CHAPTER 5.0 ECONOMIC AND URBAN DECAY

This section incorporates the information contained in the *Draft Rocklin Commons Economic Impact Analysis, Rocklin, California* (Economic Impact Analysis) prepared for the proposed project by CBRE Consulting in September 2008 (Appendix D).

5.1 CONSIDERATION OF SOCIOECONOMIC IMPACTS

The State CEQA Guidelines define the parameters under which the consideration of socioeconomic impacts is included in an environmental evaluation. State CEQA Guidelines Section 15131 states that "[e]conomic or social information may be included in an EIR or may be presented in whatever form the agency desires." Further, Section 15131(a) of the Guidelines states that "[e]conomic or social effects of a project shall not be treated as significant effects on the environment. An EIR may trace a chain of cause and effect from a proposed decision on a project through anticipated economic or social changes resulting from the project to *physical changes* caused in turn by the economic or social changes [emphasis added]. The intermediate economic or social changes need not be analyzed in any detail greater than necessary to trace the chain of cause and effect. The focus of the analysis shall be on the physical changes." State CEQA Guidelines Section 15131(b) also provides that "[e]conomic or social effects of a project may be used to determine the significance of physical changes caused by the project." For example, the level of significance of a physical division of a community from the installation of rail lines could be measured by the social effect on the community.

In the case of the proposed project, concern has been expressed that the location of a major new retail establishment could, through its economic effects, result in secondary environmental impacts. The term commonly used to describe the physical effects that can result when new retail uses cause existing business closures and physical deterioration of the areas in which such businesses are located is urban decay.

In recent years, the California Courts have identified the term "urban decay" as the physical manifestation of a project's potential socioeconomic impacts and have specifically identified the need to address the potential for urban decay in environmental documents for large retail projects where there is some evidence that such physical effects may occur. The leading case is *Bakersfield Citizens for Local Control v. City of Bakersfield* (2004) 124 Cal.App.4th 1184, in which the court set aside two environmental impact reports for two proposed Wal-Mart projects that would have been located less than five miles from each other. This was the first court decision to use the term "urban decay," as opposed to the term "blight." The court quoted "experts [who] are now warning about land use decisions that cause a chain reaction of store closures and long-term vacancies, ultimately destroying existing neighborhoods and leaving decaying shells in their wake." (Id. at p. 1204.) 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). The *Bakersfield* court also described the circumstances in which the duty to address urban decay issues arise.

It is apparent from the case law previously discussed that proposed new shopping centers do not trigger a conclusive presumption of urban decay. However, when there is evidence suggesting that the economic and social effects caused by the proposed shopping center ultimately could result in urban decay or deterioration, then the lead agency is obligated to assess this indirect impact. Many factors are relevant, including the size of the project, the type of retailers and their market areas and the proximity of other retail shopping opportunities. The lead agency cannot divest itself of its analytical and informational obligations by summarily dismissing the possibility of urban decay or deterioration as a "social or economic effect" of the project.

- Accordingly, there are two pertinent questions to be asked with regard to the effects of the proposed project in terms of this economic impact and urban decay analysis: 1) would the proposed new retail use result in sales losses that are sufficiently large at existing retail establishments to force some to close; and 2) would the affected closed stores stay idle long enough to create physical changes that could be defined as urban decay? The potential environmental impacts of shifts in retail sales from existing retail establishments to the proposed project may be deemed to be significant if one or more of the following occurs:
- Any diversion of sales from existing retail facilities would have to be severe enough to result in business closings and subsequent long-term vacancies that will forseeably cause substantial and adverse physical changes or urban decay.
- The business closures would have to be significant enough in scale (i.e., in terms of the total square footage affected and/or loss of key "anchor" tenants) to affect the viability of existing shopping centers and foreseeably cause substantial and adverse physical changes or urban decay.

Unless these criteria are met, impacts such as potential store closures and the potential shift of retail jobs, would not be deemed to be significant. While the City may determine that the effects of the proposed project on existing projects need to be taken into consideration in evaluating the merits of the proposed project, this Draft EIR does not identify a significant environmental impact unless the aforementioned criteria are met.

5.1.1 Study Methodology

The purpose of the Economic Impact Analysis was to assess the economic impact of the proposed project ("Center") on existing primary market area retailers, especially those offering goods similar to those expected to be sold at the project site. The Economic Impact Analysis also estimated the extent to which the project may or may not contribute to urban decay in the primary market area, as described below.

Several steps were performed in developing the Economic Impact Analysis in order to assess the project's economic impacts. In brief, these steps included the following:

- define the primary and secondary market areas;
- identify major competitive retailers in the market area;
- conduct fieldwork to evaluate existing market conditions;

- estimate the planned project's sales;
- collect and analyze market area taxable retail sales;
- conduct retail sales leakage analysis for the primary market area and the secondary market area;
- estimate the share of the project's sales to be generated by the primary and secondary market areas, versus tertiary demand;
- estimate the maximum project impacts on existing primary market area retailers;
- estimate the share of the project's sales likely to be new to the primary market area;
- assess the competitiveness of existing primary market area stores and likely project impacts;
- identify planned retail projects in the primary market area;
- assess the cumulative impacts of planned retail projects in the primary market area; and
- assess the extent to which opening of the project may or may not contribute to urban decay in the primary market area.

Sales Projections

As shown in Appendix C, the Economic Impact Analysis estimated that stabilized retail sales from the proposed project would total approximately $151.1 million in 2013 dollars, comprised of:

- $39.9 million in apparel sales;
- $37.2 million in food store sales;
- $21.5 million in "other retail stores" sales;
- $20.8 million in home furnishings and appliances;
- $16.3 million in general merchandise sales; and
- $15.4 million in eating and drinking places.

Of these Rocklin Commons Center Sales, approximately 95 percent, or $143.5 million, is estimated to be generated by primary (Rocklin and Loomis) and secondary market area (Auburn and portions of unincorporated Placer County) residents. The remaining 5 percent of sales generated at the Center are expected to comprise tertiary demand, originating from unspecified locations outside the primary and secondary market area. Stabilized sales are achieved in 2013. Accordingly, all dollar figures unless otherwise noted are presented in 2013 dollars.

5.1.2 Impact On Existing Primary Market Area Retailers

For the purpose of this analysis, the City of Rocklin and the Town of Loomis were identified as the Center's primary market area. A secondary market area was identified as the City of Auburn, the unincorporated area of North Auburn and unincorporated parts of Placer County along the Interstate

80 corridor and in the neighborhood of Granite Bay. The City of Roseville was excluded from the market area because it is already served by a number of regional retail uses including two Target stores, two Wal-Marts, a Kohl's and several other major apparel stores such as Mervyn's[1] and TJ Maxx. Therefore, it is unlikely that residents of Roseville will travel to Rocklin Commons when they have the same or similar stores nearby.

Assuming that the new primary and secondary market area sales of Rocklin Commons occurred at the proportional expense of existing primary market area retailers, then existing retailers would experience a maximum annual impact of $21.4 million in sales upon stabilization of the Rocklin Commons in 2013 dollars. Table 5.1-1 below, details the potential sales diversion, which includes $10.5 million in apparel sales, $8.5 million in home furnishings and appliances sales, and $2.4 million in food store sales. Because there is currently significant leakage in the general merchandise, eating and drinking places, and "other retail stores" categories (i.e., residents of the primary market area spend money in those categories outside of Rocklin and Loomis), those categories will have no diverted sales. The total diverted impact, 2.5 percent of total sales, supportable square feet, and number of years for new retail demand to mitigate the diverted sales are broken down by retail category as follows:

Table 5.1-1: Rocklin Commons Summary Of Impacts On Primary Market Area Retailers 2013

Retail Category	Diverted sales (in Millions)	Percent of Sales	Supportable Square Feet	Years to Mitigate
Apparel	$10.5	49.7%	35,000	7 years
General Merchandise	0.0	0.0	N/A	N/A
Food Stores	2.4	1.2	4,200	1 year
Eating and Drinking Places	0.0	0.0	N/A	N/A
Home Furnishings and Appliances	8.5	8.6	23,500	5 years
"Other Retail Stores"	0.0	0.0	N/A	N/A
Total	**$21.4**	**2.5%**	**63,000**	

Source: CBRE Consulting
* This percentage represents the total diverted sales divided by the total market area sales.

For food store sales there is 4,200 square feet of retail space at risk. However, some future demand for retail is likely to come from population growth. In fact, population growth is estimated to mitigate sales impacts on "other retail stores" sales within one year after the Center is built.

The Economic Impact Analysis concludes that the only retail sectors at risk of sales diversion, and ultimate store closure, are apparel and home furnishings and appliances. For home furnishings and appliances, the amount of retail space at risk is 23,500 square feet. New population demand could take up to five years to offset the negative impacts in the home furnishings and appliances category. For apparel, the amount of retail space at risk is 35,300 square feet and new population demand is expected to take seven years to mitigate the potential impacts.

[1] Mervyn's stores have closed since this study was completed.

5.1.3 Cumulative Economic Impacts

The Economic Impact Analysis identified seven other major planned retail projects in the primary market area: I-80 – Petrovich Development, Rocklin Crossings, Rocklin Marketplace, Granite Plaza, and the Village at Loomis. These five projects have the potential to generate retail sales totaling $565.3 million, in addition to the $151.1 million projected for the Center.

Assuming all the projects are built, including Rocklin Commons, the maximum annual impact to primary market area retailers is estimated at $263.3 million in diverted sales, with the apparel category representing $65.8 million, the home furnishings and appliances representing $110.0 million, the food stores category representing $45.8 million, and "other retail stores" representing $41.7 million in diverted sales. Without the cumulative projects, there are no impacts on the restaurants and "other retail stores" categories, but including the seven projects creates a significant impact on "other retail stores." Because of significant retail leakage in the general merchandise category, there are no diverted sales impacts estimated.

Based upon analysis of the market area's retail base, and expectations regarding sales diversions, CBRE Consulting concludes that the following retail square footage in the market area is most at risk due to the cumulative projects of the Center and the seven planned projects:

- Apparel stores totaling 221,300 square feet;
- Food stores totaling 80,000 square feet;
- Home furnishings and appliances stores totaling 305,000 square feet; and
- "Other retail stores" totaling 116,500 square feet.

These figures are conservative, as they do not take into account factors such as prospective market corrections or enhancements following the introduction of the cumulative projects into the marketplace or the potential increase in consumer spending pursuant to real income growth. Also, given the large amount of potential retail development that is planned for Rocklin, it is possible that Rocklin could transition to a retail hub serving the secondary market area. In this case, Rocklin would become a city which attracts sales from non-residents, similar to the City of Roseville. There is also the prospect that the projected overbuilding in the market area may not occur to the extent reflected by the total of all seven proposed projects as currently planned, because as some developers and lenders may decide to delay or cancel projects that do not have strong anchor tenants or are otherwise having difficulty preleasing space. These circumstances are even more likely with the 2008-2009 nationwide recession that has been responsible for numerous business closures and bankruptcies.

Thresholds of Significance

Section 15131(b) of the CEQA Guidelines state that a project's economic impacts on a community are considered significant only if they can be tied to direct physical changes in the market area (i.e., physical deterioration of existing retail centers/facilities). Accordingly, a project may create a lasting physical change in the market area if one or more of the following occurs:

- Any diversion of sales from existing retail facilities would have to be severe enough to result in business closings and subsequent long-term vacancies that will forseeably cause substantial and adverse physical changes or urban decay.
- The business closures would have to be significant enough in scale (i.e., in terms of the total square footage affected and/or loss of key "anchor" tenants) to affect the viability of existing shopping centers and foreseeably cause substantial and adverse physical changes or urban decay.

Urban Decay Determination

UED-1: Urban Decay: *Implementation of the proposed project would result in some diverted sales and some closures of primary market area stores may occur. However, these diverted sales and possible closures are unlikely to result in urban decay. This would be considered a* ***less-than-significant*** *impact.*

The Economic Impact Analysis assessed the probability of urban decay ensuing from development of the Center and the additional planned projects, with urban decay defined as physical deterioration that is so prevalent and substantial it impairs the proper utilization of affected real estate or the health, safety, and welfare of the surrounding community. If, for example, any market area stores close due to the Center, the analysis considers if they are likely to remain vacant for a prolonged period of time or be leased to other retailers within a reasonable marketing period. Under normal circumstances, it can take from a few months to a year or more to lease retail space depending on the size of the space. Larger spaces, such as former grocery stores, are more difficult to lease since fewer retailers require such a large space. However, during an economic downturn like the one the U.S. is currently going through, a slowdown in retail sales and fewer retailer expansions occur. As a result, the average length of time it takes to lease retail space is likely to increase.

Current Market Conditions – Overall, the primary market area's retail market has slowed down and vacancy has increased in the last couple of years. This condition has intensified during the last half of 2008 and the first half of 2009 as a result of economic conditions and the financial crisis. Retail sales are falling nationally. October 2008 retail sales were down 4.1 percent from the same month a year ago.[1] This was the fourth consecutive monthly drop. In November 2008, Home Depot reported a decline in quarterly sales of 8.3 percent for stores open at least one year, vs. a year earlier.[2] Some major retailers, including Circuit City and Linen 'n Things, have closed stores and filed for bankruptcy while other chains have announced they are pulling back on expansion plans in the face of the current economic downturn. It is reasonable to expect that a decline in retail sales of the magnitude we are seeing will result in more store closures nationally. In the Rocklin market, retailers are no doubt being impacted in a similar way. Some retailers will be able to weather the decline in sales, while others will not. The Blue Oak Town Center has been hit particularly hard with the closure of one of its anchor stores, Mervyns, as well as several smaller stores such as Office Depot and Shoe Pavilion.

[1] New York Times, "A Record Decline in October's Retail Sales," November 15, 2008.
[2] New York Times, "Two Sides of Retailing Share Dismal Results," November 19, 2008.

The real estate brokers contacted for the Economic Impact Analysis all spoke hesitantly about the overall retail market. They indicated that the Rocklin market is performing better than other markets, but in general the market is slower than it was a year ago; retail rent is decreasing and demand is low.

The Stanford Ranch area is especially unlikely to be negatively impacted by Rocklin Commons because many new housing developments have been built in this area and much of its customer demand for retail uses comes from residents of neighboring Roseville and areas of unincorporated Placer County. Some tenants and the new retailers generally prefer to be in the newer centers.

The older Interstate 80 corridor is more vulnerable to negative sales impacts. Retail brokers active in the primary market area believe that grocery stores in this area could be negatively impacted by the potential grocery store in Rocklin Commons especially if the type of grocery store is similar to Safeway and Raley's, but none of the brokers expected that impacts would lead to store closures. In between these two retail areas lies the Downtown Rocklin area. The stores in the Downtown area are smaller independent stores, which would not directly compete with the types of stores that will go into Rocklin Commons. This area does currently have two large vacancies, the former Albertson's store and the former Grocery Outlet.

The Albertson's store, in particular, has been vacant for several years, but the property is still well-maintained and the other main store in that center, K-Mart, was fairly busy during the site visit. Brokers indicated that vacant spaces would be retenanted or sold, although not necessarily with traditional retail stores.

Diverted Sales - The opening of the Rocklin Commons may result in diverted sales and some stores closures may occur. The two categories expected to have the greatest negative impacts are apparel and home furnishings and appliances. If all the projects in the development pipeline are built, impacts are estimated to be more serious with an oversupply of retail space estimated in apparel, food stores, home furnishings and appliances, "other retail stores," and, to a lesser extent, restaurants. However, due to the economic down turn that the U.S. is currently experiencing, with a slowdown in retail sales and few retailer expansions occurring, it is not expected that all of the projects in the development pipeline will be built by 2013. Some projects that have already been on hold for a couple of years may be delayed further and others may not be developed at all. Therefore, impacts will likely be smaller than estimated with less likelihood of store closures. It should be noted that while store closures are one factor that can potentially lead to urban decay, if property owners maintain their centers, and release space to new tenants, this would not cause physical deterioration equating to urban decay

As noted above, the City of Rocklin and the Town of Loomis were identified as the Center's primary market area. The primary market area contains several competitive shopping centers, including the Loomis Town Center, a neighborhood-serving shopping center located at Interstate 80 and Horseshoe Bar Road in the Town of Loomis. It is located approximately 1.5 miles northeast of the proposed Center. The center opened in 1996 and has approximately 70,000 square feet of gross leasable area, most of which is taken up by a Raley's Supermarket. The size and orientation of this center indicate that it is not directly competitive with Rocklin Common's regional draw, but because of its close proximity to the Rocklin Common's site, the Raley's store, in particular, may compete with a grocery store at Rocklin Commons. The adjusted leakage analysis indicates that in 2013 dollars, a maximum of $2.4 million in sales may be diverted away from existing food stores in the primary market area, comprising 1.2 percent of estimated 2013 food stores sales of $209.1 million. This level of sales is equivalent to support for approximately 4,200 square feet of food store space. The extent to which this will negatively impact existing stores, like the Raley's at the Loomis Town Center, will depend upon their ability to sustain a downturn in sales. This downturn will diminish over time as new market area residents generate additional sales. The cumulative retail demand estimates due to population growth indicate that it will take less than one year to generate $2.4 million in food stores sales from new growth following the assumed 2013 full year operation of the Center. There may be short term impacts to some existing retailers, although they are not expected to lead to store closures.

Small local stores such as Nelthorpe & Sons Appliances in Loomis could experience negative sales impacts. However, Nelthorpe & Sons' location in the historic shopping district of Loomis suggests that its orientation is to local residents who want to buy appliances from a small local business. Clearly, significant competitors to local appliance stores already exist in the Highway 65 corridor. These types of small stores can differentiate themselves from big box stores with high levels of customer service, custom products, and a wide selection. Larger stores such as RC Willey are the main competitors to the types of home furnishings and appliance stores that will be at Rocklin Commons. Although some smaller home furnishings and appliance stores in the primary market area may experience negative sales impacts, the bulk of the impacts are likely to be on stores located on the Highway 65 corridor.

Re-tenanting Potential – Regardless of whether Rocklin Commons develops, there are likely to be some store closures in the market area and, because of depressed economic conditions, the resulting vacancies will likely take longer to re-tenant (i.e. find replacement tenants) than would be the case under more normal conditions. It will be the responsibility of retail property owners to work diligently to fill vacant spaces. It should be noted that when tenants vacate prior to lease expiration, they continue to be responsible for rent and their share of building operating expenses. Especially for national tenants (like Starbucks), it is reasonable to expect that landlords will continue to receive income on many of their vacated spaces, which means they should have available the financial resources to continue to maintain their properties. In addition, city ordinances require property owners to maintain their properties so as not to create a nuisance by creating a health and safety problem. Enforcement of relevant municipal codes is one way the cities in the market area can help prevent physical deterioration due to any long-term closures of spaces in its shopping centers.

The real estate brokers consulted in the Economic Impact Analysis collectively believe that if any existing retail operations close due to the introduction of the Center, then it would be possible to re-tenant the space. Except for the few large vacancies at the former Albertson's store and former Grocery Outlet store, most of the vacancies in shopping centers are small spaces; these vacated retail spaces have the potential to be successfully re-tenanted since it is easier to find tenants for a smaller space. Such re-tenanting would benefit the market and expand local and regional shopping opportunities. One other possible outcome of retail store closures and prolonged vacancies is that existing property owners, or buyers, might decide to redevelop these centers with other uses, thereby preventing physical deterioration and the threat of urban decay.

The Economic Impact Analysis concludes that while it is expected that the Rocklin Commons project will result in some diverted sales and that some closure of primary market area stores may occur, these events are not expected to lead to physical deterioration so prevalent and substantial that it impairs the proper utilization of affected real estate or the health, safety, and welfare of the surrounding community. If the national economic downturn proves to be severe and/or prolonged, it could have the effect of reducing the retail sales base and prolonging the time period in which currently anticipated new retail space will actually be built and filled with tenants.

Western Placer County, which had experienced dramatic population growth and increased prosperity in recent years, has shown signs of a slowing economy. As noted earlier, several national retailers have announced reductions in the number of new stores planned for the next year or so. Such a pull-back will at the very least delay the construction of some of the proposed new retail centers; developers will not be able to proceed without committed anchor tenants and lenders will not make money available for these projects. Some stores currently planned but not built might not be built. As a result, there is likely to be less new retail supply added to the Rocklin market area which could translate into retail sales at Rocklin Commons lower than previously expected, thus diminishing the extent to which Rocklin Commons' tenants could divert sales and cause adverse *economic* effects on existing and future retailers in the market area.

Given the characteristics of the market area and its population growth potential, center owners with vacant spaces are likely to keep up maintenance of their properties in anticipation of re-tenanting the vacant spaces. The additional square footage entering the marketplace with Rocklin Commons is unlikely to lead to economic impacts so severe as to cause "a chain reaction of store closures and long-term vacancies, ultimately destroying existing neighborhoods and leaving decaying shells in their wake." Compared with many areas in the United States, western Placer County is likely to be comparatively resilient even in the face of an economic downturn worse than anything seen in several decades. Rocklin Commons should help to bolster the local economy by providing construction jobs in the short run, sales tax that will help the City of Rocklin to maintain services, and permanent jobs and retail opportunities that can contribute to the economic health of many area residents Therefore, although development of the Rocklin Commons Center may contribute to further retail vacancies in the primary market area, those vacancies are unlikely to result in urban decay. Therefore, this impact would be considered ***less-than-significant.***

Mitigation Measure

No mitigation measures would be necessary for **less than significant** impacts.