 4,197,300 square feet of industrial space.

Development of the Tracy Hills Specific Plan will occur over an extended time period. The environmental analysis prepared by Kimley-Horn assumes three incremental time periods of development: Phase I; 2035; and a buildout period beyond 2035. Based upon input from the environmental team, ALH Economics assumes Phase I development will occur by 2017. The amount of cumulative development completed in Phase I will be relatively modest, with 1,179 homes, 93,900 square feet of commercial retail (and related) development, 189,300 square feet of office space, and 161,800 square feet of industrial space. By 2035, the majority of all land uses are anticipated to be developed, with cumulative totals of 4,611 homes, 846,400 square feet of retail (and related) development, 508,500 square feet of office space, and 847,500 square feet of industrial development. The final buildout phase will include all remaining development, which will include portions of all land uses, the largest portion of which will comprise industrial development, with an incremental 3.5 million square feet of industrial development remaining through buildout.

There will be a large employment base located at Tracy Hills. This employment base will grow over time as overall development occurs. Pursuant to Kimley-Horn’s estimates, employment at the end of Phase I is estimated to total 918, employment by 2035 is estimated to total 4,066, and employment at buildout is estimated to total 7,820.

This study estimates the extent to which development of the Project may or may not contribute to urban decay pursuant to potential impacts on existing retailers. The key indicator from a CEQA perspective is impacts on the existing physical environment, which in the context of an urban decay analysis includes the commercial real estate base and other germane real estate conditions, as measured by the current baseline. Characteristics of physical deterioration contributing to urban decay include abandoned buildings, boarded doors and windows, parked trucks and long-term unauthorized use of the properties and parking lots, extensive or offensive graffiti painted on

buildings, dumping of refuse or overturned dumpsters on properties, dead trees and shrubbery, and uncontrolled weed growth.

SUMMARY OF FINDINGS

Development Context

Tracy Hills is planned against an existing backdrop in Tracy of 3.3 million square feet of retail space, approximately 300,000 square feet of office space, and 12.1 million square feet of industrial space. These existing land use inventories comprise just a portion of the City’s long-term potential development based on current General Plan land use designations within the existing City limits. Pursuant to the current General Plan land use designations and FAR assumptions, ALH Economics estimates the buildout capacity in Tracy to comprise 8.3 to 11.7 million square feet of commercial space, 8.3 million square feet of office space, and 44.7 million square feet of industrial space. There is yet potential for many more millions of square feet of commercial and industrial space in the area surrounding Tracy within the City’s Sphere of Influence. These figures indicate that the City of Tracy has substantial growth potential relative to its developable land inventory, and that Tracy Hills will be developed against a backdrop of substantial physical growth potential within existing City of Tracy General Plan policies.

Tracy Hills Commercial Space

The Tracy Hills retail space has a zoning designation of General Highway Commercial, which includes many permitted uses, such as lodging, business offices and professional offices, consumer services and retail trade, and eating and/or drinking establishments. Yet additional uses are conditionally permitted, such as multi-family housing, educational uses and commercial amusement establishments. Pursuant to these uses, and accompanying input from the City of Tracy, the General Highway commercial components of Tracy Hills are assumed to include a range of traditional retail uses as well as some lodging facilities. This includes demand generated from the residents and employees located at Tracy Hills and highway serving commercial uses.

Retail demand estimates and highway serving retail analysis suggest the following components of demand for the Tracy Hills retail space by Project timeframe:

Table 1. Tracy Hills Specific Plan Retail Components (Sq. Ft.)

Demand Generator	Phase I	2035	Buildout
Residential	50,000	195,000	230,000
Employment	20,500	81,400	180,600
Hotel	0	80,000	80,000
Other Highway	0	24,000	24,000
Total	70,500	380,400	514,600
Balance of Other Demand	23,400	466,000	360,700
Total Planned	93,900	846,400	875,300

These results indicate that internally-generated support complemented by highway-serving demand including lodging facilities and highway-serving commercial totals approximately 70,000 square feet of retail at the completion of Phase I, 380,000 square feet by the end of 2035, and about 515,000

square feet at buildout. This analysis suggests that internally-generated demand and highway-serving demand will not be sufficient to support the total amount of commercial retail space planned at Tracy Hills. The remaining balances are approximately 25,000 square feet at the completion of Phase I, 465,000 square feet at 2035, and 360,000 square feet at Buildout. For these additional amounts of commercial space to be absorbed they will need to be supported by other sources of demand, such as demand generated by other Tracy households, or more regional sources of demand.

Tracy's retail base is strongly supported by sales generated by households and other consumers from outside the City of Tracy. Tracy's existing retail base is supported approximately 40% by Tracy households and 60% by more regional sources of demand, meaning that Tracy is an attraction retail market. Over time, as Tracy's population base increases, there will be a corresponding increase in total demand for retail. Based upon the share of Tracy's retail base that serves a regional consumer base and projected household growth in Tracy, the city is estimated to require an additional 950,000 to 2,550,000 square feet of retail space by 2035 to meet local and regional retail shopping needs, increasing to an additional 1,190,000 to 2,875,000 square feet of retail space by 2040.

These amounts of future retail space are more than sufficient to absorb the retail space at Tracy Hills that is not anticipated to serve internally-generated retail demand, with a large volume of unmet retail demand in Tracy still remaining at the 2035 and 2040 time periods, with the 2040 time period serving as a proxy for retail buildout of Tracy Hills. This finding holds steady even after consideration of cumulative retail projects, which includes one small project in Tracy. There are other projects with the potential for development in nearby Mountain House, but these projects are not reasonably foreseeable cumulative projects due to long term delays in project initiation. Therefore, the Tracy Hills retail space and reasonably foreseeable cumulative projects are not anticipated to have a negative impact on existing retail outlets within the time frames studied.

Prevailing Retail Market Conditions and Regulatory Controls

Tracy's retail base includes several concentrated nodes and other major arterials, ranging from newer centers in expansion mode to older centers with existing vacancy. Generally speaking, the retail properties are in good physical and clean condition, with only scant exception. Even this exception is minor, with a long-term vacant property subject to a sublease characterized by one boarded up window, and is not an indicator of urban decay. Thus, in general, Tracy's existing retail real estate is in moderate to good physical condition with no evidence of trash or other conditions contributing to urban decay and deterioration.

Retail absorption in Tracy has been strong for approximately the past 12 to 24 months, and vacancy is relatively low. Between August 2013 and August 2014 there were at least 29 retail leases executed in Tracy totaling approximately 72,000 square feet of retail space. The largest lease transaction during this time period was for about 24,000 square feet, while the average transaction was for about 2,500 square feet. These lease transactions indicate that Tracy's retail market is characterized by momentum, including successful backfilling of small to moderate-sized retail spaces. Estimates of retail vacancy in Tracy are generally in the range of 10% overall retail vacancy including sublease space, and even lower without the sublease space, possibly even 5% or less. Therefore, Tracy's retail market appears to be overall operating within generally healthy parameters.

The Municipal Code in Tracy requires property owners to maintain their properties so as to avoid nuisances and by creating a condition that reduces property values and promotes blight and neighborhood deterioration. Enforcement of these ordinances can help prevent physical deterioration due to any long-term closures of retail spaces. According to the Code Enforcement Division most

violations, such as garbage, debris, and graffiti, are quickly and voluntarily resolved after the initial verbal or written notice is received. Project-related fieldwork revealed little-to-no visible signs of litter, graffiti, weeds, or rubbish associated with existing commercial nodes in Tracy. Thus, ALH Economics concludes that existing measures to maintain private commercial property in good condition are generally effective and would serve to help preclude the potential for urban decay and deterioration in the event any existing retailers in the market area or environs close following the operations of the Tracy Hills retail and other cumulative retail projects.

Office and Industrial Market Context

In addition to providing a new community for homes and retail-serving uses, Tracy Hills also has a strong employment-generating component. The amount of planned office and industrial development will establish Tracy Hills as a strong employment node, but also position Tracy Hills within a regional context for these uses. Employment projections for San Joaquin County indicate that the Tracy Hills office and industrial space will be developed in a growth-oriented environment.

To achieve full absorption, Tracy Hills and cumulative projects will need to capture almost 100% of Tracy office demand between 2014 and 2035, estimated to total 520,000 square feet. This demand figure was forecasted in the context of overall county demand. This cited capture rate suggests that for Tracy Hills to optimize its office space absorption it may necessitate that Tracy achieve an increasing share of countywide office demand, or that demand in general be greater. These are reasonable expectations given Tracy's commitment to economic development, with Tracy positioned as a relatively inexpensive alternative to more costly locations such as Livermore, the more developed parts of the Tri-Valley area, and Silicon Valley. Tracy additionally seeks to enhance the competitiveness of the city while further developing a strong and diverse economic base, by positioning Tracy as the preferred location for start-up companies and entrepreneurial investment, including entrepreneurs from the Silicon Valley and Bay Area Region.

The Tracy Hills industrial space buildout of almost 4.2 million square feet will comprise a substantial addition to the City of Tracy. This level of development, however, is well within the envelope of the City of Tracy's prospective vision pursuant to the City's General Plan regarding industrial development and industrial-based employment growth. Moreover, 847,500 square feet of the Project's industrial space is assumed to be developed by 2035, with the remaining balance occurring at some indeterminate future point in time.

Industrial demand in Tracy is projected to total 1.6 million square feet by 2017, a cumulative total of 6.8 million square feet by 2035, and a total of 7.9 million square feet by 2040. There are six industrial projects engaged in the planning process in Tracy totaling 3.9 million square feet. These projects are variously engaged in the entitlements process, with some approved and others still in the planning stages. All but one of these projects may be completed concurrent with the estimated Phase I timing of Tracy Hills, i.e., 2017. The amount of industrial development planned at Tracy Hills and the competitive projects during Phase I is estimated to exceed the level of demand forecasted for Tracy. However, by the 2035 timeframe, these projects would need to capture a lesser 66% of forecasted demand. This finding suggests that if development of the Tracy Hills Phase I industrial space extends beyond the 2017 timeframe that overall market demand conditions may be more favorable and consistent with a reasonable expectation of market capture.

For Tracy Hills to optimize its industrial space absorption it may necessitate that Tracy achieve an increasing share of countywide industrial demand, or that demand in general be greater. As with office space, these are very reasonable expectations given Tracy's commitment to economic

development. Moreover, Tracy has the proven ability to strengthen its regional role as an industrial market, demonstrated by the development and absorption of 4.4 million square feet of industrial space since 2007. These large, recent additions to Tracy's industrial base, as well as the current volume of projects engaged in the planning and approvals process, indicate that Tracy is leveraging its location as a gateway to the Central Valley as well as its opportune location close to the I-5 corridor and freeways that lead to the Bay Area and beyond.

URBAN DECAY CONCLUSIONS

The study findings suggest that there is no basis to believe that existing retail in Tracy would experience negative impacts following the addition of the Project combined with cumulative retail developments. There is no evidence to suggest that existing stores will close and exhibit traditional signs of deterioration and decay, such as graffiti, refuse dumping, and dilapidated fencing. Most existing vacant spaces throughout Tracy appear well-maintained, with only scant exception. This, plus the recent market area leasing activity, indicates that Tracy is an inherently appealing retail market. Based upon these findings and the preceding analysis ALH Economics concludes that the Tracy Hills Specific Plan retail development and the identified cumulative projects will not cause or contribute to urban decay.

In addition, the office and industrial findings suggest that development of office and industrial space at Tracy Hills will occur within an overall growth environment. Tracy will be one growth node within the larger context of growth occurring throughout San Joaquin County. As such, impacts on existing office and industrial space in Tracy are unlikely, as new nodes are created to meet specific needs of emerging and growing businesses. Based upon the long-range demand estimates and recognition of Tracy's economic development efforts, therefore, ALH Economics believes that the Tracy Hills office and industrial space will provide a sub-regional node of office space and employment generation, such that there is no basis to be concerned about the Project's office and industrial development contributing to a condition of urban decay among existing properties.

II. INTRODUCTION

STUDY BACKGROUND

In 1998 the City of Tracy adopted a Specific Plan for Tracy Hills. At that time, the 1998 Tracy Hills Specific Plan covered approximately 6,175 acres. This acreage included the following: 2,732 acres located near the existing interchange around Corral Hollow Road and the proposed Lammers Road interchange on Interstate 580 designated for development of a range of land uses; and 3,443 acres designated as conservation/open space. Following adoption of the 1998 Specific Plan, the City of Tracy annexed the 2,732 acres designated for development, but did not annex the acreage designated for conservation/open space.

No development has yet occurred at Tracy Hills, and the property has subsequently changed ownership. In 2013 the current property owner, or Project Applicant, requested certain amendments to the Specific Plan. Because the requested modifications to the 1998 Tracy Hills Specific Plan were substantial, including modifications to the project goals, zoning, development standards, and zoning districts, the Project Applicant in consultation with City of Tracy staff decided to submit a comprehensive update to the Specific Plan, requiring a re-written Specific Plan. Consequently, the City and the Project Applicant agreed that the re-written Specific Plan should be subject to a full environmental impact report for the 2,732 acres of Tracy Hills annexed into the City of Tracy. The update to the Tracy Hills Specific Plan includes a mixture of residential, commercial, business park, office, industrial, schools, parks, and open space land uses. This range of land uses is largely the same as that authorized by the 1998 Tracy Hills Specific Plan, but the mix of land uses has undergone some modification.

The environmental impact report (EIR) for the Project is being prepared and coordinated by Kimley-Horn for the City of Tracy. To support this effort and comply with the California Environmental Quality Act ("CEQA"), ALH Urban & Regional Economics ("ALH Economics") was asked to analyze the potential for the Project to cause or contribute to urban decay. The decision by the Fifth District Court of Appeal in *Bakersfield Citizens for Local Control v. The City of Bakersfield* suggests that in some circumstances, CEQA may require a lead agency to consider and analyze the potential for the introduction of planned retailers to result in adverse physical impacts on the environment by causing a chain reaction of store closures and long-term vacancies, otherwise referred to as a condition of "urban decay." Urban decay analyses are often prepared for retail development, or the retail components of large-scale mixed use projects.

For the purpose of this analysis, urban decay is defined as extended long-term business vacancies, directly or indirectly resulting in physical deterioration to properties or structures that is so prevalent, substantial, and long lasting that it impairs the proper utilization of the properties and structures, and the health, safety, and welfare of the surrounding community. Physical deterioration includes abandoned buildings, boarded doors and windows, parked trucks and long-term unauthorized use of the properties and parking lots, extensive or offensive graffiti painted on buildings, dumping of refuse or overturned dumpsters on properties, dead trees and shrubbery, and uncontrolled weed growth.

This study analyzes the potential impact of the Project's retail components on the physical environment as represented by the commercial real estate base. In deference to the Project's mixed use nature the analysis also generally assesses whether or not the Project's planned office and industrial components

warrant consideration of urban decay impacts. The key indicator from a CEQA perspective is impacts on the existing physical environment, which in the context of an urban decay analysis includes existing stores and commercial and other germane real estate conditions, as measured by the current baseline.

The Notice of Preparation (NOP) for the EIR was published in October 2013, which was then updated in April 2014. The market conditions were most recently assessed visually in August 2014. Other data included in the report were the most recently available at the time of the NOP or thereafter.

STUDY TASKS

ALH Economics engaged in numerous tasks to complete this assignment assessing the prospective urban decay impact of the Tracy Hills Specific Plan. These tasks included the following:

- Conduct site and field reconnaissance
- Estimate volume of existing Tracy retail, office, and industrial inventory
- Identify Tracy General Plan-based maximum retail, office, and industrial potential
- Estimate internally-generated retail demand
- Prepare highway-serving commercial assumption
- Characterize Tracy's retail base
- Project long-term resident and regional retail supportability
- Assess regional supportability remaining after Tracy Hills development
- Identify urban decay implications of Tracy Hills retail space
- Assessing the regional context of Tracy's Hill's planned office and industrial space

The findings pertaining to these tasks are reviewed and summarized in this report, with analytical findings presented in the exhibits in Appendices A and B.

STUDY RESOURCES AND REPORT ORGANIZATION

Study Resources

The urban decay analysis relied upon a number of key resources. These resources are all identified in the sources and notes to the exhibits developed to support the analysis. These resources are as follows:

- **City of Tracy resources.** These include representatives from the City's Planning, Economic Development, and Code Enforcement functions within the Development Services Department; City documents such as the City of Tracy General Plan 2011 and a draft Tracy Hills Specific Plan Amendment 2014; City of Tracy, "Demographic Overview - July 2013; City of Tracy Growth Management Ordinance; City of Tracy Municipal Code; and City of Tracy Code Enforcement Cases Opened Report.
- **Other governmental resources.** These sources include the State of California Board of Equalization, the State of California Department of Finance Demographic Research Unit; the U.S. Census Bureau, American Community Survey; the United States Bureau of Labor Statistics, Consumer Price Index; United States Census Bureau, County Business Patterns; U.S. Economic Census, "Retail Trade: Subject Series - Product Lines: Product Lines Statistics by Kind of Business for the United States and States: 2007; San Joaquin Council of Governments; San

Joaquin County Community Development Department staff; San Joaquin County Community Development Department, "Approved and final tentative maps for the Mountain House Community," and "Staff Report Major Subdivisions for the Town Center"; "Initial Study Mountain House Business Park - April 22, 2005, Prepared for the San Joaquin Community Development Department; California Employment Development Department; and California State Department of Transportation.

- ***Third party resources.*** These sources include Kimley-Horn, Tracy Hills TIA, Trip Generation; Gruen Gruen + Associates, "Forecast of Demand for Retail, Office, and Industrial Space in the City of Tracy and Strategic Policy Action Recommendations," November 2007; CB Richard Ellis; CoStar; San Francisco Business Times; Loopnet.com; Nielson, a national resource for demographic estimates and projections; Retail Maxim, a retail industry performance resource; fixr.com; Trulia.com; GoogleEarth and GoogleMaps; Hotel operators and International Council of Shopping Centers, "Office-Worker Retail Spending in a Digital Age."

All of these resources are identified as warranted in the text and/or the series of exhibits found in Appendices A and B that document the study analysis.

Report Organization

This report includes nine chapters, as follows:

- I. Executive Summary
- II. Introduction
- III. Project Description
- IV. Existing and Prospective Tracy Land Use Supply
- V. Tracy Hills Components of Retail Space
- VI. Tracy Retail Demand and Resident Supportability
- VII. Tracy Retail Base Regional Implications
- VIII. Urban Decay Implications of Tracy Hills Retail Space
- IX. Regional Context for Office and Industrial Space

This report is subject to the appended Assumptions and General Limiting Conditions.

III. PROJECT DESCRIPTION

LAND USE MIX

The land use mix for the Tracy Hills Specific Plan includes four key land use designations relevant to the urban decay analysis. These land uses are presented in Exhibit 1 and summarized below in Table 2, and include residential, retail, office, and industrial. There are yet other uses planned, such as schools and parks, but these uses are not material to urban decay analysis and thus are not summarized in Exhibit 1 and Table 2. The information included in this table was provided by the City of Tracy and Kimley-Horn, the EIR Consultant for the Tracy Hills Specific Plan EIR.

Upon full buildout, the land uses planned for Tracy Hills include 5,499 residential units, 875,300 square feet of commercial retail space, 624,200 square feet of office space, and 4,197,300 square feet of industrial space. The most relevant associated zoning designations include General Highway Commercial, Mixed Use Business Park, and M-1 Industrial.

Table 2. Tracy Hills Specific Plan Key Land Uses

Timeframe (2)	Residential	Commercial/Industrial Square Feet		
	Units	Retail	Office	Industrial
Incremental				
Phase I	1,179	93,900	189,300	161,800
2035	3,432	752,500	319,200	685,700
Buildout	2,067	122,800	305,000	3,511,600
Cumulative				
Phase I	1,179	93,900	189,300	161,800
2035	4,611	846,400	508,500	847,500
Buildout	5,499	875,300	624,200	4,197,300

Source: Exhibit 1.

The commercial retail space can include a range of uses pursuant to the City of Tracy’s Municipal Code, including consumer services and retail trade, lodging, and business offices and professional offices and laboratories, among others (see Chapter V. Tracy Hills Components of Commercial Space for more information).

PHASING ASSUMPTIONS

Development of the Tracy Hills Specific Plan will occur over an extended time period. The environmental analysis prepared by Kimley-Horn assumes three incremental time periods of development: Phase I; 2035; and a buildout period beyond 2035. Based upon input from the City, ALH Economics assumes Phase I development will occur by 2017.

The amount of cumulative development completed by each cited time period is presented in Exhibit 1 and Table 2. This information indicates that development in Phase I will be relatively modest, with 1,179 homes, 93,900 square feet of commercial retail (and related) development, 189,300 square feet of office space, and 161,800 square feet of industrial space. By land use, these comprise 21%, 11%, 30%, and 4% of each respective land use total planned for Tracy Hills. By 2035, the majority of all land uses are anticipated to be developed, with cumulative totals of 4,611 homes, 846,400 square feet of retail (and related) development, 508,500 square feet of office space, and 847,500 square feet of industrial development. Cumulatively, these land use totals will comprise 84%, 97%, 81%, and 20% of the maximum buildout capacity for each respective land use. The final buildout phase will then include all remaining development, which will include portions of all land uses, but the largest portion will comprise industrial development, with an incremental 3.5 million square feet of industrial development remaining through buildout.

EMPLOYMENT GENERATION

Given the volume of land uses planned for the Tracy Hills Specific Plan there will be a large employment base located at Tracy Hills. This employment base will grow over time, as overall development occurs. The Project’s environmental consultant Kimley-Horn prepared employment estimates for each land use by phase. These estimates, based upon industry-specific metrics, are presented in Exhibit 2, and summarized below in Table 3. As noted in this table, employment at the end of Phase I, or 2017, is estimated to total 918. An additional 3,148 jobs are estimated to be created between the end of Phase I and 2035. Finally, yet an additional 4,672 jobs are estimated to be formed by buildout.

Table 3. Tracy Hills Specific Plan Employment Generation

Timeframe	Retail	Office	Industrial	Total
Incremental				
Phase I	188	568	162	918
2035	1,505	957	686	3,148
Buildout	246	915	3,511	4,672
Cumulative				
Phase I	188	568	162	918
2035	1,693	1,525	848	4,066
Buildout	1,751	1,872	4,197	7,820

Source: Exhibit 2.

Cumulatively, these employment figures total 918 by the end of Phase I, 4,066 by 2035, and a total of 7,820 at buildout. These employment estimates are germane to the urban decay analysis because area employees are a frequent source of demand for retail sales, as discussed and estimated in Chapter V. Tracy Hills Components of Commercial Space.

IV. EXISTING AND PROSPECTIVE TRACY LAND USE SUPPLY

EXISTING LAND USE INVENTORY

Because development of Tracy Hills is occurring over a very prolonged time period the sizes of Tracy's existing land use bases are relevant. Understanding the size of the existing bases supports analysis of Tracy Hills in the context of existing and future demand. Estimates of the existing sizes of Tracy's inventories were prepared for the three major non-residential land uses included in the Tracy Hills development program: retail; office; and industrial. These land use estimates were prepared pursuant to a four-pronged research effort. First, the City of Tracy commissioned an important study in the mid-2000s that examined prospective demand for retail, office, and industrial space in Tracy. This study, completed in November 2007 by Gruen Gruen + Associates, included estimates of the size of Tracy's existing building inventory for these three land uses.¹ These estimates were current as of 2007.

Since additional development has occurred in Tracy for each of these land uses, ALH Economics conducted research to identify buildings subsequently developed in Tracy, and their corresponding sizes. This research was conducted by reviewing the following data sources: commercial real estate broker firms leasing reports; LoopNet, an online commercial real estate listing service; and local business times articles. In addition, ALH Economics conferred with City of Tracy staff in Planning and Economic Development to identify yet other buildings new to the City's land use inventory since 2007 and to refine the earlier Gruen Gruen + Associates estimates, as some figures included in the Tracy inventory in the November 2007 study were subsequently determined to be located outside Tracy in the City's Sphere of Influence.

A final research approach included the preparation of generalized estimates of additional building inventory for select land uses not included in the November 2007 study and not specifically identified through other resources. The focus of this adjustment was for strip retail, based upon visual observation of the retail base in Tracy and additional City of Tracy input.

The existing land use inventory estimates are documented in Exhibit 3. These estimates total the following by land use:

- 3,266,900 square feet of retail space
- 285,550 square feet of office space
- 12,104,000 square feet of industrial space

These figures indicate that Tracy is a dominant location for industrial space. The City's retail base is also significant, but there is a limited base of office space in City.

Based upon market data maintained by CoStar, a commercial real estate information company, Tracy has the second largest industrial inventory in San Joaquin County, following Stockton, which leads the county with over 50.0 million square feet of industrial space, or almost 40% of the county's inventory. Tracking a different mix of buildings, CoStar reports that Tracy's industrial market comprises approximately 19% of the county's occupied industrial base.

¹ Gruen Gruen + Associates, "Forecast of Demand for Retail, Office, and Industrial Space in the City of Tracy and Strategic Policy Action Recommendations," November 2007.

Because they are smaller markets CoStar combines Tracy's retail and office markets with nearby Manteca. According to CoStar among all San Joaquin County retail markets, the Tracy/Manteca market comprises 16.5% of all county retail and the Tracy/Manteca office market comprises a scant 10% of all county office space. Very little office space in San Joaquin County comprises Class A office space, with the largest share comprising Class B space. The Tracy/Manteca office market parallels this trend.

TRACY BUILDOUT CAPACITY

Tracy's existing land use inventories comprise just a portion of the City's long-term potential development based on current General Plan land use designations. ALH Economics developed an estimate of the City of Tracy's long-term retail development potential pursuant to analysis of the land use designations included in the General Plan, presented in Exhibit 4. This exhibit presents all General Plan designations and the acreage allocations within the City limits as well as Tracy's sphere of influence. These land use allocations are converted in Exhibit 5 to prospective buildout capacity for the land uses most relevant to Tracy Hills and urban decay analysis of the commercial and industrial components based upon floor area ratio (FAR) assumptions consistent with the analysis and findings presented in the aforementioned Gruen Gruen + Associates. These assumptions include an FAR of 0.25 – 0.35 for commercial, 0.35 for office, and 0.45 for industrial.

Pursuant to the General Plan land use designations and FAR assumptions, ALH Economics estimates the buildout capacity in Tracy to comprise 9.5 to 13.3 million square feet of commercial space, 10.6 million square feet of office space, and 73.7 million square feet of industrial space. There is yet potential for many more millions of square feet of commercial and industrial space in the area surrounding Tracy within the City's Sphere of Influence.

These figures indicate that Tracy's current commercial and industrial inventories comprise an average of 29% of the City's buildout capacity in retail, 3% in office, and 16% in industrial. Thus, the City of Tracy has substantial growth potential relative to its developable land inventory. While the buildout estimates are the result of an estimation procedure, with potential for a margin of error, the results indicate that Tracy Hills will be developed against a backdrop of substantial physical growth potential within existing City of Tracy General Plan policies.

TRACY HILLS DEVELOPMENT CONTEXT

Buildout of Tracy Hills will increase the City of Tracy's supply of retail, office, and industrial space. Based on the current inventory estimates, Tracy Hills will increase the retail supply by 27%, the office supply by 219%, and the industrial supply by 35%. These figures are presented in Table 4, below. While some of these figures may seem substantial, such as the 219% increase in office supply, this is largely attributable to Tracy's current relatively small base of office inventory. Moreover, as more development occurs elsewhere in Tracy, the shares attributable to Tracy Hills over the Project's buildout period will lessen.

Table 4. City of Tracy Existing Land Use Inventory, Buildout Capacity, and Tracy Hills Context

Land Use Characteristic	Retail			Office	Industrial
Existing Inventory (sq. ft.)	3,266,900			285,550	12,104,000
Tracy Buildout Capacity (sq. ft.)	9,513,504	-	13,318,906	10,611,216	73,683,918
Existing Inventory Share of Buildout Capacity	29%			3%	16%
Tracy Hills Buildout (1)					
Square Feet	875,300			624,200	4,197,300
Percent Increase Over Existing Base	27%			219%	35%
Percent of City Buildout Capacity	7%	-	9%	6%	6%

Sources: Exhibits 1, 3, and 5; and ALH Urban & Regional Economics.

(1) The Tracy Hills retail square feet can comprise other uses, such as hotels. Thus, the percentage increase figures are overstated, since the base is estimated to comprise only retail space, and not retail mixed with other commercial uses.

The following chapters provide additional context regarding the planned Tracy Hills commercial and industrial components, including consideration of the Project’s planned supply relative to long-term demand forecasts for key land uses.

. TRACY HILLS COMPONENTS OF RETAIL SPACE

ALLOWABLE GENERAL HIGHWAY COMMERCIAL USES

The Tracy Hills retail space has a zoning designation of General Highway Commercial, and up to 25% of the MUBP Zoning District may be developed as retail. The uses that correspond to this zoning designation are referenced in the City of Tracy Municipal Code. The Tracy Hills Specific Plan identifies permitted and conditionally permitted uses for all the zoning designations represented at Tracy Hills. Per the draft Tracy Hills Specific Plan reviewed by ALH Economics, the following uses are permitted for the General Highway Commercial Zoning District::

- Public utilities
- Public, such as fire stations, park and neighborhood recreation
- Educational, cultural, institutional, and recreational uses that service the greater community, such as art galleries and museums, libraries, court house and public agency administrative offices
- Lodging, such as hotels and motels
- Business offices and professional offices and laboratories, such as administrative offices, banks, dental offices and clinic, medical office and laboratories, pharmacies
- Consumer services and retail trade (shopping and services), such as food stores, department stores, personal service shops, veterinary clinics, miscellaneous retail
- Consumer services and retail trade (goods and services), including auto service stations, but not including repair work, and others such as hardware stores and general consumer and business services
- Eating and/or drinking establishments without a bar
- Eating and/or drinking establishments (with or without entertainment) without serving alcohol and providing entertainment after 11:00 p.m.

Conditionally Permitted uses for portions of Tracy Hills designated General Highway Commercial include the following:

- Multi-family uses, including apartments or triplexes or greater
- Educational and institutional uses with residential accommodations, such as hospitals and nursing homes
- Specialized recreational and instructional uses such as arts, dance, and self-defense
- Eating and/or drinking establishments that serve alcohol and provide entertainment after 11:00 p.m.
- Commercial amusement and entertainment establishments, such as amusement parks, skating rinks, tennis courts, and arenas, auditoriums, and stadiums

ALH Economics identified these uses upon review of a draft of the Tracy Hills Specific Plan. Permitted and conditionally permitted land uses may vary to some extent upon finalization of the Specific Plan.

Pursuant to these uses, accompanying input from the City of Tracy (see next section), and a conservative assumption maximizing the amount of retail space to provide a basis for assessing the Project's retail urban decay implications, ALH Economics assumes that the commercial components of Tracy Hills will include a range of traditional retail uses as well as some lodging facilities.

COMPONENTS OF TRACY HILLS RETAIL DEMAND

The Tracy Hills retail/commercial space is anticipated to primarily serve demand generated from the residents and employees located at Tracy Hills, and provide highway serving commercial uses, including lodging and retail venues. This analysis focuses on estimates of the share of Tracy Hills planned retail that these market segments can support. The analysis further identifies the amount of space planned for Tracy Hills that exceeds internally-generated demand and highway serving commercial uses. This remaining balance of space would therefore need to be supported by other demand sectors in order to achieve full buildout of the planned retail space.

Tracy Hills Resident Demand

Approach to Estimating Residential Retail Demand. ALH Economics prepared a potential retail spending analysis, or demand analysis, for the Project's residential households. This spending analysis takes into consideration average household income, the percent of household income spent on retail goods, and prospective spending in the same retail categories used by the State of California Board of Equalization (BOE), which collects and reports business count and taxable sales data by retail category.

Pursuant to data published by the U.S. Bureau of Labor Statistics, 2013 Consumer Expenditures Survey, households in the income group with annual household incomes over \$70,000 throughout the United States spent an average of 25% of household income on the type of retail goods tracked by the BOE. This is the highest income bracket analyzed by the Consumer Expenditures Survey, and these households had average household incomes of \$131,945 before taxes (see Exhibit B-1). ALH Economics anticipates that this income parameter is the most appropriate Consumer Expenditures Survey match for Tracy Hills, as for analytical purposes ALH Economics assumes annual average household incomes of \$125,000 for Tracy Hills households. Prices for homes at Tracy Hills are not yet known. However, the median sales price for homes in Tracy for May to August 2014 was \$386,000.² The assumed \$125,000 average household income is generally consistent with the household incomes necessary to support the median-priced home in the Tracy. Given the comparability of the \$125,000 income estimate for Tracy Hills households to the average income in the highest income bracket included in the Consumer Expenditures Survey ALH Economics assumes that for Project residents, 25% of income will be spent on retail goods. This percentage figure is also comparable to a per household percent of spending on retail estimate included in the Gruen Gruen + Associates study.³

As a proxy for household spending patterns, ALH Economics analyzed statewide taxable sales trends for 2012 and converted them to estimated total sales. The results, presented in Exhibit B-2, indicate that household spending by retail category ranges from a low of 5.3% on home furnishings & appliances to a high of 17.4% on food & beverage stores.

Resident retail spending projections for the Tracy Hills Buildout households were estimated based upon the 25% share of income spent on retail and estimated distribution of retail spending pursuant to Exhibit B-2. The resulting estimates were converted to supportable square feet based upon the following: industry average assumptions regarding store sales performance; an adjustment to allow for a minimum stabilized vacancy allowance of 5%; and an allocation of additional space for services,

² According to Trulia.

³ See Table V-5 on page 44 of the Gruen Gruen + Associates report.

such as banks, personal and business services. ALH Economics refers to an industry resource to develop per square foot sales estimates. This resource, Retail Maxim, prepares an annual publication that culls reports for numerous retailers and publishes their annual retail sales on a per square foot basis. This type of information for a range of retailers or type of retailers is presented in Exhibit B-3 annually from 2010 through 2012. The figures are then averaged and presented in 2014 dollars as a generalized estimate of sales per square foot per year applicable to the retail categories for which Tracy's retail demand is estimated. The resulting sales per square foot range from a low of \$283 per square foot for general merchandise stores to a high of \$579 per square foot for food and beverage stores (e.g., grocery stores). In addition, Exhibit 6 indicates an estimate of \$800 per square foot for motor vehicles and parts, which is an estimate prepared by ALH Economics for analytical purposes to drive the analysis. The 5% vacancy factor reflects a minimum vacancy allowance to allow for market fluidity. Finally, the analysis assumes 15% of retail space will be occupied by uses whose sales are not reflected in the major BOE categories, yet which require commercial space. This typically includes service retail, such as finance, personal, and business services.

ALH Economics calculated the demand estimate based upon buildout and absorption of the Project's 5,499 housing units. The demand at the Project's other analytical points in time was estimated proportional to the share of total housing units anticipated to be complete for each interim time period.

Residential Retail Demand Findings. The Tracy Hills resident retail demand estimates are presented in Exhibit 6. Taking into account anticipated household incomes and retail spending, achievable retail sales performance and an allowance for vacancy, ALH Economics estimates that at full buildout, the Tracy Hills households will be able to support approximately 460,000 square feet of retail space. The largest component of this allocation, or approximately 100,000 square feet, will be for general merchandise store goods, followed by close to 55,000 square feet of food and beverage store space, i.e., grocery store space. The Project's households are also estimated to support close to 50,000 square feet each in restaurant space and other retail space, which comprises a broad range of retailers.

Given the anticipated phased development of Tracy Hills, based upon proportional analysis, the Phase I resident demand is estimated to total 100,000 square feet, while the demand by 2035 is estimated to total 390,000 square feet.

These square footage estimates reflect 100% of resident demand, regardless of the location of retail venues where spending occurs. Retailers that locate at Tracy Hills are unlikely to capture all of the retail demand generated by Project households. Therefore, the amount of retail supportable at Tracy Hills by the Project residents is conservatively adjusted downward in subsequent analysis.

Tracy Hills On-Site Employment Demand

The Project will comprise a significant employment location. As estimated earlier, at Buildout Tracy Hills will have an employment base totaling 7,820, at minimum. This does not include other employment that may be associated with schools not yet articulated in the Project plans. These workers will generate demand for restaurant and retail purchases made before, during, and after work hours. This consumer group, therefore, will provide additional sales support for Tracy Hills retail in addition to the Project's residents. Some of the area employees may live in Tracy Hills, and thus their retail sales may already be accounted for in the preceding demand estimate, but yet others may not, or they may increase their spending profile because of the Project's availability adjunct to their primary purpose for being in the Project's vicinity.

A key retail industry resource, the International Council of Shopping Centers (ICSC), periodically publishes a survey of office worker retail spending. The survey estimates daytime retail spending by workers, including by workers in urban locations versus suburban locations, and then also locations with ample retail offerings and without. Inflation-adjusted results of this survey, last administered in 2011, are presented in Exhibit 7. This exhibit indicates that office workers on a national average basis spend approximately \$8,100 per year in suburban locations and a higher \$14,100 per year in suburban locations with ample retail offerings. Of this spending, approximately 20% is spent on restaurant sales. These types of sales are likely to occur close to the place of work, as they typically include daytime lunch expenditures as well as after hour drinks or dining. Other expenditures can be made near work, but primarily include expenditures made during the work day before or after work.

ALH Economics estimated daytime Tracy Hills worker retail spending on an annual basis. Estimates were generated for the three categories summarized on Exhibit 7 - restaurants and fast food, groceries, and all other. The “all other” category includes a range of retail purchases, such as personal care shops, office supplies, department stores, drug stores, electronics, clothing, etc. For this analysis, ALH Economics assumed spending consistent with the suburban location for all sales, or \$8,100 per office worker. This figure was conservatively selected instead of the higher figure corresponding to ample suburban retail locations because the bulk of Tracy’s retail base will continue to be located elsewhere in Tracy, and because the purpose of the analysis is to estimate the purchases made by Tracy Hills employees at the Tracy Hills retail offerings.

Because office workers tend to earn more than some types of workers and less than others, ALH Economics assumed a proportional rate of spending for other Tracy Hills workers. These proportional rates are based on the proportion of average wages in other industries, such as retail and industrial, to office. The wages used for this analysis are generalized averages for San Joaquin County, based upon analysis of County Business Patterns for the County (see Exhibit B-4). As summarized in Exhibit 8, these wages are \$45,000 for office workers, \$24,000 for retail workers (combined with lodging), and \$50,000 for industrial workers. Thus, the retail wages are 53% of the average office wages and the industrial wages are 112% of the average office wages. Thus, average annual Tracy Hills employee-retail spending is estimated at \$8,100 for office workers, \$4,300 for retail/lodging workers, and \$9,000 for industrial workers. These estimates, and the composition of the estimates relative to spending on restaurants/fast food, groceries, and other spending are presented in Exhibit 8.

ALH Economics converted the worker retail spending estimates to supportable square feet of retail space. These estimates are based on the estimated worker-based retail spending, the number of workers by sector estimated for each of the three time periods, the generalized retail sales figures presented previously in Exhibit B-3, and the same 5% vacancy adjustment estimated for resident retail spending. The estimates of supportable retail space based on anticipated worker spending are presented in Exhibit 9 and summarized below in Table 5.

Table 5. Tracy Hills Employment Supportable Retail Sq. Ft.

Component	Restaurant	Grocery	Other	Total
Phase I	2,489	1,826	15,764	20,078
2035	9,976	7,174	62,548	79,698
Buildout	22,034	15,905	138,901	176,840

Source: Exhibit 9.

As these estimates indicate, on a rounded basis, the Tracy Hills employment base is estimated to generate support for approximately 20,000 square feet of retail space by Phase I; 80,000 square feet of retail space by 2035; and over 175,000 square feet of retail space at Buildout.

Highway-serving Commercial

Tracy Hills commercial is envisioned to include highway-serving commercial space, similar to other highway-serving nodes in Tracy. These nodes include I-205 and Tracy Boulevard and I-205 and Naglee Road. The highway-serving uses primarily include hotel or motel uses, gas stations, and other convenience-oriented retail, including restaurants. ALH Economics surveyed the comparable highway-serving nodes in Tracy and estimated the amount of square feet developed for hospitality uses, e.g., hotels and motels. The areas were additionally surveyed to identify other corollary land uses, which typically include gas stations, restaurants, and some services (e.g., cellular phone services).

The research findings regarding the highway-serving nodes are presented in Exhibit 10, which indicates that each node has three to four hotels, with each hotel averaging approximately 80 rooms and 40,000 square feet of building space. Accordingly, as another general highway-serving node in Tracy, ALH Economics assumes two hotels would be developed, all in the period leading up to 2035.

Two hotels are assumed because of the relatively lower traffic counts along I-580 versus I-205, even though traffic counts on I-580 will likely change following development of Tracy Hills and other new development. At present, however, according to the State of California Department of Transportation, the Annual Average Daily Traffic in 2013 at the I-205 and MacArthur Road interchange in Tracy was 111,000 East and 107,000 West.⁴ This is near the interchanges in Tracy that support three or four hotels each, or a total of about seven hotels. In comparison, the 2013 traffic counts at I-580 and Corral Hollow Road were 29,000 East and 29,500 West.⁵ Since there are no hotels in Tracy near the existing I-580 interchanges, ALH Economics believes this information suggests prospective support for at least two hotels at Tracy Hills. The interchange would then be consistent with other interstate interchanges in Tracy as well as throughout the general region.

Based on area averages and averages for budget and economy hotels, the hotels are generally assumed to comprise approximately 100 rooms on average, with an industry standard for budget and economy hotels of 400 square feet per room. Thus, the analysis assumes 40,000 square feet for each hotel, or 80,000 square feet total for two hotels.

These two hotels are assumed to be accompanied by two gas stations as well as highway-serving retail, primarily including restaurants. The two gas stations are assumed to comprise 2,000 square feet each, for a total of 4,000 square feet. The highway-serving retail is conservatively assumed to total 20,000 square feet, which is sufficient to support several restaurants and other convenience-oriented shopping opportunities for highway traffic.

⁴ California Department of Transportation, "Traffic Volumes (Annual Average Daily Traffic (AADT)) for all vehicles on California State Highways: 2013," <http://traffic-counts.dot.ca.gov/> (accessed November 4, 2014).

⁵ Ibid.

TRACY HILLS COMPONENTS OF RETAIL SPACE

The preceding analysis identified three general components of support for Tracy Hills retail space. These include resident demand, employment base demand, and highway-serving commercial demand. ALH Economics assumes that households living in Tracy Hills will shop in Tracy Hills as well as other shopping locations in Tracy and outside the city boundaries. Therefore, the analysis assumes conservatively assumes that Tracy Hills retail will capture only 50% of the Project’s household retail demand. This figure is conservative because it blends convenience-oriented spending, which is typically spent close to home for items such as groceries and drug store sales, with more comparison shopping items, such as clothing, furniture, and general merchandise. With sufficient retail shopping opportunities available, residents typically choose to make retail purchases closer to home, thereby minimizing associated travel time.

This level of demand comprises approximately 50,000 square feet in Phase I, 195,000 square feet by 2035, and 230,000 square feet at Buildout. These figures are summarized in Exhibit 11, and presented in Table 6, below.

Table 6. Tracy Hills Specific Plan Retail Components (Sq. Ft.)

Demand Generator	Phase I	2035	Buildout
Residential	50,000	195,000	230,000
Employment	20,500	81,400	180,600
Hotel	0	80,000	80,000
Other Highway	0	24,000	24,000
Total	70,500	380,400	514,600
Balance of Other Demand	23,400	466,000	360,700
Total Planned	93,900	846,400	875,300

Source: Exhibit 11.

When adding the other identified retail components of demand together with the 50% capture of residential demand, internally-generated support complemented by highway-serving demand totals approximately 70,000 square feet of retail at the completion of Phase I, 380,000 square feet by the end of 2035, and about 515,000 square feet at buildout.

This analysis suggests that internally generated demand and highway-serving demand will not be sufficient to support the total amount of commercial retail space planned at Tracy Hills. The remaining balances are approximately 25,000 square feet at the completion of Phase I, 465,000 square feet at 2035, and 360,000 square feet at Buildout. For these additional amounts of commercial space to be absorbed they will need to be supported by other sources of demand, such as demand generated by other Tracy households, or more regional sources of demand. Research and analysis regarding how the balance of the Tracy Hills commercial space pertains to these sources of demand is presented in the following two chapters: Chapter VI. Tracy Retail Demand and Resident Supportability; and Chapter VII. Tracy Retail Base Regional Implications.

VI. TRACY RETAIL DEMAND AND RESIDENT SUPPORTABILITY

TRACY RETAIL SALES BASE CHARACTERIZATION

Approach

For the purpose of this study, ALH Economics characterized the retail sales base of Tracy with regard to the extent to which it attracts or leaks retail demand generated by its population base. Toward this end, ALH Economics uses a retail model that estimates retail spending potential for an area based upon household counts, income, and consumer spending patterns. The model then computes the extent to which the area is or is not capturing this spending potential based upon taxable sales data published by the State of California Board of Equalization (BOE) or provided by local government municipal tax consultants. This analysis can be most readily conducted for cities, groupings of cities, or counties, consistent with the geographies reported by the BOE.

For any study area, retail categories in which spending by locals is not fully captured are called “leakage” categories, while retail categories in which more sales are captured than are generated by residents are called “attraction” categories. This type of study is generically called a retail demand, sales attraction, and spending leakage analysis, or retail gap analysis. Generally, attraction categories signal particular strengths of a retail market while leakage categories signal particular weaknesses. ALH Economics’ model, as well as variations developed by other urban economic and real estate consultants and economic analysts, compares projected spending to actual sales.

For the purpose of generating a Retail Demand, Sales Attraction, and Spending Leakage Analysis for the City of Tracy, ALH Economics obtained taxable retail sales data for 2nd Quarter 2012 through 1st Quarter 2013 as reported by the BOE and adjusted the taxable sales to reflect total, more current sales. These were the most recent BOE data available at the time this study was initiated. Using the retail sales data, combined with household counts and household income figures estimated pursuant to a number of demographic resources, ALH Economics conducted a Retail Demand, Sales Attraction, and Spending Leakage Analysis. This analysis compared total estimated household spending to actual retail sales in the City of Tracy. Pursuant to data provided by the City of Tracy sales estimates were updated to reflect a more current time period than measured by the BOE data. This included analyzing sales tax trend data in Tracy from 2nd Quarter 2012 through 2nd Quarter 2014, to generate sales adjustment factors by category to result in an estimated 2014 retail sales base. These data were provided by the City of Tracy via the City’s tax consultant, MUNI Services. Retail sales were also adjusted upward to adjust for nontaxable sales in key sales categories, including food & beverage stores and the drug store component of other retail sales. All these adjustments are noted as relevant in the analysis.

Demographic Characteristics

ALH Economics’ Retail Demand, Sales Attraction, and Spending Leakage Analysis requires household count, average household income, and percent of income spent on retail inputs for the area of analysis. This pertains to the demand portion of the analysis. These data inputs or assumptions for Tracy are as follows:

- 24,751 households in 2014
- Average household income of \$85,033
- Estimated household retail spending rate of 25% of average income

Tracy's 2014 household count is based upon extrapolation of household count estimates and projections prepared by the City of Tracy (see Exhibit 12). The average household income was estimated by Nielson, a national resource for demographic estimates and projections. Finally, the 25% of household income spent on retail assumption was discussed earlier in Chapter V, Tracy Hills Components of Commercial Space, based upon analysis of 2013 Consumer Expenditure Survey data, and is comparable to the 25.0% figure estimated in the Gruen Gruen + Associates study.⁶

Retail Demand, Sales Attraction, and Spending Leakage Findings

The estimate of Tracy's retail sales base pursuant to the most recently available BOE data is presented in Exhibit 13. This figure, reflective of annual retail sales ending the 1st Quarter of 2013, is approximately \$1.3 billion (see Exhibit 13). Based upon interim changes in sales, the sales base for 2014 was estimated to increase modestly, but still total \$1.3 billion on a rounded basis (see Exhibit 14). This indicates average sales on a per household basis of \$54,428. This figure reflects sales captured per household, not demand per household. Pursuant to the estimated distribution of household demand based upon the pattern noted earlier in Exhibit B-2, estimated retail spending per household in Tracy is \$21,258 (see Exhibit 15). This demand figure is much lower than the sales per household figure, indicating in the aggregate that Tracy captures more sales than is spent by its own households. In other words, Tracy as a whole attracts retail sales.

Overall, the Retail Demand, Sales Attraction, and Spending Leakage estimate in Exhibit 15 indicates that just 61% of the sales achieved in Tracy are attracted from elsewhere, meaning that the City's resident demand comprised much less than half of all sales achieved by the City's retailers (i.e., 39%). Moreover, the sales attraction occurs in all major retail categories.

This is a relatively simplistic evaluation, given that Tracy residents likely spend a portion of their retail sales outside of the City, but the overall purpose of this technique is to characterize a retail market pursuant to its relative status as a leakage or attraction market. In this regard the results clearly indicate that Tracy is an attraction retail market.

TRACY RESIDENT-BASED RETAIL DEMAND

Existing Residents

The household retail spending vector estimated in Exhibit 15 provides a basis for estimating supportable retail demand for Tracy's population base. Inflated to 2014 dollars, Exhibit 15 estimates per household retail spending of \$21,258. The City of Tracy is estimated to have 24,751 households in 2014 (see Exhibit 12). Based on this household count, retail demand generated by Tracy's population base totals \$526.2 million. To assess how this level of demand compares to Tracy's retail base requires conversion to supportable retail space. For analytical purposes this is achieved by applying the prior retail sales estimates by retail category and making adjustments based on a retail

⁶ See Table V-5 on page 44 of the Gruen Gruen + Associates report.

vacancy allowance and allocation for personal and commercial services that are not typically reflected in retail sales.⁷

Pursuant to the retail sales per square foot assumptions referenced earlier, the industry standard 5% vacancy allowance, and an increment of 15% of space allocated to commercial services, the findings suggest that Tracy's existing population base generates retail demand sufficient to support 1.4 million square feet of retail space (see Exhibit 16). As referenced earlier, the City of Tracy has an estimated 3.3 million square feet of retail space. Therefore, these figures suggest that Tracy's population base supports the equivalent of 43% of Tracy's retail base. This finding is generally consistent with the Tracy Retail Demand, Sales Attraction, and Spending Analysis finding in Exhibit 15 that approximately 61% of Tracy's retail sales are generated by regional consumers living outside the City of Tracy.

Future Residents

Household Growth. ALH Economics prepared future household count projections for Tracy coincident with the Project's 2035 time periods and 2040, which for analytical purposes is a proxy for Buildout (for housing development purposes). The projections are presented in Exhibit 12, and were prepared pursuant to consideration of household projections prepared by the City of Tracy for key benchmark years, which included 2017 and 2025. Household projections to 2035 and 2040 were estimated by ALH Economics based on the City of Tracy's Growth Management Ordinance average allotted market rate housing units of 600 per year. As a result of this data gathering and estimation process, documented in Exhibit 12, ALH Economics estimates the Tracy's household count does or will total the following:

- 24,751 in 2014
- 38,945 in 2035
- 41,945 in 2040

A portion of the new household growth includes the housing units planned at Tracy Hills. These housing units are anticipated to total 4,611 by 2035 and an additional 2,067 at Buildout. While a Buildout date has not been determined, for analytical purposes to support this housing-related retail demand analysis ALH Economics assumes these additional Tracy Hills units will be built by 2040.

Net of the anticipated Tracy Hills households, the City of Tracy is therefore forecasted to increase by 9,583 new households by 2035 and an additional 933 households by 2040. As noted, this 933 increment is likely a conservative figure, as Buildout of the Tracy Hills housing units may extend beyond the 2040 timeframe.

New Household Retail Demand. ALH Economics assumes that the new Tracy households not located at Tracy Hills will make similar retail expenditures to Tracy's existing households, which is estimated at approximately \$21,300 per household. This level of spending is tied to the existing average City of Tracy household income of approximately \$85,000 (see Exhibit 15), with the resulting retail expenditures equal to approximately two-thirds the estimated \$31,250 level of spending estimated for Tracy Hills households (see Exhibit 6).

⁷ The State of California Board of Equalization taxable retail sales reports, used as a basis for estimating Tracy's retail sales base, do not report sales for personal or commercial services such as hair and nail salons, copy facilities, or banks.

Based upon this relatively more moderate retail spending assumption, the new households between 2014 and 2035 will generate demand for approximately \$203.7 million in retail spending, which will increase by another \$19.8 million between 2035 and 2040 (see Exhibit 17). On a cumulative basis, including all Tracy households with the exception of Tracy Hills, Tracy households will generate almost \$730.0 million in retail sales by 2035 and \$750.0 million in retail sales by 2040 (see Exhibit 18). Pursuant to the supportable retail space analysis described earlier, the amount of retail space estimated to be supported by Tracy’s households excluding Tracy Hills is 1,950,000 square feet by 2035 and 2,010,000 square feet by 2040 (see Exhibits 19 and 20).

Tracy Hills household retail demand will be in addition to these estimates. Combining the Tracy resident demand estimates excluding Tracy Hills with the estimated demand generated by Tracy Hills households results in total resident-supported demand of 2,340,000 square feet by 2035 and 2,470,000 square feet by 2040. These figures are presented in Exhibit 21 and also summarized below in Table 7.

Table 7. Tracy Household-Supported Retail Demand

Demand Base	2035	2040/ Buildout
Tracy Hills	390,000	460,000
Balance of Tracy	1,950,000	2,010,000
Total	2,340,000	2,470,000

Source: Exhibit 21.

These figures pertain to only retail space supported by Tracy households. Since Tracy is a retail attraction market, the City’s retail base has historically been larger and will continue to be larger as long as Tracy continues to serve the retail needs of the larger region.

VII. TRACY RETAIL BASE REGIONAL IMPLICATIONS

APPROACH TO ASSESSING SUPPORTABLE RETAIL SPACE

As noted previously, Tracy's retail base does not exclusively serve Tracy residents. Instead, Tracy serves a sub-regional market, attracting retail sales from outside the city. Thus, Tracy's total retail base supportability is greater than the amount of retail anticipated to just meet the needs of Tracy's households. Earlier estimates in this report indicate that Tracy's residents support 39% - 43% of Tracy's retail base, meaning that the majority of Tracy's retail base is supported by consumers originating from outside Tracy. These figures, however, do not necessarily apply to Tracy's retail market in the long term, with the potential for Tracy's share of regional sales to decline over time as other areas around Tracy become more developed. Or, conversely, Tracy could become an even stronger regional retail center as well in the long-term, depending upon surrounding community growth patterns.

ALH Economics prepared estimates of the amount of retail space supportable in Tracy over time based upon a range of assumptions regarding the share of Tracy's retail base supported by Tracy's population versus a more regional population. Estimates of the supportable size of Tracy's retail base were prepared for 2035 and 2040 given graduated assumptions regarding the share of Tracy's retail base supported by the city's population base. These estimates are predicated upon four different assumptions regarding the share of Tracy's retail base supported by Tracy's population at the designated points in time. These include 40%, which is generally consistent with prevailing conditions. This is then increased to 55% in 5% increments. This increasing range reflects a very conservative assumption that Tracy will not strengthen as a regional retail shopping center relative to other competing shopping venues. Instead, the assumptions take into consideration the possibility that Tracy's regional retail position may erode over time, with regional demand comprising as little as 45% of all retail demand in Tracy, versus the currently prevailing 60%.

SUPPORTABLE RETAIL SPACE ESTIMATES

The estimate of supportable retail space in Tracy by the year 2035 is presented in Exhibit 22. This exhibit identifies the amount of retail space estimated to meet resident needs in 2035. This figure is 2,340,000 per Exhibit 21. Given this amount of local demand, supportable square feet figures were estimated for Tracy's retail base assuming Tracy-based demand comprises 40% to 55% of retail demand in 2035. This corresponds with assumptions of Tracy's retail base being 45% to 60% region-serving. The resulting estimates of Tracy's retail inventory needed to meet regional demands in 2035 ranges from 4,250,000 to 5,850,000. Tracy's current retail base is estimated to total approximately 3,300,000 square feet. Net this existing retail base, therefore, Tracy is estimated to require an additional 950,000 to 2,550,000 square feet of retail space by 2035 to meet local and regional retail shopping needs. The higher figure of 2,550,000 corresponds to prevailing conditions, with Tracy households supporting 40% of the city's retail base.

Following a similar analytical approach to the 2035 estimation procedure, the supportable retail space estimates by 2040 are presented in Exhibit 23. These results indicate future potential for up to 6,175,000 square feet of retail space, or development of an additional 1,190,000 to 2,875,000 square feet of retail space in Tracy to meet the city's resident-serving and regional-serving retail requirements.

The supportable retail space estimates are summarized in Table 8, as follows:

Table 8. Supportable Increase in Regional Retail Demand

Time Period	Square Feet	
	Low	High
2035	950,000	2,550,000
2040	1,190,000	2,875,000

Source: Exhibits 22 and 23.

These findings generally indicate that by the 2035 to 2040 time period Tracy’s retail base would likely be able to support the addition of a minimum of 1.0 million square feet of retail space, with as much as 2.6 to 2.9 million if Tracy continues to serve the regional retail market to the current extent.

Notably, the maximum estimated supportable retail space estimates of 5.9 to 6.2 million on a rounded basis are below the maximum potential given the City of Tracy’s General Plan Buildout. As estimated in Exhibit 5, this buildout capacity is estimated at approximately 9.5 to 13.3 million square feet of retail space. Thus, even after development of Tracy Hills and the estimated regional demand to 2040 yet additional retail capacity will remain in Tracy.

REGIONAL DEMAND REMAINING AFTER TRACY HILLS DEVELOPMENT

Approach to Assessing Remaining Regional Demand

The Tracy Hills retail space will be developed in the context of the overall market for retail in Tracy. Thus, ALH Economics further analyzed the extent to which absorption of the amount of retail planned at Tracy Hills will impact Tracy’s estimated regional-serving retail requirements. This was accomplished by taking the estimated increments of retail space from Exhibits 22 and 23 and examining the balance left after development and absorption of the Tracy Hills space assumed to be developed as retail. This does not include the portion of the space assumed to support hotel construction, since hotel development is not retail in nature. It does, however, include the portion of the retail space estimated to meet the resident- and employment-related demand, as well as the balance of planned retail space that does not have an internally-generated demand base (i.e., referred to as “Balance of Other Demand” in Exhibit 11).

This analysis does not examine the market potential of the balance of Tracy Hills retail space to attract other local and regional demand. However, the site has good highway proximity and visibility, and thus meets generalized criteria to support regional retail development, although it does lack an accompanying critical mass of other retail which can be beneficial for regional retail attraction. If the space is built and does not meet with successful market reception then only the Project will suffer through the development of retail space that remains vacant. It is unlikely, however, that such space would be developed without letters of intent from retailers; thus, the likelihood that space would be developed that would remain vacant in the long term is very low. Instead, if the remaining balance of retail space is built at Tracy Hills, the analysis indicates there would still be a large volume of unmet retail demand in Tracy at the 2035 time period and the 2040 time period.

Remaining Regional Demand Results

Estimates of the remaining regional demand following absorption of Tracy Hills for the 2035 time period are presented in Exhibit 24. This analysis indicates that after absorption of the Tracy Hills space anticipated to meet resident and employee demand, which comprises 300,000 by the 2035 time period, and absorption of the 466,600-square-foot balance of the planned retail space, demand for almost 1.8 million square feet of retail space will remain assuming Tracy's residents continue to support 40% of Tracy's retail base. If Tracy's regional retail position erodes, and the regional market comprises an increasingly lower share of the retail base, then the remaining retail demand will be lower, ranging from 1.1 million square feet if Tracy's resident share increases to 45% to almost 200,000 square feet if Tracy's resident share increases to a much larger 55%. There is no knowing which percentage share of resident demand will be the prevailing condition by 2035; however, the analytical results indicate sufficient demand will still exist to likely support numerous additional retail venues and aggregate square footage of retail space.

The findings are even more favorable for the analysis by 2040. This is especially the case when one considers the Buildout timeframe for Tracy Hills is not known, but that the analysis conservatively assumes 2040 to support the derivation of quantitative findings. The 2040 findings are presented in Exhibit 25. By this time, the Tracy Hills residents and employees are anticipated to support 430,000 square feet of retail space, with the remaining balance totaling 360,700. This balance is less than estimated for the 2035 time period because more resident and employee demand is estimated, thus reducing the balance needed to be supported by other local and regional sources of demand. If Tracy's residents continue to support 40% of Tracy's retail base, then the balance of unmet regional demand remaining in 2040 totals an estimated 2.1 million square feet. This estimate drops to approximately 400,000 square feet if Tracy's residents comprise a greater 55% of demand for Tracy's retail space.

Conclusion Regarding Project Impacts

ALH Economics believes that this analysis indicates that more than sufficient demand for retail space will prevail in Tracy after development of Tracy Hills. Thus, the Tracy Hills retail space is not anticipated to have a negative impact on existing retail outlets within the time frames studied. Since the particular pacing of development over the 2035 and beyond time period is presently undetermined, this is the most relevant conclusion to make based upon the preceding analysis. The applicability of this conclusion to the determination of urban decay follows.

VIII. URBAN DECAY IMPLICATIONS OF TRACY HILLS RETAIL SPACE

STUDY DEFINITION OF URBAN DECAY AND CONTRIBUTING CAUSES

For the purpose of this analysis, and as presented earlier, urban decay is defined as extended long-term business vacancies, directly or indirectly resulting in physical deterioration to properties or structures that is so prevalent, substantial, and lasting a significant period of time that it impairs the proper utilization of the properties and structures, and the health, safety, and welfare of the surrounding community. Physical deterioration includes abandoned buildings, boarded doors and windows, parked trucks and long-term unauthorized use of the properties and parking lots, extensive or offensive graffiti painted on buildings, dumping of refuse or overturned dumpsters on properties, dead trees and shrubbery, and uncontrolled weed growth.

Before considering how Tracy Hills might affect the market and environs, it is useful to focus on what constitutes the *environmental* impact known as urban decay. In *Bakersfield Citizens for Local Control v. City of Bakersfield* (2004) 124 Cal.App.4th 1184, 1204, the court described the phenomenon as “a chain reaction of store closures and long-term vacancies, ultimately destroying existing neighborhoods and leaving decaying shells in their wake.” The court also discussed prior case law that addressed the potential for large retail projects to cause “physical deterioration of [a] downtown area” or “a general deterioration of [a] downtown area.” (Id. at pp. 1206, 1207). When looking at the phenomenon of urban decay, it is also helpful to note economic impacts that do not constitute urban decay. For example, a vacant building is not urban decay, even if the building were to be vacant over a relatively long time. Similarly, even a number of empty storefronts would not constitute urban decay. Based on the preceding descriptions regarding urban decay, therefore, ALH Economics’ analysis examined whether there was sufficient market demand to support Tracy Hills without affecting existing retailers so severely such as to lead to a downward spiral toward decay of the existing physical environment.

THE CURRENT ENVIRONMENT

Prevailing Retail Market Conditions

ALH Economics conducted retail market fieldwork in Tracy. The purpose of this fieldwork was to identify and visit existing retail nodes, examine the physical condition of major shopping centers and commercial shopping corridors, and identify existing retail vacancies and assess their condition and appearance. These observations are complemented by historical and current retail market performance data, demonstrating the underlying strength or weakness of the local commercial retail market.

Tracy’s retail market has several concentrated nodes and also extends along several major arterials. The most substantial node is located north of Interstate 205 and west of Corral Hollow Road. This node, located on the west side of Tracy, includes regional-serving shopping centers such as Tracy Marketplace, Tracy Pavilions, and West Valley Mall. These centers include many major regional-serving retailers, such as Home Depot, Walmart, Costco, and numerous additional tenants such as Staples, BevMo, Home Goods, PetSmart, and Marshalls, and West Valley Mall is anchored by JC Penney, Sears, Target, and Macy’s. Retail occupancy in this area appears strong and physical conditions of the associated real estate are very good. Tracy Outlets, another regional-serving center, is located more on the east side of Tracy, also near Interstate 205. Fieldwork observations indicate

that the Tracy Outlets has the highest individual property vacancy, visually estimated at 75%, with very few of the spaces in this approximately 150,000-square-foot center occupied. Nevertheless, despite this high vacancy, the property is in good condition with no visible signs of urban decay or deterioration. Information from the City of Tracy indicates this property could be removed from the retail base since it has proven to not be well-located for its concept, and transitioned to an alternative use.

Other more neighborhood- and community-serving shopping centers are located along several major arterials, including Tracy Boulevard, 11th Street, and Grant Line Road. Many smaller shopping centers as well as strip retail are located in these areas, with representative tenants including grocery stores such as Raley's, Safeway, Savemart, and Mi Pueblo; drug stores such as CVS and Walgreens; and many other mid-size tenants such as Orchard Supply Hardware, and small shops and restaurants. These centers range from newer centers in expansion mode to older centers with existing vacancy, such as a closed Smart & Final store on 11th Street and a vacant junior anchor tenant space at McKinley Village on Tracy Boulevard near Grant Line Road, formerly occupied by Thrifty Drug, which later became Rite Aid, and subsequently experiencing a succession of shorter term tenants, such as furniture stores as well as longer term vacancy.

Despite some of these spaces being vacant for a while, such as two years for the Smart & Final space, (this space is available for sublease since Smart & Final continues to hold the lease on the space), they are generally in good and overall clean physical condition. There are almost no examples of conditions that suggest or reflect urban decay. One exception noted in August 2014 is a boarded up window at vacant junior anchor space at McKinley Village. This property, like the former Smart & Final space, is also available on a sublease basis. In this case, RiteAid continues to pay the lease, which provides little motivation for the property owner to reinvest in the property since the property continues to generate revenue in its current condition. Moreover, the term remaining on the sublease is relatively short, thus limiting the interest from potential tenants who could not secure a long term lease. A similar situation prevailed for space absorbed at Tracy Corners Shopping Center by Harbor Freight earlier in 2014, which involved the direct lease of space formerly occupied by Walgreens, wherein Walgreens vacated the property in the 1990s but continued to hold the lease until its ultimate expiration in late 2013/early 2014. Therefore, a succession of retailers subleased this space from Walgreens, until so little time was left on the sublease that no retailer was motivated to occupy the space, yet the property owner continued to derive income through Walgreen's lease payments.

A single instance of a boarded up window, as noted at McKinley Village, is not an accurate indicator of urban decay. Thus, in general, Tracy's existing retail real estate is in moderate to good physical condition with no evidence of trash or other conditions contributing to urban decay and deterioration. The market is generally comprised of new retail in good condition, some properties that have been recently remodeled, and older properties that may be bordering on functional obsolescence but are still in generally sound condition. Moreover, Tracy's market displays evidence of successful retail backfilling, as existing retailers leave and others take over their space. A strong example includes the former Food Maxx (originally Food 4 Less) at Tracy Corners at 3225 North Tracy Boulevard, a small distance south of Interstate 205 and north of Grant Line Road, now occupied by Mi Pueblo since early 2012. Other newer tenants that have backfilled this center include Harbor Freight, taking over a former Walgreens location, and O'Reilly Auto Parts. Home Goods also took over a former Staples space when Staples downsized and relocated to the nearby center anchored by Home Depot. These successful backfilling examples indicate that Tracy's retail market is dynamic and that newer retailers continue to have an interest in serving this market.

Retail Market Statistics and Lease Transactions

Tracy's retail market is not widely monitored by commercial real estate firms from a retail market performance perspective. Thus, only anecdotal information is available regarding performance of the city's retail inventory. Accordingly, ALH Economics contacted several commercial real estate brokers active in the Tracy retail market to obtain generalized input about the market.⁸ These included commercial brokers with current active listings in Tracy, based upon fieldwork observation and research on LoopNet, an online commercial real estate listing service.

Conversations with these brokers indicate that retail absorption has been strong in Tracy for approximately the past 12 to 24 months, and that vacancy is relatively low. Estimates provided by the commercial brokers are generally in the range of 10% overall retail vacancy including sublease space, and even lower without the sublease space, possibly even 5% or less. In general, retail markets are deemed most healthy when there is some increment of vacancy, at least 5.0%, which allows for market fluidity and growth of existing retailers. However, even retail vacancy rates at the 10.0% level are generally considered a reasonably healthy retail market. Therefore, Tracy's retail market appears to be overall operating within generally healthy parameters.

In addition to the information from active commercial brokers regarding recent market activity, commercial real estate market data from CoStar, a commercial real estate information company, demonstrates that retail vacancies in Tracy are finding new tenants. According to CoStar, there were 29 retail leases executed in Tracy for previously occupied spaces from August 2013 to August 2014. These 29 leases totaled 71,293 square feet of retail space. The largest lease transaction during this time period was for 24,018 square feet, while the average transaction was for 2,458 square feet. The larger transaction was for a Home Goods store executed in November 2013, which comprised backfilling of space vacated by Staples pursuant to relocation, while smaller leases are typically for personal services and cafes and restaurants. These lease transactions indicate that Tracy's retail market is characterized by momentum, with the type of turnover and backfilling characteristic of a healthy retail market.

REGULATORY CONTROLS

Owners of commercial retail properties are generally financially motivated to maintain property in a manner appropriate to retain existing tenants and attract new retail tenants. Based upon visual observation this appears to be the case in Tracy. If property owners lag in their maintenance, however, and the property begins to show signs of disrepair, the City of Tracy has regulatory controls that can be implemented to avoid the onset of deterioration or decay. A review of these regulations and information about code compliance in Tracy follows.

The City of Tracy Municipal Code of Ordinances Chapter 3.48 on Graffiti Control, Chapter 4.12 - Article 6 on Removal of Weeds and Refuse, Chapter 4.12 - Article 8 on Removal of Abandoned, Wrecked, Dismantled, or Inoperative Vehicles from Private or Public Property, Chapter 5.04 on General Sanitation, Chapter 6.24 on Abandoned Shopping Carts, Chapter 7.24 on Dust and Debris, and Chapter 9.24 on Dangerous Buildings, require property owners to maintain their properties so as not to create a nuisance by creating a condition that reduces property values and promotes blight and

⁸ This includes Christopher Sill with Lee & Associates – Central Valley, Inc.; Marilyn Hansen with Colliers; and Tim Bettencourt with CoSol.

neighborhood deterioration.⁹ Enforcement of these ordinances can help prevent physical deterioration due to any long-term closures of retail spaces. The City of Tracy's Code Enforcement Division currently has one Community Preservation Manager, one Code Enforcement Officer/Building Inspector, and one Code Enforcement Officer.

Code enforcement within the City of Tracy is chiefly done on a complaint basis by the public; however some cases are resolved proactively when there is a blatant code violation with health or safety issues.¹⁰ Public complaints can be made to the City by calling the Code Enforcement Division directly, emailing the Code Enforcement Division, or reporting it online through the government outreach system. The Code Enforcement Division works with residents, public service agencies, and other City departments to help resolve any violations on a voluntary basis.

The City of Tracy Municipal Code 1.32.030 on Public Nuisance Abatement- Initial determination of nuisance-Notice to owner, states that once a nuisance has been determined the enforcement officer will give a written notice to the property owner in person or through the mail, to abate the nuisance or show cause. The owner then has a minimum of ten days for voluntary abatement or seven days to file a written request for a show cause hearing.¹¹ In addition, according to Section 1.32.050 on Abatement by City, "If the nuisance is not completely abated within the time prescribed by the notice to abate or show cause, or by date set forth in the hearing officer's notice of decision if a hearing is held, the enforcement officer may proceed to abate the nuisance by City personnel or private contractor."¹² Any abatement completed by the City is done at the expense of the property owner according to Section 1.32.080 Payment by Owner Nuisance Abatement Lien or "Instead of making the cost of abating a nuisance a lien or assessment upon the real property under section 1.32.080, the City may make the cost the personal obligation of the property owner, tenant, or other person creating, causing, committing, or maintaining the nuisance."¹³ According to the Code Enforcement Division most violations, such as garbage, debris, and graffiti, are quickly and voluntarily resolved after the initial verbal or written notice is received.¹⁴

During fiscal year (FY) 2013-14 the Code Enforcement Division opened 919 violation cases. Also during this period the Code Enforcement Division closed 1,096 cases (some cases carried over from the previous year); equaling a closure rate greater than 100%. The largest share of total cases pertained to garbage, junk, and debris. Within the opened cases for garbage, junk, and debris, only 8% occurred on commercial property.

⁹ City of Tracy, "Municipal Code,"

<https://library.municode.com/index.aspx?clientId=16660&stateId=5&stateName=California> (accessed July 2014).

¹⁰ Code Enforcement Division, Community Preservation Manager, City of Tracy; interview conducted September 2014.

¹¹ City of Tracy, "Municipal Code, Chapter 1.32 Public Nuisance Abatement,"

<https://library.municode.com/index.aspx?clientId=16660&stateId=5&stateName=California> (accessed July 2014).

¹² City of Tracy, "Municipal Code, Chapter 1.32.050 Abatement by City,"

<https://library.municode.com/index.aspx?clientId=16660&stateId=5&stateName=California> (accessed July 2014).

¹³ City of Tracy, "Municipal Code, Chapter 1.32.080 Payment by Owner Nuisance Abatement Lien <https://library.municode.com/index.aspx?clientId=16660&stateId=5&stateName=California> (accessed July 2014).

¹⁴ Code Enforcement Division, Community Preservation Manager, City of Tracy; interview conducted September 2014.

Across all code violation cases, 16% were categorized as commercial properties. Based upon internet research on the cited addresses, this includes a wide range of commercial properties, such as medical offices, schools, churches, hotel, office, restaurants, general merchandise stores, shopping centers, gas stations, and even a telephone pole. Thus, it appears only a portion of the commercial properties are specifically categorized as retail.

Information about the distribution of code violations for commercial properties is presented in Table 9, below.

Table 9. Code Enforcement, Opened Commercial Cases by Type, FY 2013-14

Violation Type	Number of Commercial Cases	Percent of total
Dangerous Buildings	1	0.7%
Electrical	6	4.0%
Fences	3	2.0%
Garbage	17	11.3%
Graffiti	56	37.3%
Hazardous Conditions	16	10.7%
Homeless	15	10.0%
Infestation	3	2.0%
Inoperable Vehicles	1	0.7%
Landscape	2	1.3%
No Permit	5	3.3%
Noise	4	2.7%
RV Parking	2	1.3%
Signs	12	8.0%
Substandard Housing	4	2.7%
Temporary Structure	1	0.7%
Tree	1	0.7%
Vehicle Abatement	1	0.7%
	150	100.0%

Sources: City of Tracy Code Enforcement Division, "City of Tracy Code Enforcement Cases Opened - Selected Types(s) For the Period 7/1/2013 through 6/30/2014"; and ALH Urban & Regional Economics.

As noted in this table, the majority of the commercial cases involved issues such as garbage, junk, and debris; hazardous conditions; homeless; sign violations; and the largest percentage was for graffiti.¹⁵ Many of the cases categorized as hazardous conditions cases concerned items such as fire code violations and fire prevention referrals. To help support graffiti abatement, the City of Tracy has a Graffiti Removal Program that provides an anonymous 24-hour hotline to help combat the graffiti

¹⁵ City of Tracy Code Enforcement Division, "City of Tracy Code Enforcement Cases Opened – Selected Type," pulled by the City 10/15/2014, received 10/15/14.

violations. Specific statistics regarding the length of time involved in graffiti abatement are not available; however, as noted above, the Code Enforcement Department reports that graffiti is typically quickly and voluntarily resolved upon receipt of verbal or written notice. A random check of some of the addresses reported for graffiti suggest that the majority of graffiti cases pertain to retail establishments, but some involve other uses, such as schools and banks.

During the fieldwork conducted in August 2014 there were no visible signs of litter, graffiti, weeds, or rubbish associated with existing commercial nodes and corridors in the City of Tracy. Almost all vacant properties were well-maintained with no signs or decay or deterioration, with the noted exception of the boarded up window at the McKinley Village shopping center. Thus, ALH Economics concludes that existing measures to maintain private commercial property in good condition in the City of Tracy are effective and would serve to preclude the potential for urban decay and deterioration in the event any existing area retailers close following development of the Tracy Hills retail components.

CUMULATIVE PROJECTS

Project-based urban decay analyses typically also consider cumulative impacts associated with other planned and proposed projects. They generally include consideration of projects that are under construction, approved for development, or engaged in the entitlements process. These are the type of projects that generally have a reasonable expectation of being developed during the same development horizon as the project under study given knowledge and information about their development cycle status. For the purpose of this section ALH Economics obtained information about planned retail projects in Tracy, as the location of Tracy Hills, and Mountain House, a developing planned community generally to the west of Tracy, and thus the nearest area of potentially competing retail space.

City of Tracy

For the purpose of this study ALH Economics queried the City of Tracy to identify other retail projects in the development pipeline. Only one such project was identified by the City of Tracy. This project is Red Maple Village, a 3.0-acre speculative retail development at the northeast corner of Valpico Road and Tracy Boulevard. City of Tracy staff indicated this project will comprise 25,000 square feet of retail space. This project is listed on Exhibit 26, which further indicates that the project is approved but no building permit has yet been obtained. If developed, this project could enter the market at a time similar to the Phase I development of Tracy Hills, i.e., 2017.

ALH Economics does not believe the small size of the Red Maple Village project will have an appreciable impact on the retail space at Tracy Hills or the balance of the City of Tracy retail base. At 25,000 square feet Red Maple Village will expand Tracy's existing retail base by a scant 0.8%, which is extremely nominal. Per Exhibit 11 the amount of retail planned at Tracy Hills not anticipated to support internally-generated demand will total 23,822 square feet. Thus, by 2017 Red Maple Village and the Tracy Hills space not anticipated to be supported by internally-generated demand will total just under 50,000 square feet of retail space. Together, this amount of retail will expand the retail base by 1.5% (i.e., 50,000 square feet as a share of the estimated 3,266,900-square-foot base plus the incremental 50,000 square feet).

This small increment in space will be accompanied by household growth, such that impacts on existing retailers is anticipated to be nominal, i.e., demand is not anticipated to be diverted away from existing retailers to the benefit of the combined new retail at Red Maple Village and Tracy Hills. This is

especially the case if one considers the share of retail demand estimated to be generated by Tracy Hills residents but not captured by Tracy Hills Retail. As noted in Exhibit 11, Tracy Hills is assumed to capture 50% of the retail demand generated by Tracy Hills households. By 2017, the Phase I Tracy Hills households are estimated to generate support for 100,000 square feet of retail space (see Exhibit 6). Thus, the 50% of demand generated by Tracy Hills households not captured by Tracy Hills retail totals an estimated 50,000 square feet. This amount of space matches the combined identified planned increment of new retail space. While this additional demand may not necessarily be captured by the additional increment at Tracy Hills and Red Maple Village, it indicates the market as a whole will swell, such that overall market demand will increase commensurate with the increase in retail inventory. Thus, when considered collectively, the findings suggest increases in overall market demand will offset any prospective impacts of the known new retail added to Tracy's retail base, resulting in no negative cumulative impacts.

The earlier analysis of the Tracy General Plan indicates much more commercial retail development potential in Tracy. As noted in Table 4 there remain yet millions more square feet of commercial space capacity in Tracy, as well as Tracy's sphere of influence, even after development of Tracy Hills. However, none of this additional capacity beyond the aforementioned Red Maple Village is approved for development or engaged in the entitlement process. Therefore, there is no basis to consider other projects in the cumulative supply for the purpose of assessing the urban decay impacts of Tracy Hills. This includes projects such as the Cordes Ranch project, a 1,783-acre business park that was annexed into the City of Tracy in 2012 and engaged in a similar Specific Plan Environmental Impact Analysis in 2013. This project proposes approximately 600,000 square feet of General Commercial space, with allowable uses similar to Tracy Hills. Therefore, some of these 600,000 square feet can be developed in a manner other than commercial retail space, such as lodging, entertainment, office space, and even multifamily housing; thus, the amount of prospective retail is unknown and speculative. Moreover, this project was anticipated and evaluated in the February 2011 Tracy General Plan, and thus was generally considered by the City of Tracy's chief visioning document and its associated environmental documentation. But most importantly, no commercial projects or site areas in Cordes Ranch or other Specific Plan or PUDs in Tracy have begun approvals or entitlement processing, and thus there are no specific projects identified to factor into cumulative analysis of Tracy Hills's planned retail space.

Mountain House

Exhibit 26 also includes information about select projects in Mountain House potentially including commercial retail space. Mountain House is a new community that was approved by the San Joaquin County Board of Supervisors in 1994. The Mountain House Master Plan area consists of approximately 4,784 acres which at buildout will include approximately 16,000 residential units, 275 acres of commercial, 441 acres of industrial, 371 acres of institutional, and 760 acres of recreation uses. At capacity Mountain House is anticipated to comprise 44,000 residents, and 22,000 on-site jobs.¹⁶ To date, Mountain House development is primarily focused on residential development, with few other land uses represented. Current estimates suggest the Mountain House population is at 12,000.¹⁷ Mountain House was especially hard hit by the Great Recession, with many homeowners underwater.

¹⁶ See <http://www.mountainhouse.net/commercial>.

¹⁷ http://en.wikipedia.org/wiki/Mountain_House,_San_Joaquin_County,_California#cite_note-matters-4

While Mountain House has rebounded somewhat since the Great Recession, very little new development has subsequently proceeded in the community. Thus, there is no definite timeline for the planned commercial development at Mountain House. Exhibit 26 identifies three specific plan or subdivision projects with approved tentative maps. These include the 100-acre Mountain House Business Park, the 38.2-acre Mountain House Town Center Mixed Use, and 25.45-acre Mountain House Town Center Community Commercial. All of these projects include a mix of land uses. Therefore, it is indeterminate how much of the acreage will result in retail development. A prospective exception is the 25.45-acre Community Commercial project, with the identified land uses including a movie theater, retail, and services. The estimated development potential for this project is 277,151 square feet (per ALH Economics assumption of 100% retail development at a 0.25 FAR).

San Joaquin County Community Development Department staff indicate that since the economic downturn, the retail, commercial, and industrial development in Mountain House has slowed down; many of the approved industrial and commercial projects have approved tentative maps but the developers have not begun construction. As a prominent example, development of the 100-acre Mountain House Business Park project included in Exhibit 26 has been delayed so long that the project's approvals, obtained in November 2005, are due to expire in November 2015. San Joaquin County officials indicate there is no imminent indication this project will proceed, so it is speculative whether or not development of this project will proceed in the near term, and not reasonably foreseeable. Moreover, the amount of retail to be developed at this site is also indeterminate.

Similar findings pertain to the other identified Mountain House projects included on Exhibit 26. While approved through mid-2022, there are no imminent plans to proceed, nor specific definition to the projects, so the amount of retail space is indeterminate and the projects are not reasonably foreseeable. Even the estimate of 277,151 square feet for the Mountain House Town Center Community Commercial project is an estimate prepared by ALH Economics based upon site development assumptions. As a Town Center community project, however, this project is likely intended to serve Mountain House residents, and thus is not likely to compete with Tracy Hills or other more regional-serving retail development in Tracy. While ALH Economics has not prepared retail demand estimates for Mountain House residents, if the Tracy Hills household demand findings applied equally to Mountain House then this amount of development at Mountain House is sufficient to meet the needs of just a few thousand households at a 100% capture rate. Since Mountain House still has many thousands of undeveloped planned homes, in addition to substantial commercial and industrial development, this suggests internally-generated demand will be sufficient to support the Town Center development. However, the unknown still remains that there is no definite timeline for development of this or any other planned retail space at Mountain House. ALH Economics therefore believes it is too speculative to incorporate any Mountain House retail development into a cumulative analysis for Tracy Hills, and that accordingly there are no identifiable cumulative impacts.

URBAN DECAY CONCLUSION

In developing a conclusion regarding the potential for urban decay, ALH Economics relied on the definition presented earlier in this chapter, which focused on determining whether or not physical deterioration would likely result from the development of the Tracy Hills retail space, as well as other cumulative retail developments. ALH Economics' conclusion is based on consideration of long-term demand estimates, current market conditions, and regulatory controls, as summarized below:

Long-term Retail Demand Estimates. ALH Economics anticipates that the retail at Tracy Hills will be developed against a backdrop of sustained long-term demand for

retail space. Tracy currently serves a regional retail market. Perpetuation of this retail characteristic will enable Tracy Hills retail to be absorbed with sufficient demand remaining for other retail development throughout Tracy over the expected duration of planned buildout for Tracy Hills

Current Market Conditions: The fieldwork and market research suggest that retail market conditions are moderate to strong in Tracy, with a generally low vacancy rate. Retail leasing activity is occurring and existing vacancies are generally well maintained, with only scant exception. The properties with the poorest market acceptance are typically older properties available on a sublease basis, for which the property owner receives payment regardless of tenancy. Thus, these properties are not strong representatives of the retail market, which otherwise appears to be an inherently appealing retail market.

Regulatory Controls: The Municipal Code in Tracy requires property owners to maintain their properties so as to avoid nuisances and by creating a condition that reduces property values and promotes blight and neighborhood deterioration. Enforcement of these ordinances can help prevent physical deterioration due to any long-term closures of retail spaces. According to the Code Enforcement Division most violations, such as garbage, debris, and graffiti, are quickly and voluntarily resolved after the initial verbal or written notice is received.

During Project-related fieldwork conducted in August 2014, ALH Economics found there were little-to-no visible signs of litter, graffiti, weeds, or rubbish associated with existing commercial nodes in Tracy. Thus, ALH Economics concludes that existing measures to maintain private commercial property in good condition are generally effective and would serve to help preclude the potential for urban decay and deterioration in the event any existing retailers in the market area or environs close following the operations of the Tracy Hills retail and other cumulative retail projects.

In conclusion, the findings suggest that there is no basis to believe that existing retail would experience negative impacts following the addition of the Project combined with cumulative retail developments. There is no evidence to suggest that existing stores will close and exhibit traditional signs of deterioration and decay, such as graffiti, refuse dumping, and dilapidated fencing. Most existing vacant spaces throughout Tracy appear well-maintained, with only scant exception. This, plus the recent market area leasing activity, indicates that Tracy is an inherently appealing retail market. Based upon these findings and the preceding analysis ALH Economics concludes that the Tracy Hills Specific Plan retail development and the identified cumulative projects will not cause or contribute to urban decay.

X. REGIONAL CONTEXT FOR OFFICE AND INDUSTRIAL SPACE

EMPLOYMENT-GENERATING USES

In addition to providing a new community for homes and retail-serving uses, Tracy Hills also has a strong employment-generating component. This includes up to 624,200 square feet of office space and 4,197,300 square feet of industrial space. This level of development will establish Tracy Hills as a strong employment node, but also position Tracy Hills within a regional context for these uses. Currently, employment in Tracy totals approximately 26,310.¹⁸ As depicted in Exhibit 27, employment throughout San Joaquin County in 2013 totaled 209,400. Thus, Tracy's employment base comprises approximately 13% of the county total.

The information included in Exhibit 27 for the county as a whole indicates that several key industry sectors dominate the county's economy. These include wholesale & retail trade with 18% of the 2014 employment base, government with 17% of the employment base, and health & education with 16% of the employment base. All other industry sectors comprise less than 10% of the county's employment base, but industry sectors close to the 10% level include leisure at 9%, professional services at 8%, manufacturing at 8%, and transportation & utilities at 7%. Employment in all these sectors requires different types of space to conduct operations, including the type of office and industrial space planned at Tracy Hills. The California State Department of Transportation prepares countywide employment projections for all counties in California. Their projections for San Joaquin County are included in Exhibit 27. These projections indicate that employment in San Joaquin County is projected to increase by 6.7% from 2014 to 2017, or the time period coincident with Phase I of Tracy Hills. San Joaquin County employment is then projected to increase by 23.0% between 2017 and 2035, another benchmark year for Tracy Hills development. The buildout year for Tracy Hills is not specified, but even between 2035 and 2040 employment is projected to grow another 4.6% throughout the county.

These growth figures indicate that the Tracy Hills office and industrial space will be developed in a growth-oriented environment. It is difficult to assess how Tracy and Tracy Hills will be positioned relative to the county as a whole, or other regional growth trends, especially given the long time horizon involved in the anticipated development of Tracy Hills. However, the following analyses for office and industrial development provide context for assessing the regional context of the planned office and industrial space at Tracy Hills.

TRACY HILLS OFFICE DEVELOPMENT CONTEXT

Tracy Hills Office Component

The City of Tracy currently has a limited supply of office space, estimated to total just under 300,000 square feet (see Exhibit 3). However, given existing land use designations, there is a great deal of potential for future office development from a land use perspective, totaling in the millions (see Exhibit 5). Thus, while the Tracy Hills office space buildout of 624,200 square feet will comprise a substantial addition to the City of Tracy (see Table 4), this level of development is well within the envelope of the City of Tracy's prospective vision regarding office development and office-based employment growth.

¹⁸ This is a three-year average from 2011 to 2013 estimated by the U.S. Census Bureau, 2011-2013 American Community Survey 3-Year estimates.

Of the total planned Tracy Hills office space, 508,500 square feet are assumed to be developed by 2035, with the remaining balance bringing the total to 624,200 occurring at some indeterminate future point in time. ALH Economics prepared estimates of office space demand for San Joaquin County and then estimated Tracy's share of future demand. In the absence of any other current basis for estimating Tracy's share, the analysis assumes Tracy's capture rate is at least comparable to Tracy's recent share of total county employment.

Long-term Projected Office Demand

The office demand projection is presented in Exhibit 28. The projected space demands are derived from the forecasts for employment in several key office-using industry sectors. These sectors include the financial activities, professional services, information, and government sectors presented in Exhibit 27. There are yet other industry sectors whose employees use office space. These especially include the health & education sector, for key uses such as medical-office space. However, existing employment data sources are not available to support distinguishing medical office employment from all other employment in the broad health & education sector. Therefore, the office demand analysis conservatively excludes prospective office-using employment in this sector.

The office demand projection in Exhibit 28 estimates that office-using employment in 2014 in San Joaquin County totals 65,200. This figure is estimated to increase to 69,700 in 2017, 84,200 in 2035, and 88,100 in 2040, the last year for which employment is projected by the source, the California Department of Transportation. The office space projection assumes the industry standard assumptions of 200 square feet per employee and a stabilized vacancy rate of 5%, which are similar to assumptions incorporated by Gruen + Gruen Associates in their demand and policy recommendations prepared for the City of Tracy in 2007.

The office demand projections total 947,000 square feet of new demand for San Joaquin County between 2014 and 2017. An additional 3,053,000 square feet of demand is projected between 2017 and 2035, and another 821,000 square feet between 2035 and 2040. In total, new office demand between 2014 and 2040 is projected to total close to 5.0 million square feet to accommodate the projected growth. Recently, Tracy's share of overall employment is 13%. If Tracy's share of office demand is consistent with the city's total share of employment then office demand in Tracy is projected to total 123,100 square feet by 2017, a cumulative total of 520,000 square feet by 2035, and a total of 626,730 square feet by 2040. Thus, for buildout of Tracy Hills occurring after 2040, the City of Tracy's prospective demand for new office space will exceed this 626,730 square feet level.

Office Pipeline

In addition to Tracy Hills, there are a few office projects in the planning pipeline in Tracy. There are yet others with the potential for development in Mountain House, but the amount and timing of such development is indeterminate.

As noted in Exhibit 29, there are four office or quasi-office development projects engaged in the planning process in Tracy. These four projects total 100,873 square feet, and include one school, a law enforcement headquarters, and two medical office buildings. None of these projects are under construction. Instead, three are approved and one is engaged in the planning process. Barring no complications, these four projects can be operational by 2016 or 2017, consistent with the estimated timing of Phase I completion of Tracy Hills.

Given the employment base estimated to be reflected in the preceding demand projection, only the 23,281-square-foot law enforcement headquarters for the California Highway Patrol is anticipated to be relevant to the San Joaquin County and City of Tracy office demand projections. The other uses serve the educational and health care sectors, and these uses were excluded from the demand projections because of the inability to distinguish employment for users of office space from other people employed by this sector, such as hospital workers and school workers. Thus, of the total 100,873 square feet of planned office space identified in Tracy, only the 23,281-square-foot California Highway Patrol office is anticipated to be competitive with Tracy Hills and relevant to the demand projection.

There is yet potential for other office development near but not in Tracy. This includes development in nearby Mountain House, as noted on Exhibit 29. Similar to the Mountain House retail projects, however, no firm details are in the works for these projects, and thus ALH Economics does not consider them to comprise reasonably foreseeable additions to the pipeline from a cumulative project perspective. For example, while the 100-acre Mountain House Business Park has an approved Specific Plan, this approval dates to November 2005, and approvals are anticipated to expire in November 2015. Plans for this project, as well as other Mountain House projects, was negatively impacted by the Great Recession; thus, little is known about when development in Mountain House will occur to support achievement of the community's overall vision and development goals.

Tracy Hills Office Development in Regional Context

ALH Economics compared the planned Tracy Hills office development to the forecasted office development in Tracy and San Joaquin County. This comparison is presented in Exhibit 30, and summarized below in Table 10. The planned space at Tracy Hills is less an allocation for vacancy, consistent with the same industry standard assumption included in preparing the demand estimate.

The amount of office development planned at Tracy Hills and the competitive project during Phase I, anticipated to coincide with the year 2017, is estimated to exceed the level of demand forecasted for Tracy. To achieve occupancy, Tracy Hills and the competitive project will need to absorb 164% of the forecasted demand for Tracy. By the 2035 timeframe, this percentage is projected to drop to 97%.

Table 10. Tracy Hills Office Development in Regional Context

Component of Demand	2014-2017	2017-2035	2035-2040	Tracy Hills Buildout
Office Demand				
San Joaquin County Cumulative Office Demand	947,000	4,000,000	4,821,000	NA
Tracy Share of Cumulative Office Demand	123,110	520,000	626,730	NA
Tracy Planned Competitive Office Supply				
Cumulative Tracy Hills Office Development	179,835	483,075	NA	592,990
Cumulative Competitive Tracy Pipeline	22,117	22,117	22,117	22,117
Sub-total	201,952	505,192	NA	615,107
Planned Competitive Supply Capture Rate				
San Joaquin County Demand	21%	13%	NA	<13%
City of Tracy Demand	164%	97%	NA	NA

Source: Exhibit 30.

This Phase I capture rate finding suggests that if development of the Tracy Hills Phase I office space extends beyond the 2017 timeframe that overall market demand conditions may be more favorable.

It is indeterminate how Tracy Hills at buildout and the competitive project will relate to the estimated office demand in Tracy at buildout, but their percentage share of demand will clearly be below the levels noted in 2035, as demand is only likely to continue to increase beyond the 2040 timeframe. Thus, for example, ALH Economics anticipates that the competitive office supply will capture less than 13% of countywide office demand at the point in time when Tracy Hills buildout occurs.

These figures suggest that for Tracy Hills to optimize its office space absorption it may necessitate that Tracy achieve an increasing share of countywide office demand, or that demand in general be greater. These are reasonable expectations given Tracy's commitment to economic development. For example, with regard to Tracy's real estate market, an excerpt from the City's General Plan is as follows: "Underlying land values and current rent structures are relatively inexpensive in Tracy, compared to Livermore, the more developed parts of the Tri-Valley area, and Silicon Valley. For firms requiring large tracts of land for expansion at low costs, Tracy compares favorably to almost any Northern California sub-region."¹⁹

More specifically, the purpose of Tracy's Economic Development Strategy is to "Enhance the competitiveness of the City while further developing a strong and diverse economic base."²⁰ The Economic Development Strategy includes numerous goals and objectives to achieve this purpose, including the following two key goals:

- Goal 1 – Create head-of-household jobs reflective of the City's target industries and those that best match the skill sets of the local labor force; and
- Goal 4 – Position Tracy as the preferred location for start-up companies and entrepreneurial investment

These goals especially include the objective of attracting start-up companies and entrepreneurs from the Silicon Valley and Bay Area Region. Toward this end, the City of Tracy has focused on a number of economic development efforts, with job creation being at the forefront. This continues to be a priority for the City, including ensuring a positive working relationship with the business community so the City's business attraction efforts result in bringing in targeted industries as well as retailers.

Based upon the long-range demand estimate and recognition of Tracy's economic development efforts, ALH Economics believes that the Tracy Hills office space will provide a unique sub-regional node of office space and employment generation, such that there is no basis to be concerned about the Project's office development contributing to a condition of urban decay.

TRACY HILLS INDUSTRIAL DEVELOPMENT CONTEXT

Tracy Hills Industrial Component

Industrial space comprises the largest share of non-residential space in the City of Tracy, estimated by the City of Tracy to total 12.1 million square feet (see Exhibit 3). Even with this large existing base, there is a great deal of potential for future industrial development from a land use perspective, totaling over an estimated 70.0 million square feet (see Exhibit 5). Thus, while the Tracy Hills industrial

¹⁹ See City of Tracy "General Plan 2011," page 4-6.

²⁰ See Economic Development Strategy at <http://www.ci.tracy.ca.us/?navid=516>.

space buildout of almost 4.2 million square feet will comprise a substantial addition to the City of Tracy (see Table 4), this level of development is well within the envelope of the City of Tracy's prospective vision regarding industrial development and industrial-based employment growth.

Of the total planned Tracy Hills industrial space, 847,500 square feet are assumed to be developed by 2035, with the remaining balance bringing the total to almost 4.2 million square feet occurring at some indeterminate future point in time. ALH Economics prepared an estimate of industrial space demand for San Joaquin County and then estimated Tracy's share of future demand. In the absence of any other current basis for estimating Tracy's share, the analysis assumes Tracy's capture rate is at least comparable to Tracy's recent share of the county's occupied inventory of industrial space, which analysis of CoStar data for mid-year 2014 indicates is 19%.²¹

Long-term Projected Industrial Demand

The industrial demand projection is presented in Exhibit 31. The projected space demands are derived from the forecasts for employment in several key industrial space-using industry sectors. These sectors include the construction, manufacturing, transportation & utilities, and wholesale & retail trade sectors presented in Exhibit 27. The wholesale & retail trade sector is adjusted in the demand analysis to generally exclude the portion of employment associated with retail trade. This adjustment includes incorporation of only 25% of the sector, pursuant to examination of more detailed sectoral employment estimates prepared by the State of California Employment Development Department for San Joaquin County for 2013.

The industrial space demand projection in Exhibit 31 estimates that industrial space-using employment in 2014 in San Joaquin County totals 52,775. This figure is estimated to increase to 56,725 in 2017, 69,675 in 2035, and 72,500 in 2040, the last year for which employment is projected by the source, the California Department of Transportation. The industrial space projection assumes an average industry assumption of 2,000 square feet per employee and a stabilized vacancy rate of 5%. The 5% vacancy rate is similar to an assumption incorporated by Gruen + Gruen Associates in their demand and policy recommendations prepared for the City of Tracy in 2007, and the 2,000 square feet per employee estimate comprises a general average of the range used by Gruen + Gruen, which included 1,500 square feet per manufacturing employee and 2,500 square feet per distribution space employee.²²

The industrial demand projections total 8.3 million square feet of new demand for San Joaquin County between 2014 and 2017. An additional 27.3 million square feet of demand is projected between 2017 and 2035, and another 5.9 million square feet between 2035 and 2040. In total, new industrial demand between 2014 and 2040 is projected to total 41.5 million square feet to accommodate the projected growth. Recently, Tracy's share of the occupied inventory of industrial space in San Joaquin County is 19%, pursuant to market data compiled by CoStar. If Tracy's share of industrial demand is consistent with the city's total share of the occupied inventory then industrial demand in Tracy is projected to total 1.6 million square feet by 2017, a cumulative total of 6.8 million square feet by 2035, and a total of 7.9 million square feet by 2040. Thus, for buildout of Tracy Hills occurring after 2040, the City of Tracy's prospective demand for new industrial space will exceed this 7.9 million square feet estimate.

²¹ Pursuant to analysis of "The CoStar Industrial Report, Mid-Year 2014, Stockton/Modesto Industrial Market," CoStar Group.

²² Gruen + Gruen Associates, page 98.

Industrial Pipeline

In addition to Tracy Hills, there are a number of cumulative industrial projects in the planning pipeline in Tracy. There are yet others with the potential for development in Mountain House, but the amount and timing of such development is indeterminate.

As noted in Exhibit 32, there are six industrial projects engaged in the planning process in Tracy. These six projects total 3.9 million square feet. These projects are variously engaged in the entitlements process, with some approved and others still in the planning stages. Generally speaking, based upon information provided by the City of Tracy, ALH Economics anticipates that all but one of these projects may be completed concurrent with the estimated Phase I timing of Tracy Hills, i.e., 2017. The smallest project, a desalination facility with 4,000 square feet, is anticipated to be completed shortly thereafter. All of these Tracy industrial projects could be competitive with Tracy Hills, and comprise cumulative projects for future development projects.

There is yet potential for other industrial development near but not in Tracy. This includes development in nearby Mountain House, as noted on Exhibit 32. Similar to the Mountain House retail and office projects, however, no firm details are in the works for these projects, and thus ALH Economics does not consider them to comprise reasonably foreseeable additions to the pipeline from a cumulative project perspective, until such time as development activity at Mountain House is revived. As noted earlier, the pace of development at Mountain House was negatively impacted by the Great Recession, and development activity in this area has not yet rebounded, or in the case of most of the employment-generating uses, never yet occurred.

Tracy Hills Industrial Development in Regional Context

ALH Economics compared the planned Tracy Hills industrial development to the forecasted industrial development in Tracy and San Joaquin County. This comparison is presented in Exhibit 33, and summarized below in Table 11. The planned space at Tracy Hills is less an allocation for vacancy, consistent with the same industry standard assumption included in preparing the demand estimate.

Table 11. Tracy Hills Industrial Development in Regional Context

Component of Demand	2014-2017	2017-2035	2035-2040	Tracy Hills Buildout
Office Demand				
San Joaquin/Stanislaus Counties	8,316,000	35,579,000	41,526,000	NA
Cumulative Industrial Demand				
Tracy Share of Cumulative Industrial Demand	1,580,040	6,760,010	7,889,940	NA
Tracy Planned Competitive Industrial Supply				
Cumulative Tracy Hills Industrial Development	153,710	805,125	NA	3,987,435
Cumulative Competitive Tracy Pipeline	3,677,735	3,681,535	3,681,535	3,681,535
Sub-total	3,831,445	4,486,660	NA	7,668,970
Planned Competitive Supply Capture Rate				
San Joaquin/Stanislaus Counties Demand	46%	13%	NA	<14%
City of Tracy Demand	242%	66%	NA	NA

Source: Exhibit 33.

The amount of industrial development planned at Tracy Hills and the cumulative projects during Phase I, which is anticipated to coincide with the year 2017, is estimated to exceed the level of demand forecasted for Tracy. To achieve occupancy, Tracy Hills and the competitive projects will need to absorb 242% of the forecasted demand for Tracy. By the 2035 timeframe, this percentage is projected to drop to 66%. This finding suggests that if development of the Tracy Hills Phase I industrial space extends beyond the 2017 timeframe that overall market demand conditions may be more favorable and consistent with a reasonable expectation of market capture.

It is indeterminate how Tracy Hills at buildout and the cumulative projects will relate to the estimated industrial demand in Tracy at buildout, but their percentage share of demand will clearly be below the levels noted in 2035, as demand is only likely to continue to increase beyond the 2040 timeframe. Thus, for example, ALH Economics anticipates that the competitive industrial supply will capture less than 14% of countywide industrial demand at the point in time when Tracy Hills buildout occurs.

These figures suggest that for Tracy Hills to optimize its industrial space absorption it may necessitate that Tracy achieve an increasing share of countywide industrial demand, or that demand in general be greater. As noted above for office space, these are very reasonable expectations given Tracy's commitment to economic development. Moreover, Tracy has the potential to strengthen its regional role as an industrial market, as proven by recent expansions of Tracy's industrial base, such as the relatively new 1.2 million-square-foot the Amazon warehouse developed at ProLogis Park, and yet an additional 3.2 million square feet of industrial space developed in Tracy since completion of the aforementioned Gruen + Gruen Associates study in 2007 (see Exhibit 3).

These large, recent additions to Tracy's industrial base, as well as the current volume of projects engaged in the planning and approvals process, indicate that Tracy is leveraging its location as a gateway to the Central Valley as well as its opportune location close to the I-5 corridor and freeways that lead to the Bay Area and beyond.²³ Moreover, the volume of recent growth suggests that the demand projection based upon forecasted employment may be underrepresenting the potential for new industrial development in Tracy, as the volume of new industrial space in Tracy since 2007 appears to have exceeded the past projections prepared by Gruen + Gruen Associates. While the Gruen + Gruen report did not include a projection for the 2007 to 2014 time period, their projections for 2005 to 2012 totaled 2.3 million square feet, and then their projections for 2012 to 2017 totaled another 2.2 million square feet.²⁴ Clearly, with 4.4 million square feet developed between 2007 and 2014, Tracy is proving its ability to capture more demand than would be expected based upon carefully prepared industrial demand projections.

IMPLICATIONS FOR URBAN DECAY

The office and industrial findings suggest that development of office and industrial space at Tracy Hills will occur within an overall growth environment. Tracy will be one growth node within the larger context of growth occurring throughout San Joaquin County. As such, impacts on existing office and industrial space in Tracy are unlikely, as new nodes are created to meet specific needs of emerging and growing businesses. Based upon the long-range demand estimates and recognition of Tracy's economic development efforts, therefore, ALH Economics believes that the Tracy Hills office and industrial space will provide a sub-regional node of office space and employment generation, such

²³ See Mayor's comments at <http://sacramento.cbslocal.com/2013/03/27/tracy-attracting-new-businesses-we-go-to-their-offices-says-mayor/>

²⁴ Gruen + Gruen Associates, page 98.

that there is no basis to be concerned about the Project's office and industrial development contributing to a condition of urban decay among existing properties.

ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

ALH Urban & Regional Economics has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although ALH Urban & Regional Economics believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

APPENDIX A: EXHIBITS

Exhibit 1
Tracy Hills Specific Plan
Project Description
Key Land Use Designations Summary (1)

Timeframe (2)	Residential Units	Commercial/Industrial Square Feet		
		Retail	Office	Industrial
Incremental				
Phase I	1,179	93,900	189,300	161,800
2035	3,432	752,500	319,200	685,700
Buildout	2,067	122,800	305,000	3,511,600
Cumulative				
Phase I	1,179	93,900	189,300	161,800
2035	4,611	846,400	508,500	847,500
Buildout	5,499	875,300	624,200	4,197,300

Sources: Kimley-Horn, Tracy Hills TIA, Trip Generation, September 5, 2014; and ALH Urban & Regional Economics.

(1) School and other public uses not included, as these uses are not germane to the Tracy Hills urban decay analysis.

(2) Timeframes estimated by Kimley-Horn, the Tracy Hills Specific Plan environmental consultant. Buildout is anticipated at a future point in time beyond 2035.

Exhibit 2
Tracy Hills Specific Plan
Project On-Site Employees (1)
Key Land Use Designations Summary (2)

Timeframe (3)	Retail	Office	Industrial	Total
Incremental				
Phase I	188	568	162	918
2035	1,505	957	686	3,148
Buildout	246	915	3,511	4,672
Cumulative				
Phase I	188	568	162	918
2035	1,693	1,525	848	4,066
Buildout	1,751	1,872	4,197	7,820

Sources: Kimley-Horn, Tracy Hills TIA, Trip Generation, September 5, 2014; and ALH Urban & Regional Economics.

(1) Employee count provided by Kimley-Horn.

(2) School and other public uses not included. School employment not estimated by Kimley-Horn.

(3) Timeframes estimated by Kimley-Horn, the Tracy Hills Specific Plan environmental consultant. Buildout is anticipated at a future point in time beyond 2035.

**Exhibit 3
Existing Inventory by Land Use
Retail, Office, and Industrial (1)
City of Tracy
2104**

Land Use	Gross Sq. Ft.
Retail	
Baseline Inventory from Gruen Report (2)	2,488,200
Additional Retail Centers (3)	
Red Maple Village (Raley's)	135,000
WinCo Grocery Store	96,000
Walmart Supercenter Expansion	82,700
99 Cent Store/Auto Zone	65,000
Grant Line Station	70,000
Sub-total	448,700
Estimated Increment for Strip Retail (4)	330,000
Existing Retail Total	3,266,900
Office	
Baseline Inventory from Gruen Report (2)	191,200
Additional Office Buildings (5)	
Triad Professional Building B	40,000
Tracy Airport Business Center	41,000
Bldg B, Tracy Medical Professional Office	38,700
95 W 11th St	17,296
324-326 E 11th	15,340
35 E 10th St	10,439
Sub-total	162,775
Existing Office Total	285,550
Industrial	
Baseline Inventory from Gruen Report (2)	11,957,000
Adjustment for Patterson Pass Business Park (5)	(4,300,000)
Additional Industrial Buildings (6)	
Northeast Industrial Area	
ProLogis Park (Amazon)	1,200,000
Crate and Barrel	1,227,000
Home Depot (warehouse)	750,000
Paradise and Grant Line Road (NW Corner)	400,000
Chabot Court	670,000
Larch Road Industrial Park	200,000
Sub-total	4,447,000
Existing Industrial Total	12,104,000

Sources: Gruen Gruen + Associates, "Forecast of Demand for Retail, Office, and Industrial Space in the City of Tracy and Strategic Policy Action Recommendations," November 2007; City of Tracy, Economic Development Department; CBRE, "City of Tracy Office Leasing Activity Report 8/21/2013 to 08/21/2014" and "City of Tracy Industrial/Flex Leasing Activity Report 8/21/2013 to 08/21/2014"; San Francisco Business Times, "Land prices begin to rise in Tracy," dated November 19, 2006; LoopNet; City of Tracy Planning Department and Economic Development Staff; and ALH Urban & Regional Economics.

- (1) Projects are listed by type and then in descending order of square footage.
- (2) Figures from the Gruen Gruen + Associates report, i.e., pages 27 and 29 for retail, page 78 for office, and page 89 for industrial.
- (3) Information about retail projects developed since preparation of the Gruen + Gruen Associates report was provided by the City of Tracy, Economic Development Department.
- (4) Generalized estimate of 10% the total base prepared by ALH Urban & Regional Economics, based upon field observations and discussions with City of Tracy staff. Figured rounded to the nearest 10,000.
- (5) Business Park included in the Gruen Report inventory but located in the County, not within the City boundaries.
- (6) Information from local broker reports and news articles including CBRE, LoopNet, and the San Francisco Business Times.

**Exhibit 4
General Plan Land Use Designations
City of Tracy and Sphere of Influence (SOI)
Land Use by Acres**

Land Use	General Plan Information			Modified Pursuant to Annexations (1)		
	City Limits	SOI	Total	City Limits	SOI	Total
Residential Very Low	193	266	459	193	266	459
Residential Low	3,583	296	3,879	3,583	296	3,879
Residential Medium	1,503	29	1,532	1,503	29	1,532
Residential High	217	31	248	217	31	248
TR - Ellis	0	287	287	285	0	285
Commercial	766	498	1,264	894	370	1,264
Office	544	0	544	696	0	696
Downtown	116	0	116	116	0	116
Village Center	123	8	131	129	2	131
Industrial	2,282	1,733	4,015	3,759	104	3,863
Urban Reserve	172	3,872	4,044	172	3,872	4,044
Public Facilities	990	66	1,056	990	66	1,056
Park	251	516	767	347	420	767
Open Space	81	3,469	3,550	81	3,469	3,550
Aggregate	10	163	173	10	163	173
Agriculture	0	916	916	0	916	916
	10,831	12,150	22,981 (2)	12,974	10,005	22,979 (2)

Sources: City of Tracy, "General Plan 2011," page 2-14, and modifications pursuant to annexation of Cordes Ranch, TR Ellis, and Filios/Dobler; and ALH Urban & Regional Economics.

(1) Reflects Modifications pursuant to annexations subsequent to preparation of General Plan 2011. These modifications are as follows:

(a) The 42-acre Filios/Dobler property comprised 42 acres of Commercial in the SOI. Pursuant to annexation, these 42 acres are redistributed as 42 acres of Commercial in the City of Tracy. However, as is allowed, 20 acres of this property was approved in October 2014 for multifamily housing in the City of Tracy.

(b) The 321-acre TR-Ellis property was shifted from the SOI to the City of Tracy. This includes 284.7 acres shifted from TR-Ellis in the SOI to the City of Tracy, which was adjusted downward from the General Plan assumption of 287 acres. This property is designated as residential at a density of 4-9 dwelling units per acre. There are an additional 30.6 acres of Commercial and 5.7 acres of Village Center shifted from the SOI to the City of Tracy.

(c) The 1,780-acre Cordes Ranch property was reflected in the original General Plan designations as 55 acres of Commercial, 1,629 acres of Industrial, and 96 acres of Park, all in the SOI. Upon annexation, the Commercial and Park lands were reallocated to the City of Tracy, and the 1,629 acres of industrial land was reallocated to 152 acres of Office and 1,477 acres of Industrial in the City of Tracy.

(2) See footnote 1 (b) for an explanation why the total acreage upon modification pursuant to annexations is slightly lower than cited in the General Plan. This reflects a portion of the TR-Ellis property.

Exhibit 5
Buildout Capacity for Commercial and Industrial Land Uses (1)
City of Tracy and Sphere of Influence

	City of Tracy			Sphere of Influence			Total	
	Land Area (Acres) (2)	FAR (3)	Square Feet Building Space (3)	Land Area (Acres) (2)	FAR (3)	Square Feet Building Space (3)	Land Area (Acres)	Square Feet Building Space (3)
Commercial (Retail) (4)	874	(5) 0.25 - 0.35	9,513,504 - 13,318,906	370	0.25 - 0.35	4,033,656 - 5,647,118	1,244	13,547,160 - 18,966,024
Office	696	0.35	10,611,216	0	0.35	0	696	10,611,216
Industrial	3,759	0.45	73,683,918	104	0.45	2,038,608	3,863	75,722,526

Sources: Gruen Gruen + Associates, "Forecast of Demand for Retail, Office, and Industrial Space in the City of Tracy and Strategic Policy Action Recommendations," November 2007; and ALH Urban & Regional Economics.

(1) The figures in this exhibit comprise maximum buildout capacity in Tracy and its Sphere of Influence based upon the General Plan land use designations modified pursuant to annexations in Exhibit 4. The figures presented reflect total capacity, and do not take into account the volume of existing development.

(2) See Exhibit 4.

(3) The FARs are comparable to FAR assumptions in the Gruen report, which are 0.25 - 0.35 for retail (see page 56), 0.35 for office (see page 80), and 0.45 for industrial (see page 94).

(4) The Commercial land designated in the City's General Plan is assumed to comprise commercial retail space.

(5) Excludes the 20 acres of the annexed Filios/Dobler property approved in October 2014 for multifamily housing development, and thus not available for commercial development.

Exhibit 6
Tracy Hills Specific Plan
Retail Demand Generated by All Housing Units (1)
In 2014 Dollars

Type of Retailer	Retail Demand			Supportable Sq. Ft.	
	Per Household Demand (2)	Total Demand (3)	Sales Per Sq. Ft. (4)	Amount (5)	Vacancy Adjusted (6)
Food and Beverage Stores	\$5,446	\$29,948,219	\$579	51,699	54,420
Food Services and Drinking Places	\$3,935	\$21,639,400	\$495	43,698	45,998
Home Furnishings and Appliance Stores	\$1,645	\$9,046,849	\$299	30,246	31,838
Building Materials and Garden Equip (7)	\$1,829	\$10,057,090	\$294	34,200	36,000
Clothing and Clothing Accessories Stores	\$2,157	\$11,860,247	\$376	31,517	33,175
General Merchandise Stores	\$4,811	\$26,458,402	\$283	93,579	98,505
Other Retail Group (8)	\$3,457	\$19,012,497	\$431	44,151	46,475
Motor Vehicles and Parts Dealers	\$4,102	\$22,559,603	\$800	28,200	29,684
Gasoline Stations	\$3,866	\$21,261,444	N/A	N/A	N/A
Subtotal	\$31,250	\$171,843,750		357,290	376,095
Additional Service Increment (15% of total) (9)		N/A	N/A	79,886	84,090
Total (10)		N/A	N/A	437,176	460,000
<u>Demand by Phase (10) (11)</u>					
Phase I Demand					100,000
Demand by 2035					390,000
Demand by Buildout					460,000

Sources: Nielson Reports, Inc.; and ALH Urban & Regional Economics.

(1) Includes 5,499 housing units. See Exhibit 1.

(2) The per household spending estimates for Tracy Hills households were generated by ALH Urban & Regional Economics by assuming estimated average 2014 household incomes of \$125,000 based on generalized estimates of housing costs and multiplying by 25%, utilizing the assumption that 25% of household income is spent on BOE type retail. This figure was then multiplied by the percentages calculated from the ratio of the BOE sales for the State of California. See Exhibits B-1 and B-2.

(3) Represents per household spending multiplied by the Project household count from Exhibit 1.

(4) These figures reflect achievable sales per square foot estimates for each respective retail category except as noted. The figures reflect general industry averages as well as national averages reported in the Retail MAXIM publication "Alternative Retail Risk Analysis for Alternative Capital." See Exhibit B-3.

(5) Reflects the total estimated project-generated spending on retail divided by the achievable sales per square foot estimate.

(6) Includes a 5% vacancy allowance for all categories of retail space.

(7) Building Materials and Garden Equipment includes hardware stores, plumbing and electrical supplies, paint and wallpaper products, glass stores, lawn and garden equipment, and lumber.

(8) Other Retail Group includes drug stores, electronics, health and personal care, pet supplies, gifts, art goods and novelties, sporting goods, florists, electronics, musical instruments, stationary and books, office and school supplies, second-hand merchandise, and miscellaneous other retail stores.

(9) Includes an allocation of 15% of space to accommodate service retail, such as banks, personal, and business services.

(10) Vacancy adjusted figures rounded to nearest 10,000.

(11) See Exhibit 1 for timeframe of housing unit development.

Exhibit 7
Tracy Hills Specific Plan
Average Annual Estimated Daytime Retail Spending
Office Workers in Suburban Locations
In 2014 Dollars (1)

Category of Spending (2)	Weekly Spending		Annual Spending	
	Suburban Locations	Suburban Ample Locations (3)	Suburban Locations	Suburban Ample Locations (3)
Full-Service Restaurants and Fast Food	\$30.64	\$53.58	\$1,593.24	\$2,786.00
Goods and Services				
Groceries	\$22.91	\$40.06	\$1,191.35	\$2,083.23
All Other (4)	\$102.00	\$178.37	\$5,304.19	\$9,275.09
Total	\$155.55	\$272.01	\$8,088.78	\$14,144.33

Sources: "Office-Worker Retail Spending in a Digital Age," International Council of Shopping Centers; United States Bureau of Labor Statistics, CPI for Urban West; and ALH Urban & Regional Economics.

(1) The data were reported for 2011. ALH Urban & Regional Economics inflated the figures to 2014 by using the Urban West CPI Index, with adjustments from June 2011 to June 2014, resulting in a 1.06% (rounded) adjustment.

(2) Excludes spending on transportation and online purchases.

(3) Reflects an increase in spending by office workers in location with more ample retail, restaurant, and services offerings in the vicinity of the office building. This adjustment is based upon analysis reflected in the cited International Council of Shopping Centers source document. In suburban locations the increment was approximately 75% more.

(4) All other includes a range of retail purchases, such as personal care shops, office supplies, department stores, drug stores, electronics, jewelry stores, entertainment, clothing, and other goods.

Exhibit 8
Tracy Hills Specific Plan
Retail Demand Generated by On-Site Employees
In 2014 Dollars

	Type of Tracy Hills Employee		
	Office	Retail	Industrial
Average Wage (1)			
Annual Average Wage	\$45,000	\$24,000 (2)	\$50,000
Wage Benchmarked to Office Wage (3)	100%	53%	111%
Average Annual Spending (4)			
Restaurants/Fast Food	\$1,600	\$900	\$1,800
Groceries	\$1,200	\$600	\$1,300
All Other	\$5,300	\$2,800	\$5,900
Total Spending	\$8,100	\$4,300	\$9,000

Sources: United States Census Bureau, County Business Patterns, San Joaquin County 2012; and ALH Urban & Regional Economics.

(1) See Exhibit B-4. Figures rounded to the nearest \$1,000.

(2) Comprises a generalized average for retail workers and lodging workers.

(3) Wages are benchmarked relative to office wages, since workers are assumed to make retail purchases in a pattern similar to office workers, but in proportion to their wages relative to office worker wages.

(4) See Exhibit 7. Figures rounded to the nearest \$100.

Exhibit 9
Tracy Hills Specific Plan
On-Site Employment Retail Demand Generation
Cumulative Demand
In 2014 Dollars

Development Timing	Retail Demand (1)				Sales Per Sq. Ft. (2)	Supportable Sq. Ft.	
	Office	Retail	Industrial	Total Demand		Amount (3)	Vacancy Adjusted (4)
Phase I							
Restaurants	\$908,800	\$169,200	\$291,600	\$1,369,600	\$495	2,800	2,900
Grocery	\$681,600	\$112,800	\$210,600	\$1,005,000	\$579	1,700	1,800
Other	\$3,010,400	\$526,400	\$955,800	\$4,492,600	\$300 (5)	15,000	15,800
Sub-total						19,500	20,500
2035							
Restaurants	\$2,440,000	\$1,523,700	\$1,526,400	\$5,490,100	\$495	11,100	11,700
Grocery	\$1,830,000	\$1,015,800	\$1,102,400	\$3,948,200	\$579	6,800	7,200
Other	\$8,082,500	\$4,740,400	\$5,003,200	\$17,826,100	\$300 (5)	59,400	62,500
Sub-total						77,300	81,400
Buildout							
Restaurants	\$2,995,200	\$1,575,900	\$7,554,600	\$12,125,700	\$495	24,500	25,800
Grocery	\$2,246,400	\$1,050,600	\$5,456,100	\$8,753,100	\$579	15,100	15,900
Other	\$9,921,600	\$4,902,800	\$24,762,300	\$39,586,700	\$300 (5)	132,000	138,900
Sub-total						171,600	180,600

Source: ALH Urban & Regional Economics.

(1) Comprises demand by type of worker multiplied by the cumulative workers by phase, see Exhibits 2 and 8.

(2) These figures reflect achievable sales per square foot estimates for each respective retail category except as noted. The figures reflect general industry averages as well as national averages reported in the Retail MAXIM publication "Alternative Retail Risk Analysis for Alternative Capital." See Exhibit B-3.

(3) Reflects the total estimated project-generated spending on retail divided by the achievable sales per square foot estimate. Figures rounded to nearest 100.

(4) Includes a 5% vacancy allowance for all categories of retail space. Figures rounded to the nearest 100.

(5) Reflects a generated average sales per square foot assumption reflecting a range of prospective retailers.

Exhibit 10
Hotels and Highway-Serving Retail
City of Tracy

Intersection Hotel	Number of Rooms	Meeting Space Sq. Ft.	Total Estimated Sq. Ft.
<u>I-205 and Tracy Boulevard</u>			
Motel 6 Tracy #278	111	None	37,580
Holiday Inn Express	102	2,025	71,280
Microtel Inn & Suites	67	300	33,825
Quality Inn	59	2,584	29,313
Nearby retail includes: Chevron, Shell, Wendy's, In-N-Out, Starbucks, Denny's, Nation's, McDonald's, Stars Casino, Arco AM/PM, Cellular City, Papa Urb's Grill.			
<u>I-205 and Naglee Road</u>			
Fairfield Inn	64	250	32,364
Hampton Inn	62	None	27,189
Extended Stay America	101	None	46,341
Nearby retail includes: Buffalo Wild Wings, AT&T, The Squeeze Inn, Sprint, See's Candies, Massage Envy, Texas Roadhouse, Strings Italian, Starbucks, Tracy Toyota.			
Average	81	1,290	39,699

Sources: Hotel staff; GoogleMaps and GoogleEarth; and ALH Urban & Regional Economics.

Exhibit 11
Tracy Hills Specific Plan
Components of Prospective Retail Demand
Phase I, 2035, and Buildout

Components of Retail Space	Square Feet		
	Phase I	2035	Buildout
Planned Square Footage (1)	93,900	846,400	875,300
Components of Space			
Tracy Hills Residents (50% capture of demand) (2)	50,000	195,000	230,000
Tracy Hills Employees (3)	20,500	81,400	180,600
Estimated Hotel Allocation (4)	0	80,000	80,000
Estimated Highway-Serving Gas Stations & Retail (5)	0	24,000	24,000
Sub-total	70,500	380,400	514,600
Balance of Other Demand (6)	23,400	466,000	360,700

Sources: fixr.com/costs/build-hotel; Loopnet.com; and ALH Urban & Regional Economics.

(1) See Exhibit 1.

(2) ALH Economics assumes no more than 50% of resident demand will be captured by retail space located at Tracy Hills. The balance of resident demand will support retail elsewhere in Tracy and the general region. See Exhibit 6 for resident demand estimates.

(3) See Exhibit 9.

(4) ALH Economics assumes two hotels will be developed to meet highway commercial demand. This is consistent with other highway interchanges in Tracy as well as throughout the general region. Based on area averages and averages for budget and economy hotels, the hotels are generally assumed to comprise approximately 100 rooms on average, with an industry standard for budget and economy hotels of 400 square feet per room.

(5) Assumes two gas stations, with a conservative estimate of 2,000 square feet each, based upon examination of gas station listings in San Joaquin and Alameda counties in Loopnet.com. Also assumes an additional 20,000 square feet of highway-serving commercial space, such as restaurants.

(6) Comprises "Planned Square Footage" less the sub-total of "Components of Space." Numerous other sources of demand could absorb prospective Tracy Hills retail space. These include space allocated to other highway serving commercial uses to complement the hotels, retail supported by other new Tracy area employees, such as the industrial employment base at the planned Cordes Ranch, and generalized demand from other Tracy and regional residents.

Exhibit 12
Household and Population Estimates and Projections
City of Tracy and San Joaquin County (1)
2010 - 2035

Demographic Characteristic	2010	2012	2013	2014	2015	2016	2017	2018	2019	2025	2035	2040	Compound Annual Average Growth Rate		
													2012-2017	2015-2025	2017 - 2025
Households															
City of Tracy (1)	24,331	24,579	24,665	24,751	24,837	24,924	25,011	25,887	26,795	32,945	38,945	41,945	0.35%	2.87%	3.50%
San Joaquin County (2)	215,007	216,161	216,998	217,956	222,603	232,685	243,224	254,241	265,756	277,793	340,696	372,201	--	--	--
Population															
City of Tracy (1)	82,922	83,103	83,560	84,020	84,483	84,948	85,415	88,058	90,784	109,000	128,851	138,777	0.55%	--	3.09%
San Joaquin County (2)	686,588	693,013	701,745	710,731	725,884	758,762	793,128	829,051	866,601	905,852	1,110,972	1,213,708	--	4.53%	--

Sources: City of Tracy, "Demographic Overview - July 2013" and "General Plan 2011," page 2-9; California Department of Finance Demographic Research Unit, "Report P-1 (County) State and County Population Projections July 1, 2010-2060 (5-year increments)" and "Report E-5 Population and Housing Estimates for Cities, Counties, and the State, January 1, 2011-2014, with 2010 Benchmark"; and ALH Urban & Regional Economics.

(1) Figures in bold comprise raw data from the cited sources. For the City of Tracy, demographic Census data for 2010 and 2012 are provided by the City of Tracy Demographic Overview. Demographic projections for 2017 provided by the City of Tracy Demographic Overview and for 2025 by the 2011 General Plan. Household projections for 2035 and 2040 estimated by ALH Urban & Regional Economic based on the Growth Management Ordinance average allotted market rate housing units per year of 600. Population projections for 2035 and 2040 estimated by ALH Urban & Regional Economics by multiplying the projected number of households by the number of persons per household projected for 2025 of 3.31. Estimates and projections for in-between years were prepared by ALH Urban & Regional Economics based on the incremental growth rates between the given years.

(2) For San Joaquin County, data for 2010-2014 are provided by DOF Reports P-1 and E-5. Population projections for 2015, 2025, 2035, and 2040 are provided by DOF Report P-1. Household projections for 2015-2040 are calculated based on the average persons per household figure based on DOF data for 2014 of 3.26. The 3.26 average persons per household figure was calculated by dividing the total population by the number of households. To calculate the projected households the population projections from 2015-2040 were divided by 3.26 average persons per household.

Exhibit 13
City of Tracy BOE Taxable Sales Estimate
in Current Dollars
Second Quarter 2012 Through First Quarter 2013
(in \$000s)

Type of Retailer	BOE Taxable Sales Estimate in \$000s (1)				Total Taxable Sales City of Tracy [E = A + B + C +D]	City of Tracy Taxable Sales Adjusted to Total Retail
	Q2 2012 [A]	Q3 2012 [B]	Q4 2012 [C]	Q1 2013 [D]		
Motor Vehicle & Parts Dealers	\$54,156	\$57,299	\$55,004	\$61,230	\$227,689	\$227,689
Home Furnishings & Appliances	\$27,092	\$30,724	\$32,066	\$26,135	\$116,017	\$116,017
Building Materials & Garden Equipment	\$14,913	\$14,427	\$17,820	\$16,751	\$63,911	\$63,911
Food & Beverage Stores	\$17,874	\$13,290	\$14,522	\$12,401	\$58,087	\$193,623 (2)
Gasoline Stations	\$48,773	\$47,320	\$45,754	\$46,442	\$188,289	\$188,289
Clothing & Clothing Accessories	\$10,690	\$10,617	\$13,290	\$9,198	\$43,795	\$43,795
General Merchandise Stores	\$42,268	\$42,639	\$57,188	\$41,465	\$183,560	\$244,747 (3)
Food Services & Drinking Places	\$26,894	\$26,666	\$26,998	\$27,331	\$107,889	\$107,889
Other Retail Group	\$14,796	\$17,355	\$19,157	\$17,486	\$68,794	\$86,704 (4)
Total (5)	\$257,456	\$260,337	\$281,799	\$258,439	\$1,058,031	\$1,272,664

Sources: California State Board of Equalization (BOE), "Taxable Sales in California (Sales & Use Tax)" reports, for Second Quarter 2012, Third Quarter 2012, Fourth Quarter 2012, and First Quarter 2013; U.S. Economic Census, "Retail Trade: Subject Series - Product Lines: Product Lines Statistics by Kind of Business for the United States and States: 2007"; and ALH Urban & Regional Economics.

(1) Taxable sales are pursuant to reporting by the State of California Board of Equalization (BOE).

(2) Sales for Food and Beverage Stores have been adjusted to account for non-taxable sales; only 30.0% of all food store sales are estimated to be taxable.

(3) Sales for General Merchandise Stores have been adjusted to account for non-taxable food sales, since some General Merchandise Store sales include non-taxable food items. ALH Urban & Regional Economics estimates that at least 25% of General Merchandise sales are for grocery items that are also non-taxable. This estimate is based on analysis of the 2007 U.S. Economic Census, which attributes 26% of General Merchandise Stores sales to food.

(4) Sales for Other Retail Group have been adjusted to account for non-taxable drug store sales, since drug store sales are included in the Other Retail Group category. ALH Urban & Regional Economics estimates that 33.0% of drug store sales are taxable, based on discussions with the California BOE and examination of U.S. Census data. In San Joaquin County, drug store sales in Q2 2012, Q3 2012, Q4 2012, and Q1 2013 represented approximately 12.8% of all Other Retail Group sales. ALH Urban & Regional Economics applied that percentage and then adjusted upward for non-taxable sales.

(5) Totals may not add up due to rounding.

Exhibit 14
Adjusted City of Tracy Retail Sales Base
2014 Estimate

Type of Retailer	Sales Base			Sales per Household 2014 (4)
	2012/2013 (1) (2)	Increase to Q2 2014 (3)	Approx. 2014 Estimate	
	[A]	[B]	[C = A x (1+ B)]	[D = C / # of HH]
Food & Beverage Stores	\$193,623,333	(7.6%)	\$178,952,799	\$7,230
Food Services & Drinking Places	\$107,889,000	10.4%	\$119,130,581	\$4,813
Home Furnishings & Appliance Stores	\$116,017,000	19.7%	\$138,919,228	\$5,613
Building Materials & Garden Equipment	\$63,911,000	7.6%	\$68,740,640	\$2,777
Clothing & Clothing Accessories Stores	\$43,795,000	(11.0%)	\$38,974,361	\$1,575
General Merchandise Stores	\$244,746,667	2.5%	\$250,840,979	\$10,135
Other Retail Group	\$86,703,733	8.3%	\$93,928,389	\$3,795
Motor Vehicles & Parts Dealers	\$227,689,000	16.0%	\$264,147,963	\$10,672
Gasoline Stations	\$188,289,000	2.8%	\$193,496,815	\$7,818
Total	\$1,272,663,733	5.5%	\$1,347,131,755	\$54,428

Sources: City of Tracy Quarterly Sales Tax Data 2Q 2012 - 2Q 2014; ALH Urban & Regional Economics.

(1) See Exhibit 13.

(2) Reflects sales for 2nd Quarter 2012 through 1st Quarter 2013

(3) The sales base is adjusted pursuant to analysis of recent retail sales trends for the City of Tracy (i.e., through second quarter 2014 or for five quarters). This is the most recent sales performance data available through the City's tax consultant.

(4) The City of Tracy had an estimated 24,751 households in early 2014. See Exhibit 12.

Exhibit 15
Retail Demand, Sales Attraction, and Spending Analysis (1)
City of Tracy
2014

Type of Retailer	Per Household		City of Tracy Household Spending (2)	City of Tracy Sales (3)	Retail Sales Attraction/(Leakage)	
	Spending (2)	Sales (3) (4)			Amount	Percent
Food and Beverage Stores	\$3,705	\$7,230	\$91,696,815	\$178,952,799	\$87,255,984	48.8%
Food Services and Drinking Places	\$2,677	\$4,813	\$66,256,495	\$119,130,581	\$52,874,086	44.4%
Home Furnishings and Appliance Stores	\$1,119	\$5,613	\$27,700,052	\$138,919,228	\$111,219,175	80.1%
Building Materials and Garden Equip (5)	\$1,244	\$2,777	\$30,793,254	\$68,740,640	\$37,947,385	55.2%
Clothing and Clothing Accessories Stores	\$1,467	\$1,575	\$36,314,243	\$38,974,361	\$2,660,118	6.8%
General Merchandise Stores	\$3,273	\$10,135	\$81,011,533	\$250,840,979	\$169,829,446	67.7%
Other Retail Group (6)	\$2,352	\$3,795	\$58,213,324	\$93,928,389	\$35,715,066	38.0%
Motor Vehicles and Parts Dealers	\$2,791	\$10,672	\$69,074,014	\$264,147,963	\$195,073,948	73.9%
Gasoline Stations	\$2,630	\$7,818	\$65,099,252	\$193,496,815	\$128,397,563	66.4%
Total	\$21,258	\$54,428	\$526,158,984	\$1,347,131,755	\$820,972,771	60.9%

Source: ALH Urban & Regional Economics.

(1) All figures are expressed in 2014 dollars.

(2) The per household spending estimates for the City of Tracy were generated by ALH Urban & Regional Economics by taking the estimated average 2014 area household income figure of \$85,033 for 2014 from Nielson Reports and multiplying by 25%, utilizing the assumption that 25% of household income is spent on BOE type retail. This figure was then multiplied by the percentages calculated from the ratio of the BOE sales for the State of California. See Exhibit B-2.

(3) See Exhibit 14.

(4) Represents per household spending multiplied by the respective household count of 24,751.

(5) Building Materials and Garden Equipment includes hardware stores, plumbing and electrical supplies, paint and wallpaper products, glass stores, lawn and garden equipment, and lumber.

(6) Other Retail Group includes drug stores, health and personal care, pet supplies, gifts, art goods and novelties, sporting goods, florists, musical instruments, stationary and books, office and school supplies, second-hand merchandise, and miscellaneous other retail stores.

Exhibit 16
Existing Households Supportable Square Feet
City of Tracy
In 2014 Dollars

Retail Category	City of Tracy Total		Supportable Sq. Ft.	
	Household Spending (1)	Sales Per Sq. Ft. (2)	Amount (3)	Vacancy Adjusted (4)
Food and Beverage Stores	\$91,696,815	\$579	158,293	166,624
Food Services and Drinking Places	\$66,256,495	\$495	133,796	140,837
Home Furnishings and Appliances	\$27,700,052	\$299	92,610	97,484
Building Materials and Garden Equip.	\$30,793,254	\$294	104,716	110,227
Clothing and Clothing Accessories	\$36,314,243	\$376	96,499	101,578
General Merchandise Stores	\$81,011,533	\$283	286,526	301,606
Other Retail Group	\$58,213,324	\$431	135,185	142,300
Motor Vehicles and Parts	\$69,074,014	\$800 (5)	86,343	90,887
Gasoline Stations	\$65,099,252	N/A (6)	N/A (6)	N/A (6)
Subtotal	\$526,158,984	--	1,093,966	1,151,543
Additional Service Increment (15% of total) (7)	N/A	N/A	244,598	257,471
Total	N/A	N/A	1,338,564 (8)	1,409,015
Total Rounded to Nearest 10,000			1,340,000	1,410,000 (9)

Source: ALH Urban & Regional Economics.

(1) Estimated spending based on the findings in Exhibit 15.

(2) These figures reflect achievable sales per square foot estimates for each respective retail category except as noted. The figures reflect general industry averages as well as national averages reported in the Retail MAXIM publication "Alternative Retail Risk Analysis for Alternative Capital." See Exhibit B-3.

(3) Reflects the total estimated project-generated spending on retail divided by the achievable sales per square foot estimate.

(4) Includes a 5% vacancy allowance for all categories of retail space.

(5) The cited source for sales per square foot, Retail Maxim (see Exhibit B-3), does not include sales figures for auto dealers. Sales figures for auto parts stores are included, and average \$226 per square foot. However, auto dealer sales greatly outweigh these sales in the overall category. Such sales are typically very high, especially relative to the amount of building area required to support their sales. For analytical purposes ALH Urban & Regional Economics assumes such sales are high, and overall average \$800 for the category.

(6) Gasoline sales are highly volatile, and gasoline stations do not typically require large increments of built space. Therefore, estimates for gasoline stations are excluded from this analysis.

(7) Includes an allocation of 15% of space to accommodate service retail, such as banks, personal, and business services.

(8) Excludes Gasoline Stations.

(9) This figure is equivalent to 43% of the existing retail base, per the retail base estimate in Exhibit 3.

Exhibit 17
Incremental Retail Demand Generated by Household Growth in the City of Tracy
Excludes Tracy Hills Households
2014-2035 and 2035-2040
In 2014 Dollars

Type of Retailer	Per Household Demand (1)	Incremental Demand (2)	
		New Growth 2014-2035	New Growth 2035-2040
Food and Beverage Stores	\$3,705	\$35,503,359	\$3,456,567
Food Services and Drinking Places	\$2,677	\$25,653,324	\$2,497,579
Home Furnishings and Appliance Stores	\$1,119	\$10,724,963	\$1,044,170
Building Materials and Garden Equip	\$1,244	\$11,922,595	\$1,160,770
Clothing and Clothing Accessories Stores	\$1,467	\$14,060,222	\$1,368,887
General Merchandise Stores	\$3,273	\$31,366,210	\$3,053,779
Other Retail Group	\$2,352	\$22,539,153	\$2,194,386
Motor Vehicles and Parts Dealers	\$2,791	\$26,744,217	\$2,603,787
Gasoline Stations	\$2,630	\$25,205,261	\$2,453,956
Total	\$21,258	\$203,719,304	\$19,833,880

Source: ALH Urban & Regional Economics.

(1) See Exhibit 15 and Exhibit 1 for Tracy Hills household count.

(2) Represents per household spending multiplied by the respective increase in households, excluding the Tracy Hills households, which is 9,583 between 2014 and 2035, and 933 between 2035 and 2040. See Exhibit 12 for household projections.

Exhibit 18
Cumulative Existing and Future Retail Demand by Category
City of Tracy
2014, 2035, and 2040
In 2014 Dollars

Type of Retailer	Existing Demand	Future Demand (2)	
	2014 (1)	2035	2040
Food and Beverage Stores	\$91,696,815	\$127,200,174	\$130,656,741
Food Services and Drinking Places	\$66,256,495	\$91,909,820	\$94,407,398
Home Furnishings and Appliance Stores	\$27,700,052	\$38,425,015	\$39,469,185
Building Materials and Garden Equip (5)	\$30,793,254	\$42,715,849	\$43,876,619
Clothing and Clothing Accessories Stores	\$36,314,243	\$50,374,466	\$51,743,353
General Merchandise Stores	\$81,011,533	\$112,377,743	\$115,431,522
Other Retail Group (6)	\$58,213,324	\$80,752,477	\$82,946,863
Motor Vehicles and Parts Dealers	\$69,074,014	\$95,818,232	\$98,422,018
Gasoline Stations	\$65,099,252	\$90,304,513	\$92,758,469
Total	\$526,158,984	\$729,878,288	\$749,712,168

Source: ALH Urban & Regional Economics.

(1) See Exhibit 15.

(2) Includes existing demand and future demand for households excluding Tracy Hills, per incremental figures presented in Exhibit 17.

Exhibit 19
City of Tracy
Household-Supported Retail Space for 2035 Household Base, Excluding Tracy Hills Households
2035
In 2014 Dollars

Retail Category	City of Tracy Household Retail Demand (1)	Sales Per Sq. Ft. (2)	Supportable Sq. Ft.	
			Amount (3)	Vacancy Adjusted (4)
Food and Beverage Stores	\$127,200,174	\$579	219,581	231,138
Food Services and Drinking Places	\$91,909,820	\$495	185,599	195,367
Home Furnishings and Appliances	\$38,425,015	\$299	128,467	135,228
Building Materials and Garden Equip.	\$42,715,849	\$294	145,260	152,905
Clothing and Clothing Accessories	\$50,374,466	\$376	133,862	140,907
General Merchandise Stores	\$112,377,743	\$283	397,464	418,383
Other Retail Group	\$80,752,477	\$431	187,526	197,396
Motor Vehicles and Parts	\$95,818,232	\$800	119,773	126,077
Gasoline Stations	\$90,304,513	NA (5)	NA (5)	NA (5)
Subtotal	\$729,878,288	--	1,517,530	1,597,400
Additional Service Increment (15% of total) (6)	NA	NA	339,302	357,160
Total	NA	NA	1,856,832	1,954,560
Total Rounded to Nearest 10,000			1,860,000	1,950,000

Source: ALH Urban & Regional Economics.

(1) See Exhibit 18.

(2) See Exhibit 16.

(3) Reflects the total estimated project-generated spending on retail divided by the achievable sales per square foot estimate.

(4) Includes a 5% vacancy allowance for all categories of retail space.

(5) Gasoline sales are highly volatile, and gasoline stations do not typically require large increments of built space.

Therefore, estimates for gasoline stations are excluded from this analysis.

(6) Includes an allocation of 15% of space to accommodate service retail, such as banks, personal, and business services.

Exhibit 20
City of Tracy
Household-Supported Retail Space for 2040 Household Base, Excluding Tracy Hills Households
2040
In 2014 Dollars

Retail Category	City of Tracy Household Retail Demand (1)	Sales Per Sq. Ft. (2)	Supportable Sq. Ft.	
			Amount (3)	Vacancy Adjusted (4)
Food and Beverage Stores	\$130,656,741	\$579	225,548	237,419
Food Services and Drinking Places	\$94,407,398	\$495	190,642	200,676
Home Furnishings and Appliances	\$39,469,185	\$299	131,958	138,903
Building Materials and Garden Equip.	\$43,876,619	\$294	149,207	157,060
Clothing and Clothing Accessories	\$51,743,353	\$376	137,499	144,736
General Merchandise Stores	\$115,431,522	\$283	408,264	429,752
Other Retail Group	\$82,946,863	\$431	192,622	202,760
Motor Vehicles and Parts	\$98,422,018	\$800	123,028	129,503
Gasoline Stations	\$92,758,469	NA (5)	NA (5)	NA (5)
Subtotal	\$749,712,168	--	1,558,768	1,640,809
Additional Service Increment (15% of total) (6)	NA	NA	348,522	366,865
Total	NA	NA	1,907,290	2,007,674
Total Rounded to Nearest 10,000			1,910,000	2,010,000

Source: ALH Urban & Regional Economics.

(1) See Exhibit 18.

(2) See Exhibit 16.

(3) Reflects the total estimated project-generated spending on retail divided by the achievable sales per square foot estimate.

(4) Includes a 5% vacancy allowance for all categories of retail space.

(5) Gasoline sales are highly volatile, and gasoline stations do not typically require large increments of built space. Therefore, estimates for gasoline stations are excluded from this analysis.

(6) Includes an allocation of 15% of space to accommodate service retail, such as banks, personal, and business services.

Exhibit 21
City of Tracy (1)
Household-Supported Retail Space
2035 and 2040

Demand Base	2035	2040/ Buildout (2)
Tracy Hills (3)	390,000	460,000
Balance of Tracy	1,950,000 (4)	2,010,000 (5)
Total	2,340,000	2,470,000

Source: ALH Urban & Regional Economics.

(1) Includes City of Tracy and Tracy Hills households.

(2) Tracy Hills Buildout is at an unspecified future date. For analytical purposes, however, this is being compared to a 2040 time period for the City of Tracy.

(3) See Exhibit 6. Figures rounded to the nearest 10,000.

(4) See Exhibit 19.

(5) See Exhibit 20.

Exhibit 22
City of Tracy
Supportable Retail Square Feet from a Regional Perspective (1)
2035
All Figures Rounded to Nearest 10,000

Population Served	Supportable Sq. Ft.	Implied Percent Regional Demand (2)	Existing Inventory (3)	Increment in Supportable New Sq. Ft. (4)
Serving Tracy Households in 2035 (5)	2,340,000	0%	N/A	N/A
Serving Region Given Percent Serving Tracy Households (6)				
Tracy Households at 40% of Demand (7)	5,850,000	60%	3,300,000	2,550,000
Tracy Households at 45% of Demand (7)	5,200,000	55%	3,300,000	1,900,000
Tracy Households at 50% of Demand (7)	4,680,000	50%	3,300,000	1,380,000
Tracy Households at 55% of Demand (7)	4,250,000	45%	3,300,000	950,000

Source: ALH Urban & Regional Economics.

(1) Comprises supportable retail space estimates in Tracy based upon Tracy's residential buildout in 2035, and then supportable square feet based upon Tracy-originated demand comprising different ranges of support for Tracy retail space.

(2) Reflects the percentage of retail space that would be supported by regional demand, i.e., demand generated from outside the City of Tracy.

(3) See Exhibit 3. Figure rounded to the nearest 100,000.

(4) Comprises Supportable Sq. Ft. less Existing Inventory.

(5) See Exhibit 21.

(6) Each figure is equal to the 2,340,000 square feet supportable by Tracy's 2035 household count, divided by the cited percentage.

(7) These scenarios correspond with current conditions as reflected by the Retail Demand, Sales Attraction, and Spending Analysis in Exhibit 18 and the findings of the existing households supportable square feet analysis presented in Exhibit 19, which suggested that Tracy households support 40% of the City's existing retail base.

(7) These scenarios are hypothetical, and reflect estimates pertaining to changed circumstances if Tracy's regional-serving retail position erodes in the future, such that Tracy's population base becomes an increasing source of support for the City's retail base.

Exhibit 23
City of Tracy
Supportable Retail Square Feet from a Regional Perspective (1)
2040
All Figures Rounded to Nearest 10,000

Population Served	Supportable Sq. Ft.	Implied Percent Regional Demand (2)	Existing Inventory (3)	Increment in Supportable New Sq. Ft. (4)
Serving Tracy Households in 2040 (5)	2,470,000	0%	N/A	N/A
Serving Region Given Percent Serving Tracy Households (6)				
Tracy Households at 40% of Demand (7)	6,175,000	60%	3,300,000	2,875,000
Tracy Households at 45% of Demand (7)	5,488,889	55%	3,300,000	2,188,889
Tracy Households at 50% of Demand (7)	4,940,000	50%	3,300,000	1,640,000
Tracy Households at 55% of Demand (7)	4,490,000	45%	3,300,000	1,190,000

Source: ALH Urban & Regional Economics.

(1) Comprises supportable retail space estimates in Tracy based upon Tracy's residential buildout in 2035, and then supportable square feet based upon Tracy-originated demand comprising different ranges of support for Tracy retail space.

(2) Reflects the percentage of retail space that would be supported by regional demand, i.e., demand generated from outside the City of Tracy.

(3) See Exhibit 3. Figure rounded to the nearest 100,000.

(4) Comprises Supportable Sq. Ft. less Existing Inventory.

(5) See Exhibit 21.

(6) Each figure is equal to the 2,470,000 square feet supportable by Tracy's 2040 household count, divided by the cited percentage.

(7) This scenario corresponds with current conditions as reflected by the Retail Demand, Sales Attraction, and Spending Analysis in Exhibit 18 and the findings of the existing households supportable square feet analysis presented in Exhibit 16, which suggested that Tracy households support approximately 40% of the City's existing retail base.

(7) These scenarios are hypothetical, and reflect estimates pertaining to changed circumstances if Tracy's regional-serving retail position erodes in the future, such that Tracy's population base becomes an increasing source of support for the City's retail base.

Exhibit 24
City of Tracy
Regional Retail Demand Remaining After Absorption of Retail Space at Tracy Hills
2035

Population Served (1)	Increment in Supportable New Sq. Ft. (2)	Tracy Hills Resident- and Employee Supported Retail (3)	Balance of Other Demand for Tracy Hills (4)	Remaining Unmet Regional Demand (5)
Tracy Households at 40% of Regional Demand	2,550,000	300,000	466,000	1,784,000
Tracy Households at 45% of Regional Demand	1,900,000	300,000	466,000	1,134,000
Tracy Households at 50% of Regional Demand	1,380,000	300,000	466,000	614,000
Tracy Households at 55% of Regional Demand	950,000	300,000	466,000	184,000

Source: ALH Urban & Regional Economics.

(1) Tracy Households at 40% of Regional Demand reflects current retail market conditions in Tracy. The additional figures comprise hypothetical scenarios, reflecting estimates pertaining to changed circumstances if Tracy's regional-serving retail position erodes in the future, such that Tracy's population base becomes an increasing source of support for the City's retail base.

(2) See Exhibit 22.

(3) Comprises summation of resident and employee-supported, and highway-serving retail space for Tracy Hills, excluding space allocated to lodging. This is a conservative figure because a portion of the space is anticipated to also be highway serving commercial and to serve other regional residents, such as the industrial workers at Cordes Ranch. Rounded to nearest 10,000.

(4) See Exhibit 11. Comprises the amount of retail space planned for Tracy Hills by this time period (or proxy thereof) that is not anticipated to be supported by the Project's internally generated demand or other highway-serving retail demand.

(5) Comprises the amount of retail space still needed to meet estimated local and regional-serving retail supportability needs.

Exhibit 25
City of Tracy
Regional Retail Demand Remaining After Absorption of Retail Space at Tracy Hills
2040

Population Served (1)	Increment in Supportable New Sq. Ft. (2)	Tracy Hills Resident- and Employee Supported Retail (3)	Balance of Other Demand for Tracy Hills (4)	Remaining Unmet Regional Demand (5)
Tracy Households at 40% of Regional Demand	2,875,000	430,000	360,700	2,084,300
Tracy Households at 45% of Regional Demand	2,188,889	430,000	360,700	1,398,189
Tracy Households at 50% of Regional Demand	1,640,000	430,000	360,700	849,300
Tracy Households at 55% of Regional Demand	1,190,000	430,000	360,700	399,300

Source: ALH Urban & Regional Economics.

(1) Tracy Households at 40% of Regional Demand reflects current retail market conditions in Tracy. The additional figures comprise hypothetical scenarios, reflecting estimates pertaining to changed circumstances if Tracy's regional-serving retail position erodes in the future, such that Tracy's population base becomes an increasing source of support for the City's retail base.

(2) See Exhibit 23.

(3) Comprises summation of resident and employee-supported, and highway-serving retail space for Tracy Hills, excluding space allocated to lodging. This is a conservative figure because a portion of the space is anticipated to also be highway serving commercial and to serve other regional residents, such as the industrial workers at Cordes Ranch. Rounded to nearest 10,000. This is the figure reflected at Buildout, which for analytical purposes to support analysis is reflected as the year 2040.

(4) See Exhibit 11. Comprises the amount of retail space planned for Tracy Hills by this time period (or proxy thereof) that is not anticipated to be supported by the Project's internally generated demand or other highway-serving retail demand.

(5) Comprises the amount of retail space still needed to meet estimated local and regional-serving retail supportability needs.

Exhibit 26

**Identified Planned and Proposed Retail Projects (1)
City of Tracy and Mountain House CDP
October 2014**

Project	Description	Total Acreage	Potential Sq. Ft.	Status	Location	Expected Opening / Completion
City of Tracy						
1 Red Maple Village	Spec retail.	3.0	25,000	Approved, but no building permit	NEC Valpico Rd and Tracy Blvd	2017
Mountain House CDP						
2 Mountain House Business Park (2)	The Business Park Specific Plan designates a mixture of commercial-office, freeway service commercial, and industrial park uses on approximately 100 acres.	100.0	NA (3)	Approved November 2005 - Expires November 2015	Byron Rd and Mountain House Blvd	NA
3 Mountain House Town Center Mixed Use (2)	This is a subdivision project comprised of various uses. The mixed use portion of this subdivision includes 38.2 acres with an FAR of 1.0 at full build out, comprising 1.6 million square feet. The mixed use land use designation may include high density residential, specialty shopping, entertainment, offices, and hotel.	38.2	NA (3)	Approved May 2012 - Expires May 2022	Byron Rd and Mountain House Blvd	NA
4 Mountain House Town Center Community Commercial (2)	This is a subdivision project comprised of various uses. A portion of this subdivision includes a community commercial land use designation with 25.45 acres. This land use designation may include a movie theater, retail, and services.	25.45	277,151 (4)	Approved May 2012 - Expires May 2022	Byron Rd and Mountain House Blvd	NA
RETAIL TOTAL		166.65	302,151			

Sources: City of Tracy Planning Department; San Joaquin County Community Development Department staff; San Joaquin County Community Development Department, "Approved and final tentative maps for the Mountain House Community," and "Staff Report Major Subdivisions for the Town Center"; "Initial Study Mountain House Business Park - April 22, 2005, Prepared for the San Joaquin Community Development Department"; and ALH Urban & Regional Economics.

- (1) Includes retail development projects with development plans in progress with the City of Tracy and Mountain House CDP. Projects are generally listed in descending order of development timeframe by jurisdiction. This list excludes vacant or underdeveloped land zoned for retail for which no specific development application is in progress.
- (2) According to the San Joaquin Community Development Department, since the economic downturn, the retail, commercial, and industrial development in Mountain House has slowed down. Many of the approved industrial and commercial projects have approved tentative maps, but the developers have not begun construction.
- (3) The specific mix of land uses is not known. It would therefore be speculative to estimate the share of space allocated to retail or other uses.
- (4) The Town Center does not designate an FAR for the Community Commercial land use; ALH Urban & Regional Economics has estimated that all this acreage will comprise retail space developed at a 0.25 FAR, but this is a speculative assumption, with little input or guidance from existing planning documents.

Exhibit 27
Sectoral Employment History and Projections
San Joaquin County
2010-2040 (1)

Industry	2010	2013	2014	2017	2035	2040	Average Annual Growth
Farm	15,700	15,600	15,700	15,800	16,300	16,500	0.2%
Construction	7,600	8,700	9,200	10,500	12,300	12,300	1.6%
Manufacturing	17,600	17,800	18,100	18,600	20,100	20,500	0.5%
Transportation & Utilities	13,800	15,400	15,900	17,200	25,100	27,300	2.3%
Wholesale & Retail Trade	33,700	36,600	38,300	41,700	48,700	49,600	1.3%
Financial Activities	7,700	7,600	7,700	8,100	9,100	9,300	0.6%
Professional Services	15,400	17,300	18,200	21,000	29,500	31,400	2.4%
Information	2,100	1,900	2,100	2,200	2,500	2,600	0.7%
Health & Education	32,300	33,400	34,300	36,400	56,900	62,600	2.2%
Leisure	16,100	18,100	18,400	19,700	18,900	18,500	0.5%
Government	38,200	37,000	37,200	38,400	43,100	44,800	0.5%
Total, all sectors (2)	200,200	209,400	215,100	229,600	282,500	295,400	1.3%

Sources: California State Department of Transportation "San Joaquin County Economic Forecast- San Joaquin County Employment Forecast 2006-2013 History, 2014-2040 Forecast"; and ALH Urban & Regional Economics.

(1) Employment figures for 2010 and 2013 are historical; figures for 2014, 2017, 2035, and 2040 are projections.

(2) Slightly higher total employment is reported by the source data, reflecting additional employment in unspecified industries.

Exhibit 28
Office Space Demand Projection
San Joaquin County and City of Tracy
2014-2040

Office Characteristic	2014	2017	2035	2040
Office-Using Employment (1)	65,200	69,700	84,200	88,100
Incremental Office-Using Employment over Prior Time Period (2)	-	4,500	14,500	3,900
Office Demand (3)				
Net New	-	947,000	3,053,000	821,000
Cumulative	-	947,000	4,000,000	4,821,000
Estimated Tracy Share of Demand (4)				
Net New	-	123,110	396,890	106,730
Cumulative	-	123,110	520,000	626,730

Sources: Gruen Gruen + Associates, "Forecast of Demand for Retail, Office, and Industrial Space in the City of Tracy and Strategic Policy Action Recommendations," November 2007; and Exhibit 27, ALH Urban & Regional Economics.

(1) Reflects the following industry sectors from Exhibit 27, which are anticipated to be primarily office-using: Financial Activities; Professional Services; Information; and Government. Yet additional office use is reflected in the Health & Education industry sector, but this sector is conservatively excluded since not all employment in this sector is office-using.

(2) Reflects the increase in office-using employment over the prior noted time period.

(3) Assumes office employment at a density of 200 square feet per office worker plus a 5% vacancy rate for market fluidity. Figures rounded to the nearest 1,000. These are industry standard assumptions, and also match assumptions on page 82 of the Gruen + Gruen Associates report prepared for the City of Tracy in 2007.

(4) In recent years Tracy employment averages approximately 13% of San Joaquin County employment. This analysis simplistically assumes Tracy's office-using employment in future years will be equivalent to Tracy's approximate current share of County employment.

Exhibit 29

**Identified Planned and Proposed Office Development Projects (1)
City of Tracy and Mountain House CDP
October 2014**

Project	Description	Total Acreage	Potential Sq. Ft.	Status	Location	Expected Opening / Completion	
City of Tracy							
1	Montessori School	Elementary school.	4.0	34,592	In planning stages	120 Marietta Way	2016
2	California Highway Patrol	Office building, law enforcement headquarters.	4.74	23,281	Approved, but no building permit	1200 Pescadero Avenue	2017
3	Sutter medical office building	This is a 45,000-square-foot medical office building replacing a 22,000-square-foot medical office building, for net new square footage of 23,000.	3.5	23,000	In planning stages	Both sides of Eaton Avenue on the west side of Bessie Avenue	2016
4	Triad – Grant Line Center	Medical office building.	2.73	20,000	Approved, but no building permit	SWC Grant Line Road and Corral Hollow Road	2017
Mountain House CDP							
5	Mountain House Business Park (2)	The Business Park Specific Plan designates a mixture of commercial-office, freeway service commercial, and industrial park uses on approximately 100 acres.	100.0	NA (3)	Approved November 2005 - Expires November 2015	Byron Rd and Mountain House Blvd	NA
6	Mountain House Town Center Mixed Use (2)	This is a subdivision project comprised of various uses. The mixed use portion of this subdivision includes 38.2 acres with an FAR of 1.0 at full build out, comprising 1.6 million square feet. The mixed use land designation may include high density residential, specialty shopping, entertainment, offices, and hotel.	38.2	NA (3)	Approved May 2012 - Expires May 2022	Byron Rd and Mountain House Blvd	NA
OFFICE TOTAL			153.17	100,873			

Sources: City of Tracy Planning Department; San Joaquin County Community Development Department staff; San Joaquin County Community Development Department, "Approved and final tentative maps for the Mountain House Community," and "Staff Report Major Subdivisions for the Town Center"; "Initial Study Mountain House Business Park - April 22, 2005, Prepared for the San Joaquin Community Development Department"; and ALH Urban & Regional Economics.

(1) Includes office development projects with development plans in progress with the City of Tracy and Mountain House CDP. Projects are generally listed in descending order of development timeframe by jurisdiction. This list excludes vacant or underdeveloped land zoned for retail for which no specific development application is in progress.

(2) According to the San Joaquin Community Development Department, since the economic downturn, the retail, commercial and industrial development in Mountain House has slowed down. Many of the approved industrial and commercial projects have approved tentative maps, but the developers have not begun construction.

(3) The specific mix of land uses is not known. It would therefore be speculative to estimate the share of space allocated to office or other uses.

Exhibit 30
Tracy Hills Office Space in Regional Demand Context
Tracy Hills Capture Rate of Projected Demand

Component of Demand	2014-2017	2017-2035	2035-2040	Tracy Hills Buildout (1)
Office Demand (2)				
San Joaquin County Cumulative Office Demand	947,000	4,000,000	4,821,000	NA
Tracy Share of Cumulative Office Demand	123,110	520,000	626,730	NA
Tracy Planned Competitive Office Supply (3)				
Cumulative Tracy Hills Office Development (4)	179,835	483,075	NA	592,990
Cumulative Competitive Tracy Pipeline (5)	22,117	22,117	22,117	22,117
Sub-total	201,952	505,192	NA	615,107
Planned Competitive Supply Capture Rate (6)				
San Joaquin County Demand	21%	13%	NA	<13% (7)
City of Tracy Demand	164%	97%	NA	NA

Source: ALH Urban & Regional Economics.

(1) The timeframe for buildout of Tracy Hills is indeterminate. The timeframe is likely to extend beyond the year 2040. Office demand projections, however, are not available beyond the 2040 timeframe.

(2) See Exhibit 28.

(3) Figures reflect an estimated 5% vacancy rate to allow for market fluidity.

(4) See Exhibit 1, with planned figures adjusted to allow for vacancy as referenced in footnote (3).

(5) The office demand projections in Exhibit 28 do not include projections for medical office space or schools. Therefore, only the planned office project with space competitive with Tracy Hills and reflected in the county and office demand projections is included herein. See Exhibit 29 for project information.

(6) Comprises sub-total of Tracy competitive supply divided by the estimated demand figures per cited jurisdiction.

(7) This capture rate is presented for illustrative purposes, indicating that demand is anticipated to grow beyond the 2040 timeframe, such that at buildout, absorption of the Tracy Hills office space would reflect less than a 13% capture rate of forecasted county demand for office space.

**Exhibit 31
Industrial Space Demand Projection
San Joaquin County and City of Tracy
2014-2040**

Office Characteristic	2014	2017	2035	2040
Industrial Space-Using Employment (1)	52,775	56,725	69,675	72,500
Incremental Industrial-Using Employment over Prior Time Period (2)	-	3,950	12,950	2,825
Industrial Demand (3)				
Net New	-	8,316,000	27,263,000	5,947,000
Cumulative	-	8,316,000	35,579,000	41,526,000
Estimated Tracy Share of Demand (4)				
Net New	-	1,580,040	5,179,970	1,129,930
Cumulative	-	1,580,040	6,760,010	7,889,940

Sources: Gruen Gruen + Associates, "Forecast of Demand for Retail, Office, and Industrial Space in the City of Tracy and Strategic Policy Action Recommendations," November 2007; State of California Employment Development Department, Labor Market Information Division, Industry Employment & Labor Force - by Annual Average, March 2013 Benchmark, San Joaquin County; The CoStar Industrial Report, Mid-Year 2014, Stockton/Modesto Industrial Market, CoStar Group; and Exhibits 27 and 28, ALH Urban & Regional Economics.

(1) Reflects the following industry sectors from Exhibit 27, which are anticipated to be primarily industrial space-using: Construction; Manufacturing; Transportation & Utilities; and Wholesale & Retail Trade. The employment in the Wholesale & Retail Trade industry sector was adjusted, assuming that 25% of employment is wholesale and therefore industrial space using. The adjustment was based upon EDD data for wholesale and retail employment in the county.

(2) Reflects the increase in industrial-using employment over the prior noted time period.

(3) Assumes industrial employment at a density of 2,000 square feet per industrial worker plus a 5% vacancy rate for market fluidity. Figures rounded to the nearest 1,000. These assumptions reflect generalized averages included on page 98 of the Gruen + Gruen Associates report prepared for the City of Tracy in 2007.

(4) Presently Tracy's industrial base averages 19% of the San Joaquin County occupied industrial base according to the CoStar Industrial Report, Mid-Year 2014, Stockton/Modesto Industrial Market, CoStar Group. This analysis simplistically assumes Tracy's industrial space-using employment in future years will be equivalent to Tracy's approximate current share of the occupied industrial inventory.

Exhibit 32
Identified Planned and Proposed Industrial Development Projects (1)
City of Tracy and Mountain House CDP
October 2014

Project	Description	Total Acreage	Potential Sq. Ft.	Status	Location	Expected Opening / Completion	
City of Tracy							
1	Building 1	Spec warehouse-distribution	52.0	1,300,000	Approved, but no building permit	NEC Mountain House Pkwy and Old Schulte Road	2016
2	Project Mustang	Spec warehouse-distribution with three buildings.	70.0	1,000,000	Approved, but no building permit	Paradise Road, east of Chrisman Road	2017
3	Med Line	Medical supply distribution	58.0	1,000,000	Approved, but no building permit	SEC Hansen Road and Capital Park Drive	2016
4	Fed Ex	Package delivery company	120.0	550,000	Approved, but no building permit	NEC Hansen Road and Old Schulte Road in Cordes Ranch	2016
5	Tracy Collision	Auto repair	1.5	21,300	In planning stages	Auto Plaza Drive	2016
6	Tracy Desalination and Green Energy Project	Desalination of treated wastewater (1.2 mgd) and sugar beet ethanol generation facility with a 4,000-square-foot administrative building, tanks, pumps, cooling towers, distillation dehydration facility, and related equipment and machinery with an estimated 35 employees.	17.0	4,000	Approved, but no building permit	East of Tracy Boulevard near Sugar Road	2018
Mountain House CDP							
7	Mountain House Business Park (2)	The Business Park Specific Plan designates a mixture of commercial-office, freeway service commercial, and industrial park uses on approximately 100 acres.	100.0	NA (3)	Approved November 2005 - Expires November 2015	Byron Rd and Mountain House Blvd	NA
8	Mountain House Commerce Center (Old River Industrial Park) (2)	The Commerce Center designates a mixture of the sewage treatment plant (public facilities), light industrial, and general industrial uses on 104.88 acres.	104.88	NA (4)	Approved July 2008 - Expires August 2018	Byron and Bethany	NA
INDUSTRIAL TOTAL			523.38	3,875,300			

Sources: City of Tracy Planning Department; San Joaquin County Community Development Department staff; San Joaquin County Community Development Department, "Approved and final tentative maps for the Mountain House Community"; "Mountain House Commerce Center Initial Study - November 2007, Prepared for the San Joaquin Community Development Department"; and ALH Urban & Regional Economics.

- (1) Includes industrial development projects with development plans in progress with the City of Tracy and Mountain House CDP. Projects are generally listed in descending order of potential retail square footage by jurisdiction. This list excludes vacant or underdeveloped land zoned for industrial for which no specific development application is in progress.
- (2) According to the San Joaquin Community Development Department, since the economic downturn, the retail, commercial and industrial development in Mountain House has slowed down. Many of the approved industrial and commercial projects have approved tentative maps, but the developers have not begun construction.
- (3) The specific mix of land uses is not known. It would therefore be speculative to estimate the share of space allocated to industrial or other uses.
- (4) The applicant's plan is to subdivide the property into numerous smaller industrial lots, generally ranging in size from 1.0 to 2.0 acres.

Exhibit 33
Tracy Hills Industrial Space in Regional Demand Context
Tracy Hills Capture Rate of Projected Demand

Component of Demand	2014-2017	2017-2035	2035-2040	Tracy Hills Buildout (1)
Industrial Demand (2)				
San Joaquin/Stanislaus Counties Cumulative Industrial Demand	8,316,000	35,579,000	41,526,000	NA
Tracy Share of Cumulative Industrial Demand	1,580,040	6,760,010	7,889,940	NA
Tracy Planned Competitive Industrial Supply (3)				
Cumulative Tracy Hills Industrial Development (4)	153,710	805,125	NA	3,987,435
Cumulative Competitive Tracy Pipeline (5)	3,677,735	3,681,535	3,681,535	3,681,535
Sub-total	3,831,445	4,486,660	NA	7,668,970
Planned Competitive Supply Capture Rate (6)				
San Joaquin County Demand	46%	13%	NA	<14% (7)
City of Tracy Demand	242%	66%	NA	NA

Source: ALH Urban & Regional Economics.

(1) The timeframe for buildout of Tracy Hills is indeterminate. The timeframe is likely to extend beyond the year 2040. Industrial demand projections, however, are not available beyond the 2040 timeframe.

(2) See Exhibit 31.

(3) Figures reflect an estimated 5% vacancy rate to allow for market fluidity.

(4) See Exhibit 1, with planned figures adjusted to allow for vacancy as referenced in footnote (3).

(5) See Exhibit 32 for project information.

(6) Comprises sub-total of Tracy competitive supply divided by the estimated demand figures per cited jurisdiction.

(7) This capture rate is presented for illustrative purposes, indicating that demand is anticipated to grow beyond the 2040 timeframe, such that at buildout, absorption of the Tracy Hills office space would reflect less than a 14% capture rate of forecasted county demand for industrial space.

APPENDIX B: SUPPORT EXHIBITS

Exhibit B-1
Household Income Spent on Retail (1)
United States
in Current Dollars
2013

Characteristic	All Consumer Units	Household Income Range		
		\$40,000 to \$49,999	\$50,000 \$69,999	\$70,000 and more
Average HH Income	\$63,784	\$44,576	\$59,101	\$131,945
Amount Spent on Retail (2)	\$20,555	\$17,769	\$21,104	\$32,771
Percent Spent on Retail (3)	32%	40%	36%	25%

Sources: Table 1202. Income before taxes: Annual expenditure means, shares, standard errors, and coefficient of variation, Consumer Expenditure Survey, 2013, U.S. Bureau of Labor Statistics; and ALH Urban & Regional Economics.

(1) Includes retail categories estimated to be equivalent to the retail sales categories compiled by the State of California, Board of Equalization.

(2) Includes the Consumer Expenditures categories of: food; alcoholic beverages; laundry and cleaning supplies; other household products; household furnishings and equipment; apparel and services; vehicle purchases, cars and trucks, new; vehicle purchases, cars and trucks, used; vehicle purchases, other vehicles; gasoline and motor oil; 1/2 of maintenance and repairs (as a proxy for taxable parts); drugs; medical supplies; audio and visual equipment and services; pets, toys, hobbies, and playground equipment; other entertainment supplies, equipment, and services; personal care products and services; and reading; tobacco products and smoking supplies.

(3) Percentages may be low as some expenditure categories may be conservatively undercounted by ALH Economics.

Exhibit B-2
State of California BOE Taxable Retail Sales Estimate by Retail Category
in Current Dollars
2012
(in \$000s)

Type of Retailer	Total Taxable Sales (1)	State of California Taxable Sales Adjusted to Total Retail	% of Total
Motor Vehicle & Parts Dealers	\$61,547,848	\$61,547,848	13.1%
Home Furnishings & Appliances	\$24,681,910	\$24,681,910	5.3%
Building Materials & Garden Equipment	\$27,438,083	\$27,438,083	5.9%
Food & Beverage Stores	\$24,511,714	\$81,705,713 (2)	17.4%
Gasoline Stations	\$58,006,168	\$58,006,168	12.4%
Clothing & Clothing Accessories	\$32,357,516	\$32,357,516	6.9%
General Merchandise Stores	\$54,138,509	\$72,184,679 (3)	15.4%
Food Services & Drinking Places	\$59,037,320	\$59,037,320	12.6%
Other Retail Group	\$39,653,754	\$51,870,516 (4)	11.1%
Total (5)	\$381,372,822	\$468,829,753	100%

Sources: California State Board of Equalization (BOE), "Taxable Sales in California (Sales & Use Tax) during 2012; U.S. Economic Census, "Retail Trade: Subject Series - Product Lines: Product Lines Statistics by Kind of Business for the United States and States: 2007"; and ALH Urban & Regional Economics.

(1) Taxable sales are pursuant to reporting by the BOE.

(2) Sales for Food and Beverage Stores have been adjusted to account for non-taxable sales; only 30.0% of all food store sales are estimated to be taxable.

(3) Sales for General Merchandise Stores have been adjusted to account for non-taxable food sales, since some General Merchandise Store sales include non-taxable food items. ALH Urban & Regional Economics estimates that at least 25% of General Merchandise sales are for grocery items that are also non-taxable. This estimate is based on analysis of the 2007 U.S. Economic Census, which attributes approximately 26% of General Merchandise Stores sales to food.

(4) Sales for Other Retail Group have been adjusted to account for non-taxable drug store sales, since drug store sales are included in the Other Retail Group category. ALH Urban & Regional Economics estimates that 33.0% of drug store sales are taxable, based on discussions with the California BOE and examination of U.S. Census data. In California, drug store sales in 2012 represented approximately 15.2% of all Other Retail Group sales. ALH Urban & Regional Economics applied that percentage and then adjusted upward for non-taxable sales.

(5) Totals may not add up due to rounding.

Exhibit B-3
Calculation of Sales Per Square Foot Estimates
Select Retail Stores and Store Types
2010 Through 2012, and 2014 Projected (1)

Store or Category (2)	2010		2011		2012		Average
	In 2010\$'s	In 2014\$'s	In 2011\$'s	In 2014\$'s	In 2012\$'s	In 2014\$'s	In 2014\$'s
Apparel							
Apparel - Specialty	\$405	\$439	\$447	\$473	\$472	\$488	\$467
Women's' Apparel	\$365	\$396	\$455	\$481	\$515	\$532	\$470
Shoe Stores	\$371	\$402	\$454	\$480	\$487	\$503	\$462
Ross Dress for Less	\$324	\$351	\$195	\$206	\$195	\$202	\$253
Kohl's	\$229	\$248	\$215	\$227	\$209	\$216	\$231
Discount Stores	\$196	\$212	\$212	\$224	\$213	\$220	\$219
Target	\$282	\$306	\$290	\$307	\$304	\$314	\$309
Wal-Mart	\$422	\$458	\$499	\$528	\$456	\$471	\$485
Department Stores Category	\$252	\$273	\$276	\$292	\$274	\$283	\$283
Sears	\$206	\$223	\$205	\$217	\$210	\$217	\$219
Domestics Category	\$294	\$319	\$288	\$304	\$268	\$277	\$300
Furniture Category	\$198	\$215	\$290	\$307	\$361	\$373	\$298
Average of Domestics & Furniture	\$246	\$267	\$289	\$306	\$315	\$325	\$299
Neighborhood Center Category							
Supermarkets	\$535	\$580	\$533	\$563	\$575	\$594	\$579
Specialty/Organic	\$510	\$553	\$658	\$696	\$698	\$722	\$657
Drug Stores	\$724	\$785	\$657	\$695	\$667	\$689	\$723
Rite Aid	\$421	\$456	\$560	\$592	\$549	\$568	\$539
CVS	\$802	\$869	\$806	\$852	\$883	\$913	\$878
Restaurants Category	\$429	\$465	\$496	\$524	\$480	\$496	\$495
Casual Dining	\$431	\$467	\$578	\$611	\$563	\$582	\$553
Fast Food Chains	\$431	\$467	\$507	\$536	\$492	\$509	\$504
Home Improvement	\$269	\$292	\$278	\$294	\$287	\$297	\$294
Auto - DIY Stores (3)	\$205	\$222	\$218	\$230	\$220	\$227	\$227
Other Retail Categories							
Accessories	\$778	\$843	\$978	\$1,034	\$1,191	\$1,231	\$1,036
HBA, Home Fragrances	\$541	\$587	\$474	\$501	\$531	\$549	\$546
Electronics & Appliances	\$686	\$744	\$1,171	\$1,238	\$821	\$849	\$943
Office Supplies	\$263	\$285	\$270	\$285	\$262	\$271	\$280
Sports	\$226	\$245	\$239	\$253	\$252	\$260	\$253
Pet Supplies	\$185	\$201	\$188	\$199	\$218	\$225	\$208
Book Superstores	\$180	\$195	\$247	\$261	\$210	\$217	\$224
Toys	\$320	\$347	\$333	\$352	\$312	\$323	\$340
Music Superstores	\$318	\$345	\$317	\$335	\$314	\$325	\$335
Gifts, Hobbies & Fabrics	\$124	\$134	\$136	\$144	\$137	\$142	\$140
Average of Other Retail Categories	\$362	\$393	\$435	\$460	\$425	\$439	\$431

Sources: Retail MAXIM, "Alternative Retail Risk Analysis for Alternative Capital" 2011, 2012, and 2013 (all publications present figures in the prior year dollars); United States Bureau of Labor Statistics Consumer Price Index - All Urban Consumers; and ALH Urban & Regional Economics.

(1) Figures are adjusted to 2014 pursuant to the mid-year CPI Index for all urban consumers.

(2) Includes industry-and category-representative stores.

(3) Average reflects a three-year trend.

Exhibit B-4
Annual Average Salaries for Select Industries
San Joaquin County
2012

NAICS code	Industry code description	Number of employees	Annual Payroll	Avg. Salary (2012)	Avg. Salary (2014) (1)
31-33	Manufacturing	18,267	\$896,695,000	\$49,088	
42	Wholesale trade	11,665	\$596,145,000	\$51,105	
48-49	Transportation & warehousing	15,470	\$667,580,000	\$43,153	
Combined		45,402	\$2,160,420,000	\$47,584	\$49,627
61	Educational services	5,393	\$136,119,000	\$25,240	\$26,324
44-45	Retail trade	24,117	\$619,628,000	\$25,693	\$26,796
72	Accommodation and food services	15,432	\$215,892,000	\$13,990	\$14,591
51	Information	2,173	\$108,567,000	\$49,962	
52	Finance & Insurance	6,134	\$368,235,000	\$60,032	
53	Real estate and rental and leasing	2,631	\$96,643,000	\$36,732	
54	Professional, scientific, and technical services	4,261	\$190,066,000	\$44,606	
55	Management of companies and enterprises	1,011	\$84,177,000	\$83,261	
56	Administrative and Support and Waste Mang and Remediation Srvs	10,684	\$321,556,000	\$30,097	
Combined		26,894	\$1,169,244,000	\$43,476	\$45,343

Sources: United States Census Bureau, County Business Patterns, San Joaquin County 2012; U.S. Department of Labor, Consumer Price Index, through July 2014; and ALH Urban & Regional Economics.

(1) Inflated to 2014 based upon CPI for July 2012 and July 2014. Inflation factor is 1.04.