

Development Driven by Data

City of Fontana Downtown Market Analysis

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About Us

In 2014, HdL Companies created HdL ECONSolutions to expand services in providing strategic planning and consulting services to assist local governments with economic development planning and execution. HdL ECONSolutions offers a variety of products and services for customized solutions based on a client's budget needs and specific development requirements. Whether you need to understand a trade area, fill a vacancy, or market a shopping center, HdL ECONSolutions will collaborate with city staff, developers, and real estate professionals to bring increased economic activity to your community. We will work with city staff in formulating steps to capitalize on near-term opportunities, evaluate areas for redevelopment or repositioning of commercial shopping centers, future revenue projections and feasibility studies to ultimately devise a strategy to encourage commercial development in your city through an understanding of your marketplace.

Our HdL ECONSolutions staff has more than 50 years of local economic development and community development experience in California. HdL ECONSolutions offers up-to-date data capability, an online GIS platform with state-of-the-art software for market analytics and the ability to leverage HdL's extensive databases systems. HdL ECONSolutions can engage in projects of every size ranging from data analysis to comprehensive studies to advisory support and to public/private collaboration.

HdL ECONSolutions Team



Nearly 75 Years of Economic Development and Community Development experience



Unique combination of public and private sector experience



Have worked for 140 local governments including 30 present city clients



Utilize cutting edge software, along with established and proven network of developers, shopping center owners, retailers and real estate professionals

Objective

The city of Fontana has requested an analysis to be conducted on two distinct but adjacent locations within its downtown area. To arrive at an optimum development plan that will be both market relevant and able to be implemented, the plan must account for development activity, as well as current market factors and conditions that shape successful land use. Because land considerations are a people-oriented process, personal opinions and desires, attitudes, legal and political considerations all have land use impacts. To adequately pursue the preparation of a market study including a highest and best use plan, these must be considered.

This analysis for the reuse of a portion of downtown Fontana property will look at the following:

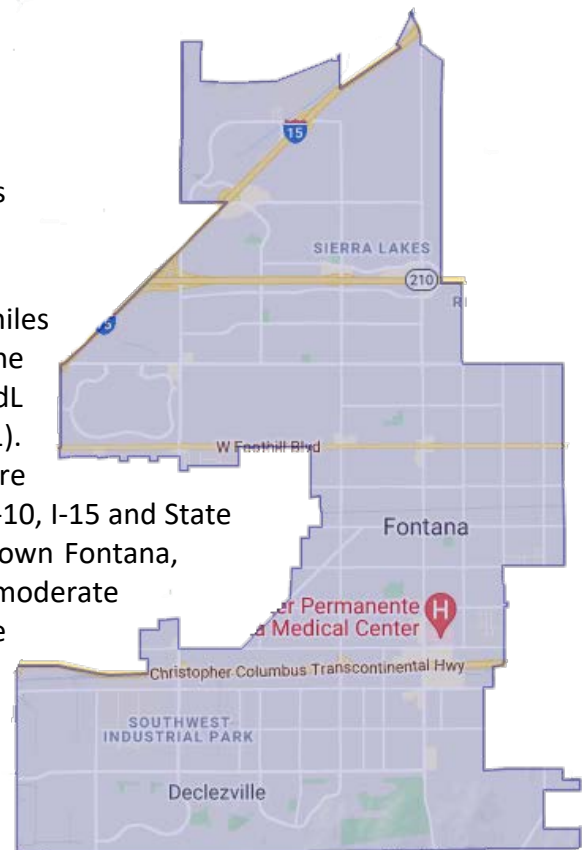
- Site Analysis & Zoning Considerations
- Market Analysis & Demand
- Highest & Best Use
- Revenue Analysis
- Implementation and Development Conditions

Overview

The City of Fontana is in San Bernardino County, 50 miles west of downtown Los Angeles, in the heart of the Inland Empire region with a population of 217,546 (HdL ECONSolutions INSIGHT Market Analytics, 2021). Fontana is strategically positioned in the Inland Empire along three major transportation routes, including, I-10, I-15 and State Route 60. Within a 10-minute drive time of downtown Fontana, there are approximately 151,135 people with moderate income levels, low unemployment, and an area ripe for redevelopment opportunities.

Methodology

To address the issues presented in the objective section, a detailed evaluation was performed of the existing retail in the trade area, as well as major existing and planned development areas in and surrounding the defined trade area. The trade area was defined using a 5-minute primary and a 10-minute secondary drive time from the proposed development areas, (Site 1 - located at the southwest quadrant of Arrow Blvd/Sierra Ave and Site 2 - located on the southeast quadrant of Juniper Ave/Spring Street), based on the evaluation of existing centers, driving patterns, and current and future population massing. Additionally, a Consumer Demand & Market Supply Assessment was conducted, which provides a glimpse into the overall retail potential of the trade area, evaluated in relation to per capita population.



Site Analysis

Combined, both development areas encompass approximately 12.8 acres. Site 1 is bordered by Spring St to the north, Arrow Blvd to the south, Nuevo Ave to the east and Juniper to the west and is approximately 8.40 acres and is just south of the Pacific Electric Trail. Site 2 is bordered by Arrow Blvd to the north, Valencia Ave to the south, Sierra Ave to the east and Nuevo Ave to the west and is approximately 4.40 acres. Both areas are just south of the Civic Center campus and north of the Metrolink Fontana Station. These sites are also within Fontana's downtown district with commercial zoning designations intended for local-serving commercial and service uses that are designed to serve the immediate area. The Downtown Form Based Code designations incorporated include retail and transitional land uses. In addition to commercial uses including office development, residential within mixed-use development having commercial components is an allowable use in this development area.



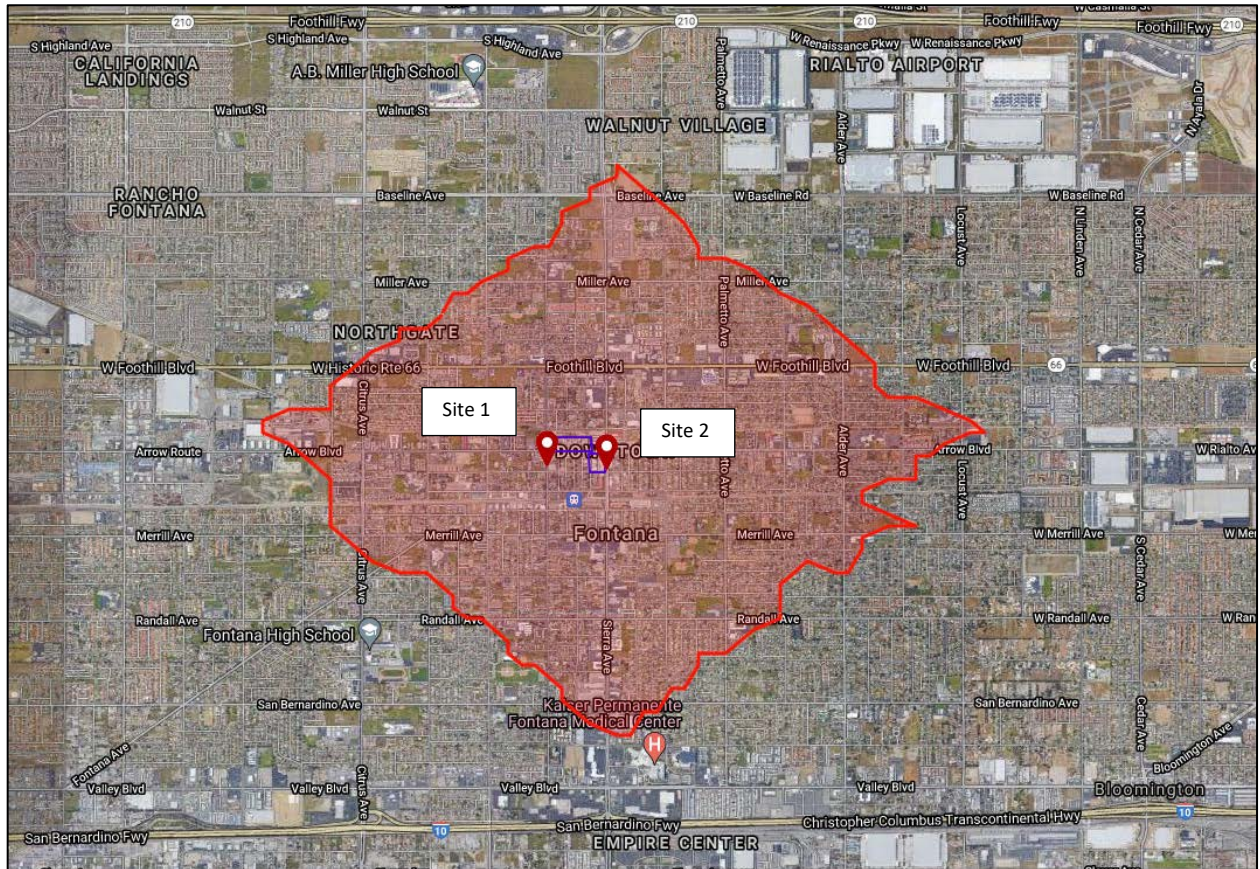
The two development sites are made up of underdeveloped parcels as well as commercial sparsely placed throughout with most of the residential density located south of the development areas and within a 5-minute drive-time trade area.

Access

Both development areas are bordered by Arrow Blvd running east/west and providing great access into both sites. Site 1 runs along Juniper Ave which is a secondary north/south arterial to the heavily traveled Sierra Ave. Site 2 runs along Sierra Ave which is Fontana's primary north/south arterial, heavily traveled and provides quick access to the I-10 and 210 freeways. With the development of uses that will potentially attract more traffic (including truck and automobiles), east/west access to the project sites should be improved to allow for alternative ingress/egress access points.

Trade Area Summary

Based on analysis, it is determined that any proposed retail uses intended for the project site would be limited to local neighborhood shopping establishments due to community gravitational patterns and the existing commercial uses along Sierra Ave, which is discussed in more detail in the following sections of this analysis. Existing retail uses servicing the 5-minute drive time trade area will appeal to customers from short distances with the uses primarily serving convenience and daily shopping needs. The following map illustrates the boundaries of the primary 5-minute drive time trade area:



Please note, because of the retail trade area, the proposed project site will face some competition with existing retail centers to the north and south along Sierra Ave at Valley Blvd and at Foothill Blvd. However, should the project site develop with potential residential, and office uses, the increase in additional people to the area could warrant consideration of attracting additional neighborhood retail uses for the convenience of both new employees and the increase in residents. Currently, within the 5-minute drive time trade area there is nearly 47,000 in a residential population and a daytime population of nearly 44,000 people according to SiteSeer demographics as of October 2021. The 10-minute trade area daytime population dramatically grows to more than 127,000 because of a large inflow of employees coming from outside of the trade area and city passing through Fontana working within many of the industrial centers, Kaiser Hospital, California Steel Industries, and other uses within Fontana.

Trade Area Analysis

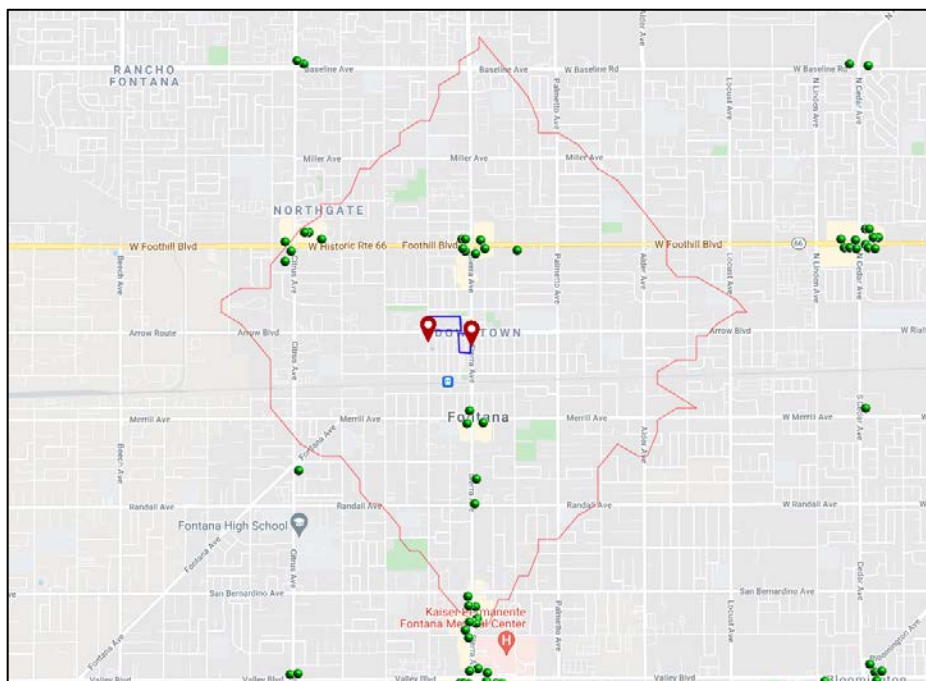
A retail gap analysis was completed looking at various establishment types like grocery, restaurant, drug stores and institutional uses (banks etc.). The analysis is more than finding retailers that are missing from the trade area but shows where opportunities exist to service a trade area resident, business and the employee that commutes in from outside the Fontana area. The process looks to consider the consumer demand & market supply assessment (Gap Analysis) and to visually match opportunities with potential development locations.

5-minute drive time By Establishments	Consumer Demand Trade Area	Market Supply Trade Area	Opportunity Gap/Supply (%)
Restaurants	\$ 43,173,782	\$ 42,540,061	-1%
Misc. Retail Stores	\$ 12,907,148	\$ 6,426,044	-50%
Specialty Food Stores	\$ 4,635,438	\$ 3,784,780	-18%

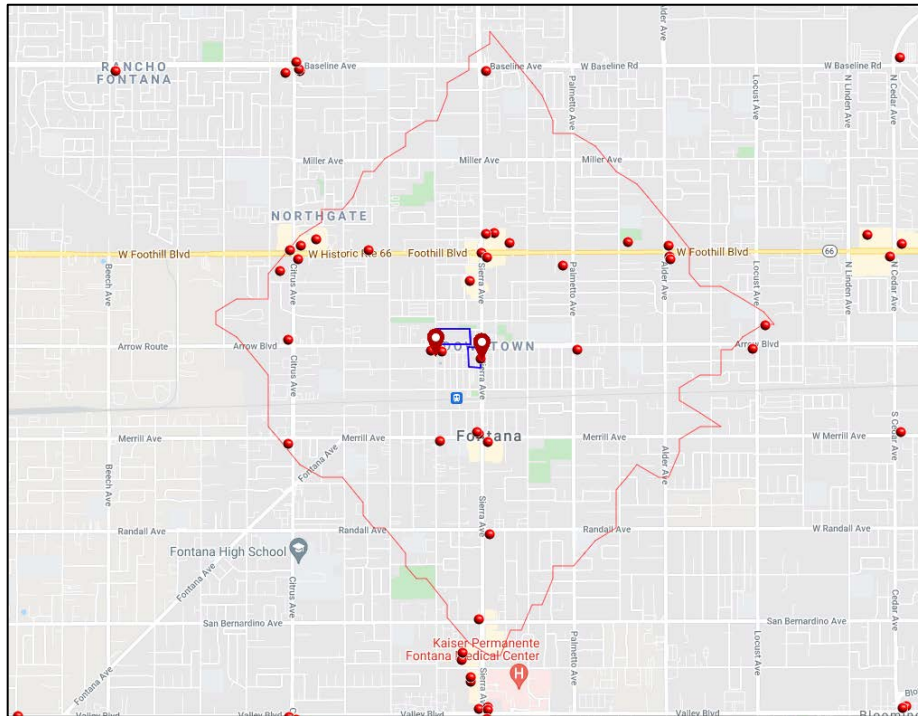
As discussed in more detail in subsequent sections of the analysis, a Consumer Demand & Market Supply assessment was used to provide a macro-appraisal of the Fontana retail marketplace, as well as retail options within the primary trade area. A consumer demand/market supply index is used to show if a community or trade area is meeting the retail demand of its residents. A result above 100 suggests demand is not being met and residents are likely traveling outside of the defined trade area to fulfill their retail needs. Within the primary trade area, the consumer demand/market supply index is 66, suggesting that demand is somewhat being fulfilled within the trade area limits.

Below are some potential commercial voids within a 5-minute drive time of the project site:

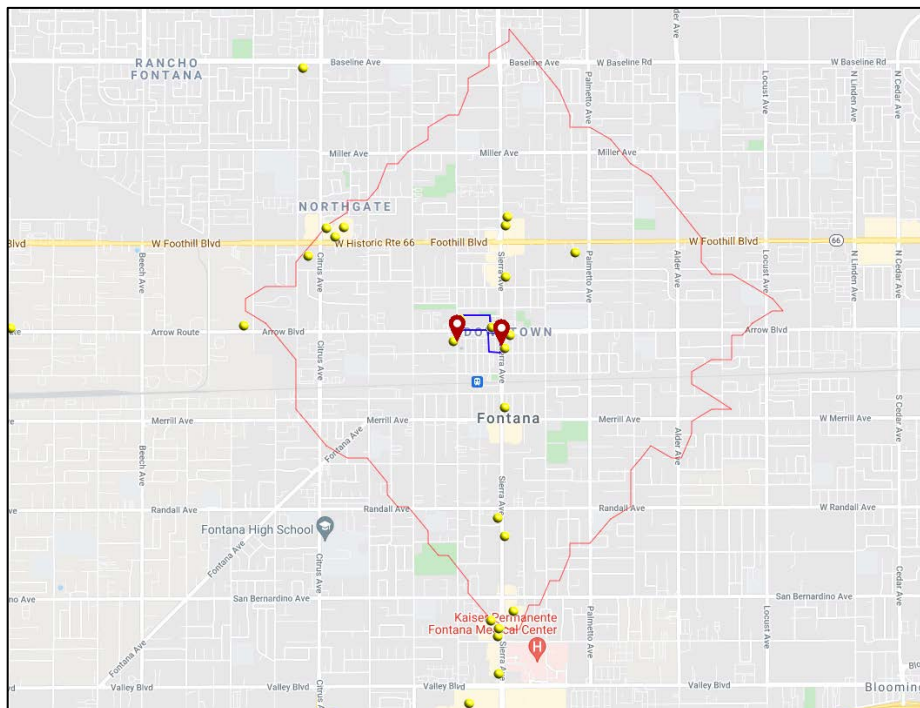
Restaurants – 5-minute drive time trade area



Grocery/Convenience/Specialty Food Store – 5-minute drive time trade area



Miscellaneous Retail/Institutional Uses – 5-minute drive time trade area



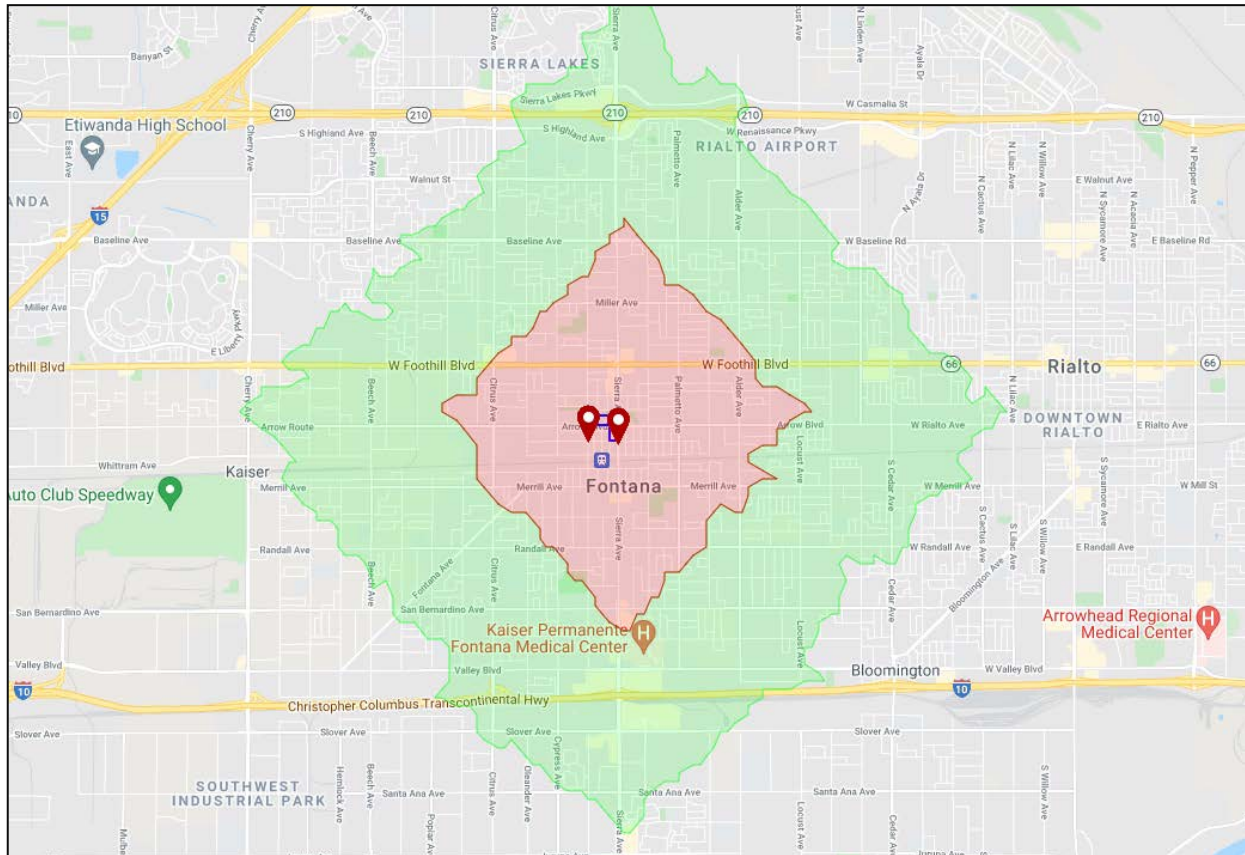
Consumer Demand & Market Supply Assessment

A Consumer Demand & Market Supply Assessment for the trade area identifies unfulfilled market supply for consumer demand. The trade area shows approximately \$1,407,720,636 being spent outside the primary trade area and outside of the City of Fontana with much of this being spent in shopping centers to the west in Rancho Cucamonga and Ontario. This represents approximately \$14,000,000 in potential annual sales tax revenue that could be realized by the City of Fontana. HdL ECONSolutions used a methodology whereby the potential leakage is weighed against the potential sales that can be realized from a prototypical commercial shopping center. The potential leakage is then factored into sales per square foot based on potential sales resulting from a potential retail establishment type. To that end, HdL ECONSolutions is estimating approximately 15,000 to 25,000 square feet of retail could potentially be realized and absorbed within the primary trade area. Should additional residential or the addition of employment generating business/development (which will increase the daytime population), be developed within the primary trade area (5-minute drive time) there is the potential that additional retail could be attracted to the project sites and/or within the trade area. The addition of more traffic (via the arterial streets, as well as foot traffic through increase population) will help in retail attraction efforts as many retailers not in the trade area will require at a minimum 50,000 population in a primary trade area. The consideration of absorbing 15,000 to 25,000 square feet of new retail, in addition to potentially attracting additional residential and office development to the primary trade area presents the opportunity for the development of no more than 4-acres of neighborhood retail at the project sites.

Consumer Demand & Market Supply Assessment												
Site:			Site 1 and Site 2									
Address:			Fontana CA									
Date Report Created:												

Current Market Conditions

As previously mentioned, the trade area for the project site is defined in drive times with the primary trade area defined as a 5-minute drive time which includes most of the downtown area. The secondary trade area is defined as a 10-minute drive time and includes some areas north of the 210 and south of the I-10 freeways. Within the 10-minute drive time, there are several retail options including neighborhood and strip/convenience centers. However, within the immediate



area the access to grocery, quick service/fast casual restaurants, banks, and other convenience services is lacking. The 5-minute drive time consist of approximately 46,985 people living in 11,794 households and hosts a daytime population of 43,530 along with a workforce of 17,064. The 10-minute drive time consist of approximately 151,135 people living in 36,579 households and hosts a daytime population of 127,876 along with a workforce of 34,563. The 10-minute drive time makes up approximately 70% of the total population for the City of Fontana.

Commercial Market Conditions

There are many masterplan communities with commercial development strategically planned and conveniently located within a 10-minute drive time of the development sites. Unlike Orange and Los Angeles counties, the Inland Empire attracts relatively few tourists, meaning its retailers depend on local consumers to fill their stores. While the Inland Empire has shown consistent job growth, a lack of high-paying jobs has hindered significant spending power. Costar expects Inland Empire vacancies to drop to 6.7% in the next 12 months as new retail projects come online in cities such as Rialto, Ontario, and Indio.

Residential Market Conditions

In the last quarter, homes in Fontana have sold from 2.0% to 3.0% over the initial list price, which is a testament to the tight housing marketing that is being seen throughout California. The median sales price for homes in Fontana increased by 14.1% over the last quarter to \$593,032 or \$279 per square foot. The number of new homes coming on the market each month in Fontana increased by 28%, while the number of homes sold each month increased by 1462% over the past 12 months. Over the last quarter homes were sold in an average of 38 days which increased slightly over the previous quarter by approximately 11%; however, we do not see a cooling of the residential market. Both new and pre-owned home market is a hot commodity in California, in addition to a very tight rental market as well.

Comparable Downtown Analysis

Richmond CA



The City of Richmond California has gone from hosting the largest shipbuilders on the West Coast during World War II to its current campaign to become a pedestrian-friendly “urban village”. The Richmond Main Street development area has taken an interlinked, multi-front approach to redeveloping its downtown as a safe and thriving destination for businesses, entertainment, and the arts. Running from the Richmond Parkway to I-80, Macdonald Avenue is the primary east-west connector in the heart

of downtown Richmond, in the eastern region of the San Francisco Bay area.

This is part of the area known as “The Iron Triangle” because it was bounded by railroad tracks, which have since been covered over with asphalt. Over the years, the area became known as a high-crime district — but the work to build a new, positive direction was uplifted by the 2011 opening of the new East Bay Center for the Performing Arts at Macdonald and 11th Street. The East Bay Center has been in operation since 1968 and has given over 50,000 student artists a chance to develop themselves and their work. The Center’s new facility includes the aptly named Iron Triangle Theater.

The Richmond Main Street area has mixed uses including commercial and multifamily residential. Respected residential builder-the Olson Company developed much of the residential product in the area. Downtown Richmond also has a train station, similar to Downtown Fontana.

The Richmond Chamber of Commerce provides services, resources, and advocacy. The Downtown Holiday Festival, Small Business Saturday and the annual Community Fund Golf Tournament are just a few of its activities. The Main Street Initiative is working to attract more people to downtown Richmond, in part by organizing events such as Music on the Main, Art in Windows, and the Spirit and Soul Festival. The Summer Youth Entrepreneurs Program helps youngsters develop business-related skills. Several farmers’ markets, both on and around MacDonald Avenue, are a strong feature of Richmond, with local produce, fruit, eggs, and handmade crafts.

For outdoor activities, the Nevin Center hosts sailing, biking, camping, and kayaking. Just to the west of Macdonald Avenue is Point Richmond, where Europeans settled in the mid-1800s. Nearby is the Rosie the Riveter WWII Home Front, a 145-acre National Historical Park that overlooks the site of the Kaiser Richmond Shipyards, which produced more ships during the war than any other. Speaking of history, the Richmond Museum on Nevin Street, one block north of Macdonald Avenue, showcases the history of this diverse city. The museum also maintains the SS Red Oak Victory, the “Ship that Rosie Built,” a restored, locally built cargo ship that serves as a monument to the men and women who worked in wartime industries during World War II.



Chula Vista CA



Chula Vista is San Diego’s 2nd largest city, incorporated in 1911 and is named “Beautiful View”, due to its proximity to the coast. Chula Vista is known for its eastern San Diego County developments including the communities of Eastlake and Otay Ranch. In the heart of Downtown Chula Vista, you will experience a small town feel in the middle of a big city. 3rd Avenue between H Street and E Street is the original Main Street Chula Vista. It is the host to many small businesses, restaurants, and eateries that bring

families to eat and enjoy outdoor concerts, nostalgic arcade games, or lounging with friends for a picnic on the grassy knoll of Memorial Park. Not only does Downtown Chula Vista host some great restaurants, but the nightlife on the street is also up and coming as well, where you can catch a live theatre performance at the Onstage Playhouse.

The J Street Marina is not only for boats, but a great place to host an outdoor birthday party, have a family picnic, go for a walk/bike ride. There are two playgrounds located across the street from a new shopping center. Residents and visitors alike can bike to the park and end up on a pedestrian-friendly shopping trip.

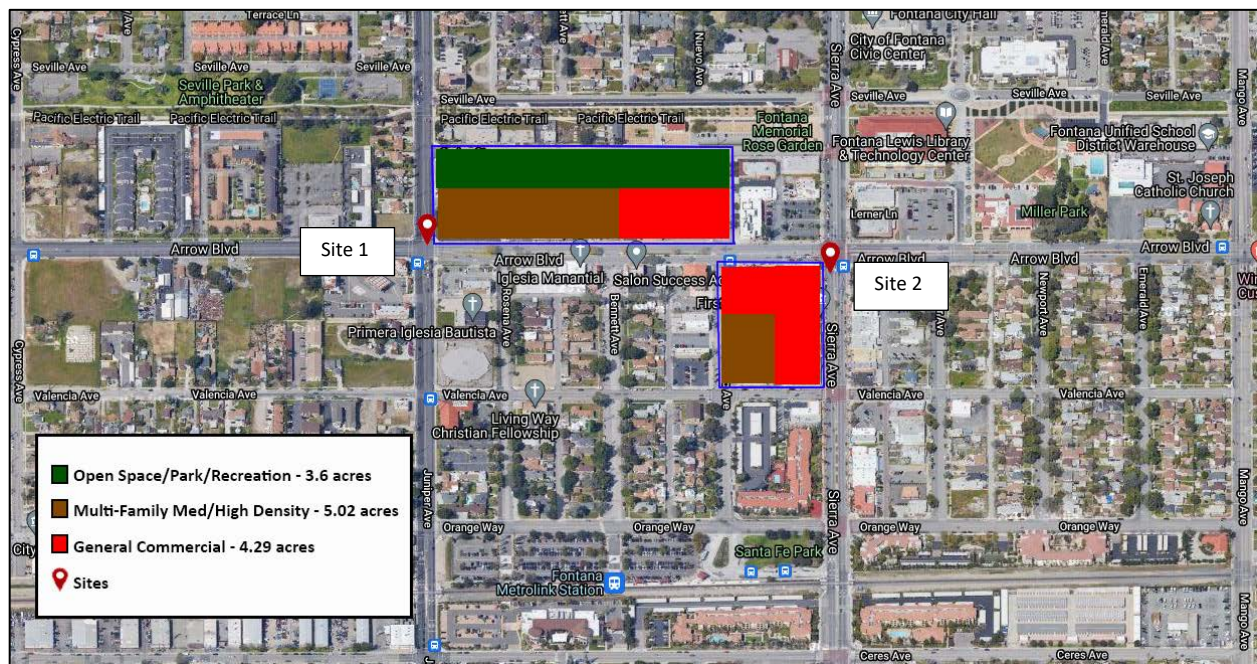
Additionally, downtown Chula Vista has a state-of-the-art library, the Civic Center campus, and recreation centers including community swimming pools.

In recent years, Chula Vista has been incorporating newer multifamily residential product into its downtown area to help create a more vibrant downtown area. Adding multifamily residential to the existing established residential neighborhoods nearby will help create more activity and more customer demand for the many restaurants and retailers situated in downtown Chula Vista.



Market Analysis – Recommended Land Uses

The proposed non-residential land uses within the project site provides an opportunity for the City of Fontana to increase employment opportunities and provide for additional retail that specifically caters to the primary trade area workforce and existing residents, plus possible new residential uses to be situated in the downtown area. Additionally, the land uses within the project area need to consider the residential to the south, west, and east of the sites and as such should look to implement land uses that allow for a transition of use types that are more complementary to fostering a pedestrian-friendly development. The intent of the suggested uses should provide a natural transition from potential retail located closer to Sierra Avenue to residential to the west. Additionally, the suggested land uses will also provide opportunities for convenience retail/restaurants in the primary trade area catering to the area's workforce and daytime population. Lastly, the inclusion of additional green space/park area just south of the existing Pacific Electric Trail, will not only provide a buffer and transition from development to the north, but will also act as a natural pedestrian gathering location for community events.



According to Multi-House News (2021), the Inland Empire's rental market posted its best performance in 2021. Multifamily asset performance in the Inland Empire has been very strong, despite the pandemic with year-over-year vacancy at just 1.8%. With the medical and logistics-heavy job market, limited new apartment construction, and the lack of supply support apartment owners.

With inward migration and population growth driving the strong market fundamentals, building highly high-quality multifamily residential that will attract professionals is key to success of these development areas. According to a GlobeSt.com report (2021), 26,300 new households were formed in 2021 even as home prices in the market surged 32%. This dynamic has pushed many people into the rental apartment market. Population growth along with limited apartment supply could position those cities that have available land for this use type to seize on the opportunity to increase their daytime population which in turn will attract additional retail uses.

Revenue Analysis

Sales Tax

Development Type	Total Building SQFT	Sales/SQFT	Total Annual Sales	Annual Sales Tax Revenue
General Commercial	15,000	\$250	\$3,750,000	\$37,500
Office	5,000	\$25	\$125,000	\$1,250

In addition to the approximate \$3.75 million in taxable sales generated, HdL ECONsolutions estimates another \$125,000 to \$250,000 in business-to-business sales that will generate an additional portion of \$1,250 to \$2,500 in sales tax revenue to the general fund through potential business-to-business transaction.

Property Tax

Property tax revenue is based on an estimate of the 3.7% share of the City's 1% property tax collected.

Development Type	Total Building SQFT	Bldg. Cost /SQFT	Total Building Cost	Annual Property Tax
General Commercial	15,000	\$360	\$5,400,000	\$1,998
Office	5,000	\$360	\$1,800,000	\$667
MFR	100,000	\$180	\$18,000,000	\$6,660

There is the potential that within the 5.02 acres approximately 120 units could be built using 24 units to the acre and in total there could potentially be nearly 100,000 square feet of highly high-quality multifamily residential for rent.

Jobs

Development Type	Total Building SQFT	Bldg. SQFT/ Employee	Total Employees
General Commercial	15,000	250	60
Office	5,000	250	20
Residential	100,000	1500	67

Per the U.S. Bureau of Labor Statistics on average depending on land use type, employment can be calculated by the factor of approximately 1 worker per every 250 to 1,500 square feet. This provides a general idea of the potential increase in daytime traffic because of new employees at these potential new retail establishments. The proposed development sites in downtown Fontana are estimated to produce approximately 146 employees at buildout. This provides a basic measure of the potential in sales tax revenue generated by these employees who will be making purchases in the City. This is outlined in more detail below as an indirect impact and while this could fluctuate, it does provide a conservative economic impact of potential revenue that could be realized from the increase in new workforce population.

Indirect Impacts

Indirect impacts are as a result of sales made within the City by employees working within the new development. Total impacts (employee/spending) are using 2021 dollars using the total estimated employees within the developments at buildout. Additionally, sales tax revenue generated by employees is based on an ICSC 2013 study on employee spending, with the average employee spending \$146 per week (not including spending on transportation and online sales). The annual spending uses the average weekly spending multiplied by 52 weeks per year and does

not consider weekend and holidays. Total sales tax generated by employees within the City of Fontana is based on HdL ECONSolutions' estimate that 70% is spent on taxable items in Fontana.

Employee Spending

Total Annual Spending by Employees	Percentage Spent in Fontana	Total Spending in Fontana	Sales Tax Generated by Employees
\$607,360	70%	\$425,152	\$4,252

It is estimated that with the addition of these two potential distinct development areas, the City of Fontana could realize an additional \$50,327 in revenue from sales tax, property tax and indirect sales tax revenue generated by employee spending. Over a 10-year period with modest 2% growth, these developments have the potential to yield approximately \$649,487 in revenue brought into the City.

Revenue Summary Table

Revenue Source		Total
Sales Tax - Direct		
	General Commercial	\$37,500
	Office	\$1,250
		\$38,750
Sales Tax – Indirect		
	Employee Spending	\$4,252
Property Tax		
	General Commercial	\$1,998
	Office	\$667
	Residential	\$6,660
		\$9,325
Project Total Revenue		\$52,327

Conclusion

The two areas studied present a unique opportunity for the City of Fontana to help guide the redevelopment of approximately 12 acres of property situated in downtown Fontana. The two areas were carefully analyzed and evaluated considering their property configuration and locations. Given these factors, along with market demand, the two areas seem prime for mixed-use development with a combination of new commercial uses and new multifamily residential development. Please note we recommend horizontal mixed-use, not vertical mixed-use. There is significant demand for more residential development in the Inland Empire, especially new high-quality multifamily residential product. Incorporating some residential product into these two locations will also serve to enhance the patronage of existing commercial development in the downtown area, as well as new commercial retail development proposed for part of these two locations.

The redevelopment of these two areas will produce new revenue to the City of Fontana through property tax revenue, along with sales tax, including direct from new business establishments and indirectly from employee spending. Together, the new revenues should total slightly more than \$52,000 annually.