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FINAL REPORT:

MARKET ASSESSMENT

OLD TOWN TEMECULA

Prepared for:

CITY OF TEMECULA

Prepared by:

KEYSER MARSTON ASSOCIATES, INC.

ORIGINAL TO:  
PCM

Date:

COPY TO:

JUNE 8, 1998

KMAR-98  
Temecula

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1660 Hotel Circle North  
Suite 716  
San Diego, California 92108  
*kmasd@kmainc.com*

Golden Gateway Commons  
55 Pacific Avenue Mall  
San Francisco, California 94111  
*kmasf@kmainc.com*

500 South Grand Avenue  
Suite 1480  
Los Angeles, California 90071  
*kmala@kmainc.com*

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## **A. EXECUTIVE SUMMARY**

### **1. District Identity**

Old Town Temecula provides a unique and historic environment for specialty shopping, dining, and entertainment uses for both local residents and tourists.

In order for Old Town to continue to thrive, it will need to strengthen its appeal to residents of the local trade area. The City and Old Town stakeholders should consider positioning Old Town as Temecula's "downtown," offering a special destination for "lifestyle" shopping and services, eating and drinking, entertainment, and special events.

To further these goals, the City should also consider siting public projects such as the proposed new Civic Center within Old Town in order to attract local patronage to the area. Other public gathering places, including arts facilities, parks and plazas, and community centers, could be linked to a Civic Center project in order to leverage public investment in these facilities.

### **2. Market Opportunities**

#### **Retail / Restaurant**

Old Town has the potential to capture 35,000 to 58,000 SF of new retail and restaurant uses over the next five years (1998-2003) and an additional 60,000 to 100,000 SF during the following five years (2003-2008). KMA has identified three major retailing opportunities:

- (a) *Eating and Drinking Establishments:* Old Town has the potential to capture between 14,000 and 21,000 SF of restaurant/bar uses over the next five years. KMA recommends establishment of a "restaurant row" as an important first phase for district revitalization. Possible tenant types include: Diners, barbeque-style restaurants, steak houses, ice cream and candy stores, Western-style saloons, and micro-breweries.

- (b) *Specialty Stores:* KMA recommends two specific themes in particular: sporting goods and apparel and outdoor recreation supply. Examples include hiking and camping gear, Western-oriented apparel and gear, athletic supply and shoes, and theme bookstores.
- (c) *Home Furnishings and Design:* The existing concentration of antiques stores in Old Town provides the foundation to add other household furnishing and decor stores. Examples include stores that sell: new furniture, lighting, wall art, patio furniture, and specialty hardware stores.
- (d) *Long-Term Targets:* With the introduction of significant new residential in Old Town and vicinity, the district may be successful in attracting upscale "lifestyle" retailers such as Restoration Hardware, Pottery Barn, and Smith & Hawken, as well as a specialty grocery store.

#### Office Space

There are relatively limited opportunities for office development within Old Town. Where possible, KMA recommends that the City encourage development of office uses, particularly "hybrid" live/work space, on upper floors. Location of the Temecula Civic Center within Old Town would reinforce the district's role as Temecula's downtown and enhance the desirability of Old Town as an office location for architects, engineers, and other development industry tenants.

#### Hotel

The Old Town environment is well-suited for development of several moderate to upscale bed and breakfast inns or small lodges. Key opportunities would involve adaptive re-use of one of the area's historic hotels or older buildings. In addition, KMA recommends that the City pursue limited-service or extended-stay hotels in nearby locations outside of Old Town.

Residential

Significant expansion of residential uses within Old Town and vicinity will be an important component of the area's revitalization, as new residents will provide an important patronage base for specialty retailers, convenience shopping and services, and restaurants in Old Town. Key opportunities are: (1) development of new senior apartments; (2) adaptive re-use of older structures as lofts; (3) in-fill multi-family development along Pujol Street; and (4) medium- and high-density housing within the Westside Specific Plan.

**3. Other Development Concepts**

- (a) *Arts and Cultural Uses:* Old Town needs an expanded mix of arts and cultural uses if the district is to be successful in maintaining its current share of local trade area expenditures as well as regional tourism spending. Comparable districts include entertainment or cultural facilities such as museums and theatres. KMA recommends that the City consider siting new arts and cultural uses within Old Town to enhance the district's draw and leverage the City's investment to date. Possible uses include: a playhouse theatre; Western or Native American museums or galleries; and working artisans' craft shops.
- (b) *Enhancement of Murrieta Creek:* Murrieta Creek is a key asset and should play a prominent role in the Old Town revitalization program. The creek offers a natural setting that could be developed as a recreational / pedestrian promenade lined with restaurants and specialty shops.
- (c) *Cooperation with Wineries:* Old Town stakeholders should consider structuring a cooperative marketing arrangement with the vintners. Additional representations of the wine country could also be incorporated within Old Town.



#### 4. Other Strategic Recommendations

(a) *Business Improvement District (BID)*: Old Town stakeholders should consider formation of either a business- or property-based Business Improvement District (BID). BIDs can provide marketing and promotion, security, parking services, and maintenance, as well as other revitalization activities and improvements. BIDs appeal to property and business owners because funds are controlled by the private sector, allowing the business community to decrease its reliance on uncertain public financial support. The City should consider providing the seed capital to implement an Old Town BID.

(b) *Uniform Shopping Environment*: Old Town stakeholders should also consider uniform operating hours, standardized parking arrangements, and enhanced wayfinding signage.

(c) *Freeway Visibility*: The City and Old Town stakeholders should consider pursuing one or more of the available means to enhance Old Town's visibility from the freeway.

(d) *Recruitment Strategies*: Strategies available to the City/Redevelopment Agency to attract new development, business, and arts and cultural uses to Old Town include:

- Solicit developer investment through Requests for Proposals (RFPs) for targeted properties.
- Encourage or assist adaptive re-use of historic buildings.
- Direct solicitations to end users such as restaurants or hotel operators.
- Partial financial sponsorship for arts and cultural facilities.
- Continued investment in public improvements.

## **B. INTRODUCTION**

### **1. Objective**

The City of Temecula requested that Keyser Marston Associates, Inc. (KMA) prepare a market assessment to evaluate near- to mid-term market opportunities for new business and development within the Old Town Temecula Specific Plan area.

### **2. Methodology**

In preparing this assessment, KMA has undertaken the following key work tasks:

- (a) Discussions with the major stakeholders involved in Old Town and the City of Temecula regarding existing conditions and potential opportunities.
- (b) Review of local and regional demographic trends.
- (c) Analysis of retail sales patterns relative to the expenditure potential of the surrounding trade area.
- (d) Evaluation of existing and proposed competitive market supply for retail, office, hotel, and residential uses.
- (e) Estimation of retail space demand potential for Old Town.
- (f) Identification of key opportunities in terms of appropriate uses and tenant types.

In addition, KMA engaged a survey research subconsultant, CIC Research, Inc., to undertake two surveys: (1) a shopper intercept survey of Old Town patrons; and (2) a telephone survey of local residents. Both surveys focused on residents' and visitors' perceptions of Old Town and its opportunities for improvement.

### 3. Report Organization

This report has been organized as follows:

- Following this Introduction, *Section C* provides an overview of the Old Town district.
- In *Section D*, KMA reviews the major opportunities and constraints affecting the development potential of Old Town.
- *Section E* summarizes the key issues raised by stakeholders and community members.
- *Section F* presents an evaluation of demographic trends for the local trade area.
- In *Sections G through J*, KMA evaluates market conditions for retail / restaurant / entertainment, office, hotel, and residential land uses, respectively.
- KMA's conclusions and recommendations are presented in *Section K*.
- Assumptions and limiting conditions to this assessment are detailed in *Section L*.

### C. OLD TOWN OVERVIEW

#### 1. Background

Located in the heart of Temecula, Old Town is the cultural and historic focus of the community. It contains over 20 historic structures and has become a regional location for antiques shoppers.

The site of Old Town Temecula originated in the 1880s with the arrival of the railroad and the moving of the post office to the present town's location. However, the area has a much earlier beginning dating back to the original village settled by the Shoshonean Indians around 900 A.D. along the banks of the Temecula River. The arrival of the railroad in 1882 marked a boom period in the City's history. Granite quarries became productive in the late 1880s and lasted until 1915. Thousands of tons of cut granite were shipped from Temecula to form the front steps of the Riverside County courthouse, curbstones on Market Street in San Francisco, cemetery monuments, and hitching posts. Some of these curbs are still present in Temecula in front of the Squire (originally the Machado Store and later the Long Branch Saloon), around the corner from the Bank, as well as in front of the Temecula Hotel. The largest piece (15 tons) is in Sam Hicks Monument Park, on which are inscribed the names of the notable visitors to the Temecula Valley.

The turn-of-the-century era brought prosperity to Temecula and the town grew steadily. Some of the town's more notable buildings were constructed during these times: the first school in 1890; Temecula Mercantile (Burnham Store) in 1902; First National Bank in 1912; and the Palomar Hotel in 1928, to mention a few.

Today, Old Town is but a part, albeit an important part, of the larger Temecula community. New development surrounds the historic town site and many of its historic structures have been torn down or moved. Still, others remain as a reminder of Temecula's past and serve as an inspiration for future development in Old Town and elsewhere.

## 2. Old Town Specific Plan

The Old Town Temecula Specific Plan was officially adopted in February 1994 and further refined approximately two years later (January 1996). The Old Town Temecula Specific Plan area is bounded by Rancho California Road to the north, First Street to the south, and the Interstate 15 (I-15) freeway to the east. The multi-family residential community along Pujol Street occupies the western portion of the Specific Plan area. According to City planners, the area consists of approximately 90 acres, excluding public rights-of-way. The district is split into east and west sectors by Murrieta Creek, which runs north-south parallel to Front and Pujol streets. Approximately 56 acres is located east of the creek and 34 acres west of the creek. The Specific Plan provides the master plan for the Old Town district and it legally establishes the zoning and design parameters for properties within ten sub-districts, as follows:

- Highway Tourist Commercial (HTC)
- Old Town Civic (OTC)
- Tourist Retail Core (TRC)
- Community Commercial (CC)
- Community Commercial/Tourist Support (CCTS)
- Tourist Serving Residential (TSR)
- Medium Density Residential (MDR)
- High Density Residential (HDR)
- Open Space (OS)
- Wild West Zone (WWZ).

As stipulated in the Specific Plan, the primary objective for the district, as a whole, is to create "...a dynamic Old Town commercial and residential core, in order to provide a viable economic setting for local tourist commercial uses and residential uses." Currently, elements of physical and economic blight are evident throughout the district. Many buildings are in deteriorating and/or obsolete condition.

The City proposes to undertake a \$3 million streetscape improvement program beginning in mid-1998. The proposed improvements will be built along Front Street from First to Sixth Street, and along Main Street from Murrieta Creek to Mercedes Street. Improvements include new medians, street trees, sidewalks, monumentation, gateways, and special paving treatment at key nodes.

In the mid-1990s, the Redevelopment Agency of the City of Temecula entered into a development agreement with The Zev Buffman Group (TZBG) for development of a large-scale entertainment project immediately west of Old Town within the Westside Specific Plan area. The project, known as the Old Town Entertainment Project (OTEP), was proposed to contain a multitude of visitor-oriented uses that would be complementary to the historic character and existing mix of businesses within Old Town proper. Project components included: a hotel, playhouse theatres, an opera house, an arena, virtual reality venues, eating and drinking establishments, and a recording studio. In early 1998, TZBG announced its intention to pursue an alternative, comparable development proposal, dubbed RogersDale U.S.A., in Murrieta.

### 3. Business Activity

There are over 120 active retail businesses in the Old Town area. As shown in Table C-1, the largest category of retail businesses consists of Specialty stores (47%), followed by Other Retail Outlets (19%), and Eating and Drinking establishments (15%). In terms of retail sales activity, Eating and Drinking establishments provide the area's strongest economic engine, representing 55% of taxable sales. The next strongest sales volumes are generated by Specialty stores (17%) and Home Improvement stores (14%).

While Southern California as a whole experienced a severe recession in the early to mid-1990s, the Temecula Valley demonstrated strong economic growth during this period. Old Town, on the other hand, has experienced a decline in business activity in recent years. As shown in Table C-2, sales tax revenues in Old Town have dropped 4% since 1995, while the balance of the City experienced an increase of 12%. Additionally, assessed valuation for Old Town properties has declined significantly, about 11% from 1993 to 1997. (See Table C-3.)

#### 4. Development Capacity

The core of Old Town – centered around Front and Main Streets – encompasses three of the sub-districts defined in the Specific Plan: the Tourist Retail Core (TRC), Community Commercial/Tourist Support (CCTS), and Tourist Serving Residential (TSR). Table C-4 summarizes the land area, existing uses, and development capacity for these three sub-districts. The TRC and CCTS districts taken together contain about 288,000 square feet (SF) of gross building area (GBA) on 15.54 acres of land. This existing development represents a Floor Area Ratio (FAR) intensity of about 0.43. The balance of these two districts contains about 16.44 acres of existing vacant land or land occupied by single-family housing. If this property were developed at a comparable density, FARs of say 0.40 to 0.45, then about 286,000 to 322,000 SF of additional building area could be added – approximately double the existing uses.

The adjoining TSR district currently contains 31 single-family homes on 5.42 acres. If these properties were redeveloped at a future date, an additional 95,000 to 106,000 SF GBA could be added to the Old Town core.

In sum, if all three sub-districts were built out at a density comparable to existing uses, the Old Town core would contain approximately 668,000 to 716,000 SF of building area. This amount of development represents approximately 230% to 250% of the existing commercial development within these sub-districts.

#### 5. Comparable Districts

KMA surveyed a range of "comparable" districts in the Western United States, including Old Town San Diego, Solvang, and two towns in Colorado. The objective of this survey was to understand the key factors that have contributed to the success of other visitor-oriented, special districts. KMA identified communities or districts with an existing tourism base, pedestrian-oriented retail, and a special historical or architectural feature.

As shown in Table C-5, the six surveyed districts vary widely in character and setting. However, several key factors appear to be constant. These are outlined below; comparisons with Old Town Temecula are also noted.

- *All of the districts are distinguished by some element of historic architecture and/or landmark building(s) or monument(s).* Although Old Town Temecula has a number of historically important buildings, no specific monuments or landmarks are "showcased" for the passerby or tourist.
- *Almost all of the districts have formed a Business Improvement District (BID) or strong merchants association.* Old Town merchants do not have a formal organization.
- *All of the districts promote numerous special events each year.* This is true for Old Town. Several of the surveyed districts stage special events much more frequently.
- *All of the districts offer two or more free public parking lots.* The City of Temecula is proceeding with development plans for a second public lot.
- *All of the districts include one or more anchor entertainment or cultural facilities, such as museums and/or theatres.* Old Town offers neither.
- *Two of the districts emphasize their waterfront location; two of the districts emphasize their railroad history.* Although Murrieta Creek passes through Old Town, it is neither improved nor integrated with the built environment.



TABLE C-1

**DISTRIBUTION OF RETAIL SALES, OLD TOWN AREA  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Retail Category</u>	<u>Number of Active Outlets</u>	<u>Percent of Total</u>	<u>Total Taxable Sales April 1997 - March 1998</u>	<u>Percent of Total</u>
Eating & Drinking	19	15%	\$8,610,000	55%
Specialty Stores	58	47%	\$2,650,000	17%
General Merchandise and Comparison Goods	5	4%	\$110,000	1%
Convenience Goods	4	3%	\$930,000	6%
Home Improvement	14	11%	\$2,110,000	14%
Other Retail Outlets	23	19%	\$1,130,000	7%
<b>Total</b>	<b>123</b>	<b>100%</b>	<b>\$15,540,000</b>	<b>100%</b>

Source: City of Temecula  
 Prepared by: Keyser Marston Associates, Inc.  
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TABLE C-2

**SALES TAX REVENUES, OLD TOWN AREA, 1995 - 1997**  
**OLD TOWN TEMECULA MARKET ASSESSMENT**  
**CITY OF TEMECULA**

<u>Fiscal Year</u>	<u>Old Town</u>	<u>Previous Period % Change</u>	<u>Citywide without Old Town</u>	<u>Previous Period % Change</u>
1995	\$156,102	-	\$6,397,063	-
1996	\$165,611	6.10%	\$7,479,138	16.9%
1997	\$149,967	-9.50%	\$7,160,637	-4.3%
<b>Total Change 1995-1997</b>	<b>(\$6,135)</b>	<b>-3.93%</b>	<b>\$763,574</b>	<b>11.9%</b>

Source: City of Temecula

Prepared by: Keyser Marston Associates, Inc.

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TABLE C-3

**ASSESSED PROPERTY VALUATION, OLD TOWN AREA, 1993 - 1997  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

Assessed Value Component	Fiscal Years				Total Change from 1993 to 1997
	1993	1994	1995	1996	1997
Land	\$22,207,093	\$22,442,011	\$22,520,966	\$22,497,545	\$20,752,859
Improvements	\$27,955,147	\$25,107,922	\$25,792,533	\$25,750,918	\$23,804,270
Personal Property	\$749,659	\$671,676	\$540,124	\$527,082	\$505,047
Exemptions	(\$6,444)	(\$1,435)	(\$378,766)	(\$1,501)	(\$375,617)
					(\$244,612)
					(\$369,173)
					N/A
<b>Total</b>	<b>\$50,905,455</b>	<b>\$48,220,174</b>	<b>\$48,474,857</b>	<b>\$48,774,044</b>	<b>\$44,686,559</b>
					<b>(\$5,480,550)</b>
<b>% Change From Previous Year</b>	<b>N/A</b>	<b>-5.3%</b>	<b>0.5%</b>	<b>0.6%</b>	<b>-8.4%</b>
					<b>-10.8%</b>

TABLE C-4

**LAND INVENTORY DISTRIBUTION, OLD TOWN CORE  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Area</u>	<u>Estimated Land Area (Square Feet)</u>	<u>Estimated Land Area (Acres)</u>	<u>Approximate Existing FAR (1)</u>	<u>Estimated Building Area (SF)</u>
TRC and CCTS (2) Districts Combined	Existing Development 677,000	15.54	0.43	288,000
Future Development	716,000	16.44	0.40 to 0.45	286,000 to 322,000
<b>Subtotal, Near-Term-Build-Out</b>	<b>1,393,000</b>	<b>31.98</b>	<b>0.41 to 0.44</b>	<b>574,000 to 610,000</b>
TSR District (3)	Future Development 236,500	5.42	0.40 to 0.45	95,000 to 106,000
<b>Total, Long-Term Build-Out Three Districts Combined</b>	<b>1,629,500</b>	<b>37.4</b>	<b>0.41 to 0.45</b>	<b>668,000 to 716,000</b>

(1) Floor Area Ratio

(2) TRC - Tourist Retail Core CCTS - Community Commercial &amp; Tourist Support

(3) TSR - Tourist Serving Residential

Source: City of Temecula.

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TABLE C-5 PAGE 1

OVERVIEW OF COMPARABLE DISTRICTS  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA

Location	Signature Hallmark	Sample of Events Calendar	Approximate Annual Event Count	BID or Merchant Association	Special Amenities	Theater/ Amphitheater	Annual Visitor Volume	Parking Sites	Number of Guest Rooms in Immediate Area
Old Town Temecula - California	Historic (un-officially), Wineries	Old Town Rod Run, Western Days, Christmas in Old Town, Old Town Farmers Market.	Less than 10	No	Antique Dealers		Unavailable	Two city lots	629 Rooms
Old Town San Diego - California	Historic Mexican Sites, National Registered Park (Heritage Park).	Cinco De Mayo, Mexican Independence Day, 4th of July Celebration.	Less than 10	Yes	Western Museum, Archaeological Digging	Old Town Theater	6,000,000	5 city lots (some congestion on busy weekends).	276 Rooms
Old Sacramento - California	Historic Riverfront, National Registered Landmark/State Historic Park (28 Acre site).	Jazz Jubilee, Collector's Fairs, Children's and Art Festival, and Holiday Festival, Festival de la Familia, etc.	Over 60	Yes	California State Railroad Museum, Sacramento River/Waterfront	Eagle Theater	5,000,000	2 city lots (3,000), street 600, 3 private multi-level lots (some congestion).	1,600 Rooms
Solvang - California	Danish Architecture/Heritage/ Culture, Santa Inez Mission.	Blues Jazz Festival, Solvang Century Bike Ride, Vintner's Festival, Music and Arts Festival, Danish Days, Winterfest Celebration, etc.	Over 40	Yes - Informal	Santa Inez Mission, Hans Christian Anderson Museum, Santa Barbara County Wineries	Theater Fest	2,000,000	4 city lots (free), street parking, some congestion during big events.	726 Rooms

TABLE C-5 PAGE 2

OVERVIEW OF COMPARABLE DISTRICTS  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA

Location	Signature Hallmark	Sample of Events Calendar	Approximate Annual Event Count	BID or Merchant Association	Special Amenities	Theater/ Amphitheater	Annual Visitor Volume	Parking Sites	Number of Guest Rooms in Immediate Area
Benicia - California	California's Oldest Standing State Capitol Building, Waterfront Scenery with New Promenade	Fourth of July, Fiesta In the Park/Craft Fair, Waterfront Festival, Capitol Candlelight Concerts, Lighted Eost Parade, etc.	Over 80	Yes	Home to More than 40 Historic Sites, Fully Restored State Capitol Building	No	Unavailable	Street parking with 4 city lots.	112 Rooms
Durango - Colorado	Durango & Silverton Narrow Gauge Railroad-National Historic Civil Engineering Landmark.	Creativity Festival, Durango Fiesta Days, Banderas & Beds O'ella, Gem/Krill/Coin Show, Durango Bl'legias Maidtown.	Over 30	Yes	Pristine American West landscapes, Mesa Verde National Park	Art Center	130,000	2 city lots (free), emailed parking on streets, private lot (not adequate on Main Street)	3,280 Rooms
Georgetown - Colorado	Georgetown-Silver Ruine National Historic District/Victorian Mining Town Georgetown Loop Railroad	Fourth of July Parade/B-B-Que, Christmas Market	Less than 10	Yes-Historic Preservation	Close proximity to two ski resorts - Loveland & Keystone, hiking and biking trails	No	45,500	3 city lots (free), parking is adequate.	80-125 Rooms

Source: Keyser Marston Associates, Inc.  
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## **D. OPPORTUNITIES AND CONSTRAINTS**

This section summarizes Old Town's key strengths and weaknesses with respect to attracting new businesses and development.

### **1. Major Opportunities**

- *Unique historic environment.* Temecula's history dates back to the Shoshone Indian inhabitants as well as some of California's original Spanish settlers. The first major sign of European settlement occurred in 1858, with the inaugural trip of the Butterfield Overland Stage Line, which brought new settlers for Temecula. In 1882 the Santa Fe Railway built a rail line through the Temecula Valley and Old Town became the focal point for the ensuing growth. Over the years the original western architecture has stood the test of time and provides the area with a link to the heritage and history of Temecula. Some of the more historic structures located within Old Town include: the Welty Hotel (1882), the Temecula Mercantile (1891), and the First National Bank of Temecula (1914). Old Town's historic western legacy is well-preserved and distinguishes the area from other older shopping districts in Southern California.

This historic fabric offers a platform for increased civic and public activities for local residents. New arts and cultural venues and the planned Civic Center project could also be designed to take advantage of the historic elements of Old Town.

- *Concentration of antiques stores.* Old Town is equipped with a variety of unique and intriguing antique and collectible retail outlets. The area provides in excess of 350 antiques dealers, attracting shoppers interested in a one-stop-shopping destination for antique, craft, and collectible items. Old Town's concentration of antiques stores may provide a foundation to attract other related retailers to the district.

- **Proximity to the wineries.** Located in an inland valley amidst rolling hills, Temecula enjoys a special climate and topography. Taking advantage of these assets, the Temecula Valley wine country has developed a reputation for producing wines that compete with some of the best in the world. The heart of Old Town, Front and Main Streets, is less than five miles west of the wine country. According to the Temecula Valley Vintners' Association, between 100,000 and 150,000 people visit the Temecula wineries each year. The proximity of this major visitor destination has the potential to generate spin-off benefits for Old Town.
- **Growing, affluent trade area.** Temecula's economic vitality continues to grow, with the City's main economic engines comprising the housing, manufacturing, transportation, and distribution sectors. Some of the area's larger employers include Guidant Corporation, AmScan Incorporated, and International Rectifier. The area's strong economic growth has contributed to above-national-average salaries for the area's populace. In 1997, mean household income for the Old Town primary trade area was over \$58,000. At the same time, Temecula continues to offer affordable housing: over 50% of single-family home sales in the area are in the range of \$100,000 to \$150,000. As a result of relatively higher incomes, combined with relatively affordable housing, more discretionary income remains in the pockets of trade area residents.
- **Natural setting.** Old Town is located within a strikingly beautiful natural setting, the Temecula Valley. The strongest views from within Old Town are enjoyed from the shoreline of the Murrieta Creek, which runs north-south west of Front Street. Although the creek is dry during much of the year, it remains a significant natural asset, providing open space and a viewshed toward the mountains from the heart of Old Town.
- **National resurgence of street retail.** Although national and regional retailers have shown a preference for traditional malls and shopping centers, "street" retail has resurfaced in the late 1990s as a highly popular venue. The essence of street retail is captured by specialty retail, eating and drinking, and entertainment establishments concentrated in a walkable district with a unique ambiance. In view of its historic character, pedestrian scale, and fast-growing trade area, Old Town is well-positioned to capture this resurgent retailing trend. Many California cities and redevelopment agencies are working to create this type of district.



In their downtown areas. Key examples currently underway in Southern California include: the Brea Civic Center area, the Vista Village Creekwalk project, and Santee Trolley Square. Existing successful districts include: Cedros Street in Solana Beach, Fourth Street in Berkeley, and 23<sup>rd</sup> Street in Portland, Oregon.

- *Temecula's role as a subregional retail center.* Temecula's retailers and shopping centers draw substantial retail spending from beyond City boundaries. In fact, Temecula "imports" retail sales in almost every major retail category. Temecula's role as a shopping destination should be reinforced with the opening of The Promenade regional mall.

## 2. Major Constraints

- *Lack of anchor uses.* Like other street retail districts, Old Town is challenged by its lack of anchor stores or other major tenants. Old Town does not appeal to traditional anchor tenants primarily due to the area's fractionalized land parcelization and "off the beaten path" location. Lacking this draw, the district currently attracts shoppers based on its unique character, "critical mass" of antiques stores, dining and entertainment opportunities, and special event programming.
- *Lack of direct freeway access.* Old Town is located halfway between two freeway exits. Traffic congestion on Rancho California Road, in particular, slows access to Old Town.
- *Lack of freeway visibility.* Despite its direct proximity to the I-15 freeway, Old Town is not particularly visible to the freeway. Approximately 27 million motorists on I-15 pass Old Town each year. However, there is no signage or monumentation indicating Old Town's location, and the district's buildings are not prominently visible from the freeway. The City is currently taking steps to add freeway exposure by means of available billboard rental.

- *Limited close-in residential population.* Old Town has not witnessed any of the explosive residential growth that has taken place within Temecula over the past decade. New housing development has been concentrated on the abundant land supply east of the I-15. Old Town includes a small single-family area along Mercedes Street and a concentration of primarily multi-family housing along Pujol Street. However, these areas are relatively small and somewhat depressed; they do not provide much support for retail and service businesses within Old Town.
- *Limited land supply.* As a result of its settlement over a century ago, Old Town today is characterized by numerous small parcels and multiple ownerships. Although there is a sizeable quantity of vacant and underutilized land, the ownership and parcelization patterns present challenges to private investors who might attempt to assemble larger development sites.
- *Lack of uniformity.* The historic character of Old Town, combined with its mix of small, family-owned businesses, create several challenges. Old Town merchants do not maintain uniform hours of operation. Entrances to building are not always well-marked or well-lit so as to indicate that a business is indeed open. Sidewalks are not uniform; in some blocks, the street right-of-way and sidewalk appear seamless. Although parking is available, customers often perceive that there is an insufficient (or inconvenient) supply. Locations of parking resources available to shoppers in the Old Town core are not well identified.

## **E. KEY STAKEHOLDER ISSUES**

### ***1. Stakeholder Interviews***

A key component of KMA's market assessment involved identification of major issues by persons who have a stake in the Old Town area and its revitalization. KMA facilitated a series of meetings with property owners, business owners, and community representatives on March 3, 1998. Participants were eager to provide input to the market assessment and offered numerous suggestions, ranging from the renaming of Front Street to attracting more tour buses to the area. In an attempt to capture the essence of stakeholders' comments, KMA has summarized the following principal areas of discussion:

- (a) *Need for better lighting, streetscape, and parking.* Stakeholders expressed concerns that Old Town has inadequate lighting, a deteriorating and unattractive streetscape, and insufficient, well-located parking. City officials pointed out that the City's streetscape improvement program for Front and Main Streets will significantly improve the appearance of the district and enhance the perception that Old Town is clean, safe, and attractive. Merchants were also concerned that parking supply is being developed at the northern and southern ends of the district, while most commercial activity is concentrated in the tourist core around Front and Main streets.
- (b) *Need for diversification of businesses and land uses.* Many stakeholders discussed Old Town's limited mix of businesses and insufficient draw for repeat visitation. A number of people felt that the area has too many antiques stores and not enough other shopping opportunities. At the same time, the concentration of antiques stores gives the area a unique identity and provides a good cornerstone for future expansion.
- (c) *Need for enhanced visibility and signage.* A significant amount of discussion focused on the lack of freeway signage denoting Old Town's existence and accessibility. City officials indicated that certification of at least one building within Old Town as a historic structure under State guidelines would qualify the district for CalTrans signage on the I-15.

(d) *Need for a more unified effort and district identity.* Some stakeholders felt that Old Town lacked a "marketable" identity other than as a concentration of antiques stores. Suggestions were made that Old Town could be marketed as a cultural and entertainment district. In addition, it was pointed out that there has been a lack of unison among Old Town merchants in organizing and marketing the district.

## **2. CIC Research, Inc. Resident and Shopper Surveys**

CIC Research, Inc. conducted two surveys in Temecula during March and April 1998: (1) face-to-face interviews with Old Town shoppers; and (2) telephone interviews with local residents. Both groups were surveyed regarding their perceptions of Old Town, its strengths and weaknesses, and opportunities for improvement. CIC Research's complete report is available under separate cover. The key findings are summarized below.

### **(a) Intercept Survey**

- Approximately half of all respondents surveyed on a face-to-face basis in Old Town Temecula were visitors from outside Riverside County. The remaining half were Riverside County residents.
- Surveyed respondents who reside within Riverside County have lived an average of 7.9 years in the area and reside an average of 12.3 miles from the Old Town area.
- The majority of all respondents own their home.
- Respondents have an average of 3 people in their household.
- The median age of respondents is 50.4 years.
- The median annual household income is \$62,500.
- One in four visitors from outside Riverside County were staying overnight in the Temecula Valley area.
- The majority of visitors staying overnight were staying in the City of Temecula.

- Overnight visitors stayed mostly in a hotel or motel.
- Almost half of the visitors from outside Riverside County replied that Old Town was their main reason for visiting Temecula.
- For visitors from outside Riverside County, initial awareness of Old Town was primarily via friends or relatives.
- Visitors from outside Riverside County tended to locate the Old Town area with much ease.
- For all survey respondents, a small proportion have visited the Old Town area frequently in the year prior to the survey, causing the mean to be high at 17.1 times. However, the median is calculated at 4.0 times, indicating that half of all respondents have visited the area four times or less in the year prior to the survey.
- Respondents are visiting the area mainly for browsing/shopping, sightseeing, or the Farmer's Market, and plan to or have visited an average of 7.5 businesses on the day of the survey.
- Stores visited or planned to visit are predominantly antique shops followed by specialty/craft/gift stores and eating and drinking places.
- Respondents have spent or plan to spend an average of \$67.83 on their current visit to the area.
- More than half of all respondents like the western/old/rural/historic aspect of the Old Town area.
- Old Town was rated very high (i.e., in a positive light) as a place to shop for antiques, crafts, and gifts.
- Approximately four in ten respondents have ever attended a special event in the Old Town area. Special events suggested by respondents include a western theme ("Western Days", "Pioneer Days"), live music/entertainment/theater, and street fairs/festivals.

- While more than one in four respondents would not like to see any stores added to the area, the most frequently mentioned stores include specialty shops and specialty food/restaurants.
- Given the choice of art galleries, live entertainment, or working artisans as a way of increasing their visits to Old Town, respondents tended to favor working artisans, followed by live entertainment.
- The most frequently mentioned Southern California destinations for fun one-day shopping trips include North County Fair, San Diego Old Town, Elsinore Outlet Stores, and San Diego Seaport Village.

**(b) Telephone Survey**

- Respondents surveyed via the telephone have lived an average of eight years in the area, compared with 7.9 years for intercepted respondents.
- Distance from home to the Old Town area is calculated at 7.5 miles for respondents (who live in Riverside County) surveyed via the telephone as compared to 12.3 miles for intercepted respondents.
- Three percent of respondents have a member of their household who works in Old Town, as compared with one percent among respondents surveyed on a face-to-face basis.
- The overall majority of respondents surveyed via the telephone, as well as on a face-to-face basis, own their home.
- The median age of respondents surveyed via the telephone is calculated at 43.4 years as compared with 50.4 years for intercepted respondents.
- The median annual household income for telephone respondents is \$61,842, as compared to \$62,500 for intercepted respondents.

- Respondents surveyed via the telephone have visited the Old Town area an average of 26 times in the year prior to the survey, and a median of 8 times. Thus, similar to results from the intercept survey, a small proportion of respondents have visited the area frequently, causing the mean to be high, but half of all respondents have visited the area eight times or less in the year prior to the survey. (Median = 4 times for the intercept survey.)
- Respondents who have visited the Old Town area in the year prior to the survey have visited a mean of 2.9 times in the prior 30 days. More than one in three of these respondents have not visited the area in the prior 30 days.
- Approximately six in ten respondents visit the antiques, craft, and gift shops when they visit Old Town. Respondents have visited these shops an average of 9.5 times and a median of 4 times in the past year.
- One in ten respondents have not visited the Old Town area in the year prior to the survey. Businesses these respondents are aware of in the Old Town area include antiques shops, restaurants, specialty shops, and offices/hotels.
- The major reasons given for not frequenting the Old Town area were primarily that there was "nothing of interest," that it was "too far out of the way," and that they "don't go out much."
- Respondents who have not previously visited the Old Town area were asked for suggestions to encourage them to visit the area. Results indicate a desire for nice restaurants/more variety, increased advertising, and improved traffic flow.
- Types of stores or attractions respondents would like to see added were mostly specialty shops and eating/drinking places. Specialty shops was also mentioned most frequently by intercepted respondents.

- Likelihood of visiting the area if more art galleries, live entertainment, or working artisans were added was ascertained. Results were consistent for respondents who have not, as well as those who have, visited the Old Town area in the year prior to the survey. Live entertainment, followed by working artisans, were the most popular additions. In comparison, Intercepted respondents tended to favor working artisans, followed by live entertainment. However, both groups of respondents gave art galleries the lowest rating of the three possibilities.
- On a five-point scale with one equal to "poor" and five equal to "excellent," approximately three in four respondents rated Old Town a four or five on the scale with respect to being a place to shop for antiques, crafts, and gifts. This is also true for respondents interviewed on a face-to-face basis in the Old Town area.
- Slightly more than one in four respondents visit the art galleries when they go to Old Town. Other places where art galleries are visited include Laguna Beach, Los Angeles, and San Diego.
- Most respondents visit the eating and drinking places when they go to Old Town. Respondents have eaten in Old Town an average of 11.4 times and a median of 5 times in the year prior to the survey.
- One in four respondents use the services available in Old Town such as repair shops, banks, etc.
- One in three respondents frequent the Old Town Farmer's Market. In the past year, these respondents have visited the Farmer's Market an average of 6.8 times and a median of 3 times.
- Of seven items read to respondents with respect to the Old Town area, respondents surveyed via the telephone gave the most positive response for:
  - "Friendliness and helpfulness of Old Town merchants."
  - "Ease of access between stores."



- The Old Town area is liked best because it is western/old/rural/historic as well as for its atmosphere/ambiance. This result is consistent with that obtained from intercepted respondents.
- More than three in four respondents have ever taken out-of-town visitors to the Old Town area. Places visited with out-of-town guests include antiques stores, eating/drinking places, and specialty/craft/gift stores.
- Slightly more than half of all respondents have ever attended a special event in the Old Town area. Special events suggested for the area include live music/entertainment/theater, car events, a western theme, and street fairs/festivals. These results are similar to those suggested in the telephone survey.
- Almost six in ten respondents have ever taken out-of-town visitors to visit local wineries. Of those who have not taken out-of-town visitors to local wineries, approximately one in three have ever visited the local wineries themselves.
- Those who have visited local wineries have done so an average of 3.7 times in the year prior to the survey.

## **F. DEMOGRAPHIC TRENDS**

### **1. Regional Overview**

Since the mid-1980s, the Inland Empire has remained one of the fastest growing areas in the state, and possibly the nation, in terms of population, housing, and employment growth. Inland Empire communities offer an affordable, centrally located alternative for businesses and residents alike.

The City of Temecula has experienced tremendous population growth for the last seven years. The City grew from 27,099 in 1990 to an estimated 43,100 in 1997, which equates to a 6.41% annual growth rate.

Temecula is centrally located with respect to Riverside County and San Diego County. Its proximity to Interstates 15 and 215, and State Route 79, affords it easy accessibility to surrounding metropolitan areas.

### **2. Trade Area Demographics**

KMA defined the primary trade area for Old Town to encompass approximately a ten-mile radius of the district. This trade area, shown in Exhibit F-1, includes seven Census Tracts, inclusive of the cities of Temecula and Murrieta and surrounding communities. This fairly large trade area was selected for several reasons. First, the existing development pattern within the Temecula Valley is relatively dispersed and residents are accustomed to driving longer distances for shopping and services than their more urban counterparts. Secondly, most of the key competing retail locations - lining the I-15 and I 215 freeways in Temecula and Murrieta - fall within this trade area boundary. Finally, as much as 40% of Old Town's existing patronage is estimated to originate from within this trade area (per CIC Research, Inc. surveys).

As shown in Table F-1, the primary trade area had an estimated 1997 population of about 124,600 people. This represents an annual rate of increase over the 1990 population figure of 6.9%. The trade area is forecast to continue to grow at a 4.2% annual rate through 2002, bringing the total population to approximately 152,900 residents.

Current per capita income for the primary trade area is estimated at \$17,300 and is projected to increase 3.4% annually, raising per capita income to approximately \$20,500 by 2002. Mean household income in the trade area was approximately \$58,000 in 1997. This figure is corroborated by the CIC Research telephone survey: median household income among telephone respondents was approximately \$62,000.

The current estimated aggregate household income of the primary trade area is nearly \$2.2 billion. The combination of population and income growth within the trade area are anticipated to boost this figure to \$3.1 billion by 2002 – an increase of approximately 50% over five years (a portion of which is attributable to inflation).

The trade area population is skewed toward young families with children. The estimated 1997 median age for the primary trade area rests at a relatively young 34.9 years old. Nearly two-fifths (37.5%) of the trade area population is 24 years old or less; another one-third (32.9%) are aged 25 to 44 years old. Just 10.9% of the trade area population is 65 years old or older. This age distribution is relatively comparable to Southern California as a whole.

# **Exhibit F-1: Primary Trade Area** **Old Town Temecula Market Assessment**

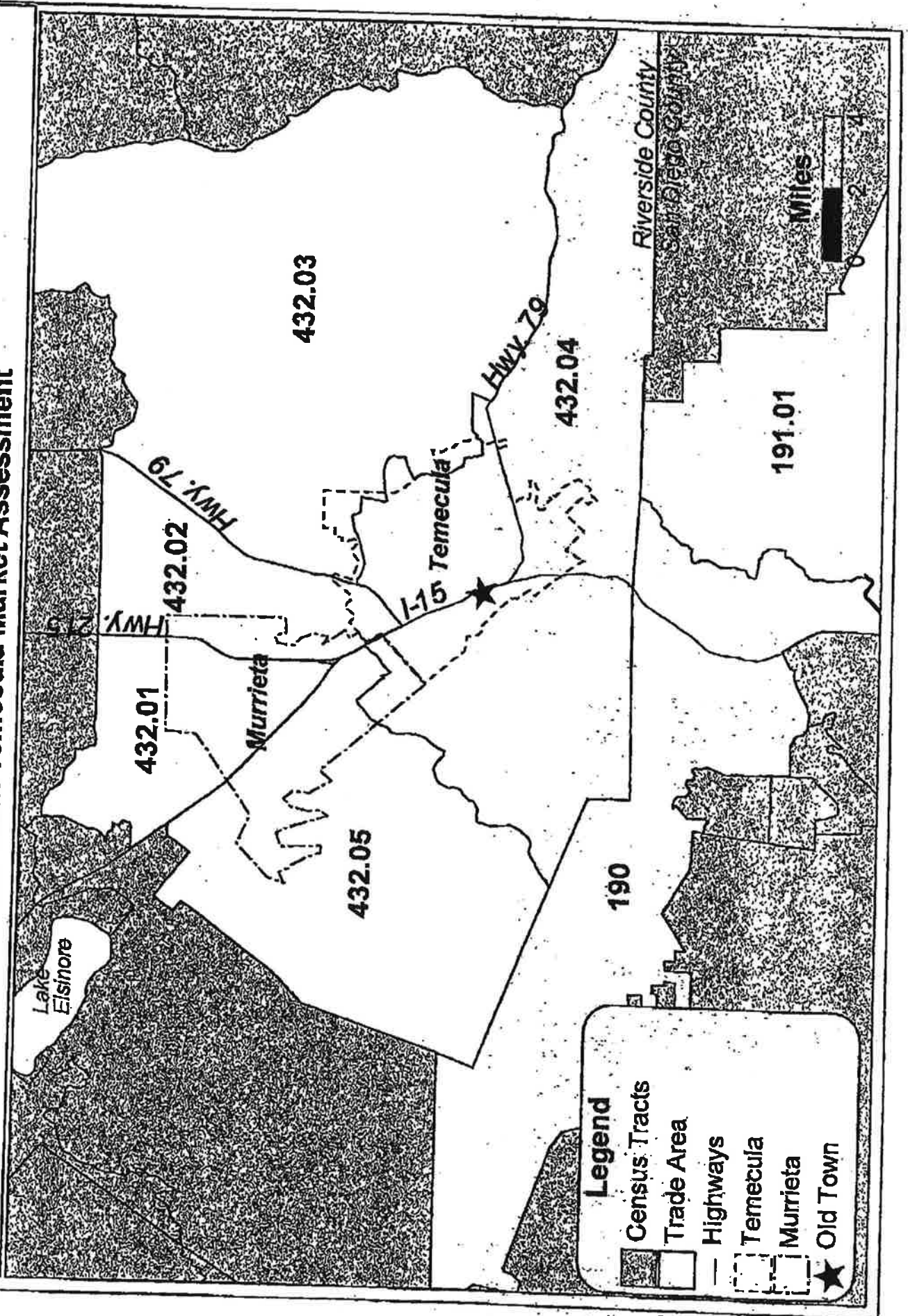


TABLE F-1

DEMOGRAPHIC TRENDS, PRIMARY TRADE AREA, 1997 - 2002  
 OLD TOWN TEMECULA MARKET ASSESSMENT  
 CITY OF TEMECULA

	<u>1990</u>	<u>1997</u>	<u>2002</u>	<u>Avg. Annual Growth Rate 1990 - 1997</u>	<u>Avg. Annual Growth Rate 1997 - 2002</u>
Total Population	77,788	124,619	152,904	7.0%	4.2%
Per Capita Income	\$11,094	\$17,306	\$20,493	6.6%	3.4%
Aggregate Personal Income (000's)	\$863,003	\$2,156,638	\$3,133,532	14.0%	7.8%
Households	26,504	42,008	50,829	6.8%	3.9%
Mean Household Income	\$50,519	\$58,258	\$63,397	3.2%	2.2%
Median Age	33.3	34.9	35.3		
Household Income Distribution, 1997					
	<u>Less than \$20K</u>	<u>\$20K - \$34.9K</u>	<u>\$35K - \$49.9K</u>	<u>\$50K - \$74.9K</u>	<u>\$75K and Above</u>
	16.6%	18.4%	19.9%	24.2%	21.0%
Age Distribution, 1997					
	<u>17 and Under</u>	<u>18 - 24</u>	<u>25 - 44</u>	<u>45 - 64</u>	<u>65 and Older</u>
	30.6%	6.9%	32.9%	18.7%	10.9%

## **G. RETAIL MARKET CONDITIONS**

### **1. Overview of Supply Factors**

Retail development in the Inland Empire has generally kept pace with the area's residential development. Thousands of new single-family homes have been developed throughout Rancho California, Temecula, and Murrieta. At the same time, a broad range of regional, promotional, and community retail space has either been developed or is currently being planned. Table G-1 inventories the major shopping centers in Temecula and Murrieta. (See also location map in Exhibit G-1.) As shown in the table, the trade area is well-served with respect to convenience (grocery and drug stores), general merchandise, and home improvement retailers. (Refer to Table G-2 for an explanation of the retail categories used in this report.) There is a limited inventory of specialty, apparel, and home furnishings and appliance stores (generally grouped as "comparison goods"). This deficit will likely be reduced by the planned construction of the approximately 975,000-SF Promenade Mall and adjacent 400,000-SF power center.

### **2. Retail Expenditure Patterns**

For the past seven years, the City of Temecula has maintained a steady growth in retail sales. This can be attributed both to the area's rapid population growth and the City's accessibility to I-15, enabling Temecula retailers to attract out-of-town shoppers.

KMA evaluated retail sales per capita and retail sales per capita as a percent of per capita income for Temecula and neighboring jurisdictions. Tables G-3 through G-8 profile the categories of eating and drinking, specialty goods, general merchandise goods, other comparison goods, convenience goods, and home improvement, respectively. This evaluation was used in constructing the import/export analysis shown in Table G-9. KMA used estimates of population and income, combined with typical spending ratios, to estimate retail expenditure potential for the City of Temecula. As shown in the table, KMA estimates the City's total potential for the six categories to be \$262 million, compared to \$429 million in actual sales (1996 figures). In other words, the City "imports" approximately \$167 million in retail sales annually.

The strongest import occurs in the categories of General Merchandise and Specialty Goods, followed by Convenience Goods and Eating and Drinking. The City has several large General Merchandise retailers, including Costco, Mervyns, Big KMart, and Target.

The City exports sales in two categories: Other Comparison Goods and Home Improvement. Other Comparison Goods includes apparel, shoes, home furnishings, and household appliances. The City's existing representation of retailers within these categories is fairly weak, resulting in the outflow of residents' expenditures to other shopping areas. The completion of the planned Promenade regional mall will respond to a portion of the unmet demand for Other Comparison Goods.

### 3. Retail Space Demand

Tables G-10 through G-15 present: (1) KMA's forecast of total retail space demand for the primary trade area for the next ten years; and (2) KMA's estimate of potential retail space capture for the Old Town district.

KMA estimates that the primary trade area will experience an increase in demand for retail space of about 1.0 million SF over the next five years and an additional 1.3 million SF over the following five years. Therefore, during the period 1998-2008, the trade area will experience a total increase in retail space demand of approximately 2.3 million SF, as shown below (SF):

<u>Category</u>	<u>1998-2003</u>	<u>2003-2008</u>	<u>Ten-Year Total</u>
Eating and Drinking	170,000	223,000	393,000
Specialty Goods	200,000	260,000	460,000
General Merchandise	240,000	311,000	551,000
Other Comparison Goods	120,000	156,000	276,000
Convenience Goods	130,000	132,000	162,000
Home Improvement	180,000	226,000	406,000
<b>Total</b>	<b>1,040,000</b>	<b>1,308,000</b>	<b>2,348,000</b>

In addition, the planned Promenade Mall can be expected to draw shoppers from beyond the Old Town primary trade area. For Old Town, this represents both an opportunity -- to capture spin-off benefits from the mall's new patronage -- and a challenge -- to offer retail, restaurant, and entertainment uses that complement the mall's tenant mix, rather than compete directly.

#### 4. Retail Space Capture

As the next step, KMA estimated how much of the total retail space demand for the primary trade area could likely be captured in Old Town. This estimation considered the range and diversity of competing shopping locations within, and adjacent to, the trade area. In view of this competition, KMA has used relatively conservative capture rates for each category of retail uses, ranging from 2.5% to 7.5% of anticipated retail space demand. Additionally, KMA considered the City's and Redevelopment Agency's commitment to the revitalization of Old Town, including attraction of new businesses.

On this basis, KMA estimates that Old Town could capture between 95,000 and 158,000 SF of new retail space over the next ten years. This projection can be broken out as follows:

##### 1998-2003 (SF)

	<u>Low</u>	<u>High</u>
New Space Supported by Local Trade Area, 1998-2003	28,000	46,000
Additional Demand beyond Trade Area <u>at 67%</u> , 1998-2003	<u>19,000</u>	<u>31,000</u>
Subtotal, Local- and Visitor-Supported Demand, 1998-2003	47,000	77,000
(Less) Amount Accommodated by Existing Space	<u>(12,000)</u>	<u>(19,000)</u>
Total Estimated Old Town Retail Capture, 1998-2003	35,000	58,000

##### 2003-2008 (SF)

New Space Supported by Local Trade Area, 2003-2008	36,000	60,000
Additional Demand beyond Trade Area <u>at 67%</u> , 2003-2008	<u>24,000</u>	<u>40,000</u>
Subtotal, Local- and Visitor-Supported Demand, 2003-2008	60,000	100,000

##### Ten-Year Total (SF)

Total Demand, 1998-2003	35,000	58,000
Total Demand, 2003-2008	<u>60,000</u>	<u>100,000</u>
Ten-Year Total	95,000	158,000



The "low" scenario reflects a modest level of tenant recruitment activity on the part of the City and Old Town stakeholders. The "high" estimate assumes a successful, aggressive recruitment effort. Key assumptions incorporated in this demand projection include the following:

- Old Town is likely to capture only a small share (5.0% to 7.5%) of trade area expenditures for Eating and Drinking and Specialty Goods, and an even smaller share (2.5% to 5.0%) with respect to General Merchandise and Other Comparison Goods. KMA has conservatively assumed that Old Town will capture none of the anticipated demand for Convenience Goods and Home Improvement retail space.
- Old Town will continue to enjoy patronage from residents well beyond the trade area. The C/C Research survey concluded that nearly two-fifths (38.1%) of Old Town patrons are primary trade area residents, with the balance originating from beyond the trade area. (Refer to Table G-11). In KMA's view, this approximate 40% / 60% mix of locals/visitors is likely to change over the next decade. The Temecula Valley will continue to develop at a faster rate than Southern California as a whole. For this reason, KMA has assumed an eventual mix of 60% locals / 40% visitors. Based on this additional demand from beyond the trade area, KMA has increased the estimate of Old Town's retail space capture by 67%.
- Existing retailers in Old Town are generating below-average sales productivity relative to competitive retail locations and industry standards. KMA has assumed that a portion of the near-term demand, estimated at 25% of 1998-2003 retail capture potential, will be absorbed through increased productivity in existing space. On this basis, KMA has reduced the five-year retail space capture estimate by 25%.

## 5. Entertainment

KMA also considered the potential for expanded entertainment uses in Old Town. The Temecula entertainment market is generally focused on family-oriented diversions. Key entertainment and recreation features are reviewed below.

- The trade area is amply served with movie theatres. As shown in Table G-1, there are 20 existing screens in Temecula and a new, state-of-the-art 17-plex cinema in Murrieta. In addition, Forest City Development plans 14 movie screens at the Promenade regional mall.
- The Promenade will also feature a complex of recreational and entertainment venues, including possibly a large-scale ice rink facility.
- Temecula's skating park offers year-round activities for children and young adults.
- Public events such as the Old Town Rod Run, Summer Nights, Old Town Spooktacular, and Wine Festivals are also planned with family entertainment in mind.

At the same time, the trade area offers a somewhat limited range of entertainment venues, particularly in terms of arts and cultural activities. KMA interviewed representatives of arts and cultural groups in Temecula, including Randy Holland, owner of the Temecula Art Gallery in Old Town and President of the Arts Council of the Temecula Valley. According to Mr. Holland, there is strong demand for new entertainment venues to serve local residents. For example, his Temecula Art Gallery occasionally stages country, blues, chamber, and solo acoustic performances. These shows typically sell out well in advance of each performance, indicating a strong demand for such entertainment.

KMA also surveyed representatives of two local live theatre groups regarding the potential for a local performing arts theatre. These organizations, the Christian Youth Theatre (CYT) and The Temecula Valley Playhouse (TTVP), cited the lack of any community performing arts facilities. Each organization is briefly profiled below:

(a) *Christian Youth Theatre*. The CYT is a non-profit, youth-oriented, theatre organization. It operates a September through May season and generally performs musical productions. Currently, productions are held in the 200-seat Murrieta Town Hall. The CYT also utilizes other off-site locations for rehearsals. CYT reports that most shows are sold out; about 6,000 tickets are sold per season.

(b) *The Temecula Valley Playhouse*. TTVP is a local non-profit drama/performing arts company. The current theatre used by the Playhouse seats nearly 160 and is actually a converted warehouse that, until recently, had no permanent seating. The monthly rent paid for use of the warehouse is approximately \$2,000. The Temecula Redevelopment Agency provides approximately \$12,000 per year in grants to the Playhouse, while the Arts Council of the Temecula Valley reportedly provides \$24,000 annually in grant money. During a typical year, the Playhouse will stage six productions, each show running three weeks (12 performances). Performances have been well-attended, with occupancy estimated at 85% to 90%. Local supporters of TTVP and local art patrons have held discussions with the Temecula Redevelopment Agency regarding construction of a community theatre facility in Old Town. The proposed theatre building would be roughly 6,000 SF in size, with 300 stadium-style seats, and incorporate an Old West theme. Project costs are estimated between \$800,000 to \$1,000,000 (\$133-\$167/SF).

**TABLE G-1**

**SURVEY OF MAJOR RETAIL CENTERS / ANCHOR STORES**  
**OLD TOWN TEMECULA MARKET ASSESSMENT**  
**CITY OF TEMECULA**

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**Temecula****Anchor Tenant(s)**

Tower Plaza  
27480 Ynez Road

Vons, The Movie Experience (10 Screens)

Rancho California Town Center  
27450 Rancho California Road

Albertsons, Target, Miller's Outpost, Edwards  
Theaters (10 Screens), Petco, Sav On Drugs

Palomar Village  
30600 Rancho California Road

Lucky, Longs Drugs, Warehouse Records

Winchester Square  
27475 Jefferson Avenue

Stater Brothers, Frazee Paint, Winston Tires

Palm Plaza Center  
26400 Ynez Road

Food 4 Less, Pier 1 Imports, Mervyn's, Big K Mart  
Michael's

Costco (Price/Costco)  
40435 Winchester Road

Stand alone project.

**Proposed**

The Promenade - Mall  
East of Ynez Road, south of Winchester,  
west of Margarita Road.

Sears, Robinsons-May, J.C. Penney and Edwards  
Theaters (14 Screens), Barnes & Noble, Old  
Navy. First phase - 975,000 square feet.

The Promenade - Power Center

Circuit City, Office Max, Petco, Linen & Things  
Approximately 400,000 square feet.

**Murrieta**

The Movie Experience 17  
41090 California Oaks Road

The Movie Experience (17 Screens)

Murietta Spring Plaza  
25274 Madison Avenue

Big 5 Sporting Goods, Pet Smart, Staples Office  
Supply, Pic 'N' Save.

Murrieta Town Center  
40485 Murrieta Hot Springs Road

Hughes Market, HomeBase, Payless Drug Stores  
Toys 'R' Us.

Home Depot  
25100 Madison Street

Stand alone project.

# Exhibit G-1: Retail Centers/Anchor Stores Old Town Temecula Market Assessment

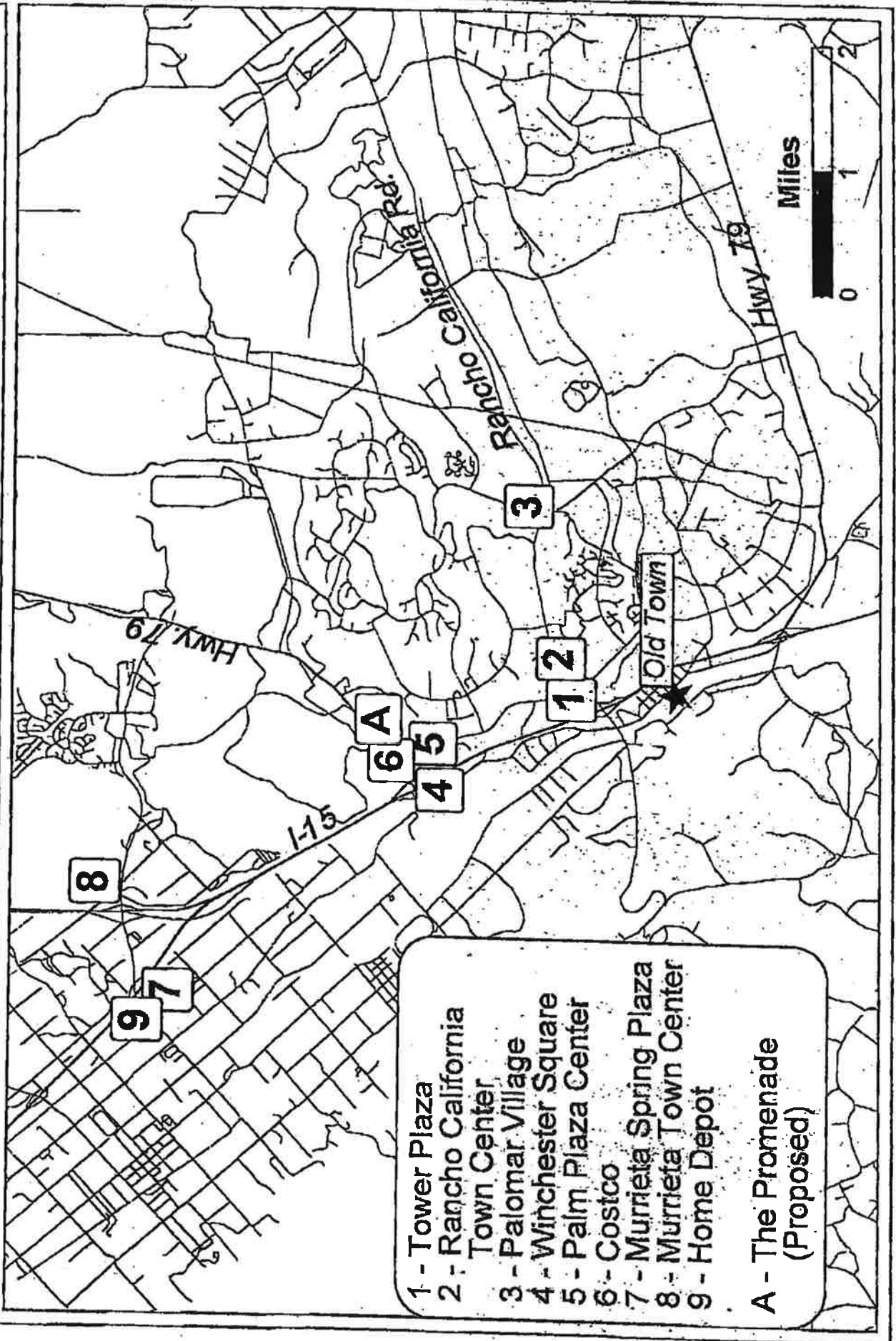


TABLE G-2

OVERVIEW OF RETAIL CATEGORIES  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA

Retail Category	Definition	Examples
Eating and Drinking	Eating and Drinking businesses are defined as caterers, stands, or sit down establishments that serve edible products.	Rubios Rosa's Cantina Silver Spoon Cafe Oscar's
Specialty Goods	Specialty Goods are full-time retailers selling a "specialized line of merchandise", meaning they carry a unique / particular group of products that satisfies a singular interest of the consumer.	PetSmart Toys 'R Us Old Town Antique Faire Barnes and Noble
General Merchandise Stores	General Merchandise Stores are company stores (corporate managed) retailing a "general line of merchandise", which is classified by different department categories.	CostCo Target Big K Mart Mervyn's
Other Comparison Goods	Other Comparison Goods include soft goods (apparel and shoes) and home furnishings that can easily be compared within competing stores.	Payless Shoes Famous Footwear Miller's Outpost La Jolla Patio and Maitress
Convenience Goods	Convenience Goods are retailers selling all types of foodstuff products (groceries, etc.) packaged liquor, and drug stores.	Wal-Mart Loops Drugs Albertsons Food 4 Less
Home Improvement	Home improvement retailers consist of one half of household and home furnishings plus household appliance dealers, as well as building materials and farm implement dealers.	HomeBase HomeDepot

Source: Keyser Marston Associates, Inc.  
Prepared by: Keyser Marston Associates, Inc.  
Filename: c:\mydocs\clients\Temecula\4/30/95\jja

TABLE G-3

**EATING AND DRINKING SALES  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Sales Per Capita</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Murrieta (1)	N/A	N/A	\$426	\$411	\$403	\$400	\$432
Temecula	\$1,258	\$1,439	\$1,246	\$1,444	\$1,510	\$1,478	\$1,552
Riverside County	\$670	\$669	\$652	\$652	\$664	\$678	\$709
San Diego County	\$811	\$812	\$806	\$805	\$821	\$861	\$889

Per Capita Sales as a % of Per Capita Income

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Murrieta	N/A	N/A	2.62%	2.46%	2.34%	2.26%	2.37%
Temecula	7.45%	8.35%	7.10%	8.07%	8.27%	7.94%	8.19%
Riverside County	4.62%	4.55%	4.37%	4.31%	4.33%	4.36%	4.50%
San Diego County	5.00%	4.88%	4.73%	4.61%	4.58%	4.69%	4.72%

(1) Information unavailable for years 1980 - 1991.

Source: State Board of Equalization  
Prepared by: Keyser Marston Associates, Inc.  
Filename: c:\mydocs\olentst\Temecula\4/28/98\lja

TABLE G-4

**SPECIALTY GOODS SALES (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Sales Per Capita</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Murieta (2) Temecula	N/A \$1,514	N/A \$2,377	\$260 \$2,307	\$449 \$1,717	\$741 \$1,767	\$1,144 \$1,826	\$1,824 \$2,235
Riverside County San Diego County	\$482 \$767	\$478 \$746	\$486 \$754	\$463 \$781	\$487 \$826	\$499 \$885	\$572 \$922

**Per Capita Sales as a % of Per Capita Income**

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Murieta	N/A	N/A	1.60%	2.68%	4.31%	6.46%	10.02%
Temecula	8.96%	13.80%	13.14%	9.59%	9.69%	9.82%	11.79%
Riverside County	3.32%	3.25%	3.26%	3.06%	3.18%	3.21%	3.63%
San Diego County	4.73%	4.48%	4.43%	4.47%	4.61%	4.82%	4.90%

(1) Includes gifts, art goods, novelties, sporting goods, florists, musical instruments, stationery, jewelry, books, and other specialties.

(2) Information unavailable for years 1990 - 1991.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydoc\clients\Temecula\428\88.tja



TABLE G-5

**GENERAL MERCHANDISE GOODS SALES (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

**Sales Per Capita**

	1990	1991	1992	1993	1994	1995	1996
Murrieta (2)	N/A	N/A	N/A	N/A	N/A	N/A	\$131
Temecula	\$1,176	\$1,801	\$2,818	\$2,740	\$2,740	\$2,551	\$2,476
Riverside County	\$738	\$730	\$813	\$857	\$898	\$908	\$909
San Diego County	\$968	\$930	\$949	\$947	\$985	\$987	\$1,013

**Per Capita Sales as a % of Per Capita Income**

	1990	1991	1992	1993	1994	1995	1996
Murrieta	N/A	N/A	N/A	N/A	N/A	N/A	0.72%
Temecula	6.96%	10.46%	16.05%	15.31%	15.01%	13.71%	13.06%
Riverside County	5.08%	4.96%	5.45%	5.67%	5.86%	5.84%	5.77%
San Diego County	5.97%	5.59%	5.57%	5.42%	5.50%	5.38%	5.38%

(1) General merchandise stores include army &amp; navy stores, stores located in rural areas, company stores retailing a general line of merchandise.

(2) Information unavailable for years 1990 - 1995.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/28/98\l1a

TABLE G-6

OTHER COMPARISON GOODS SALES (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA

Sales Per Capita

	1990	1991	1992	1993	1994	1995	1996
Murrieta (2)	N/A	N/A					
Temecula	\$479	\$707	\$197 \$609	\$168 \$570	\$166 \$560	\$214 \$511	\$190 \$538
Riverside County	\$412	\$406	\$408	\$402	\$414	\$427	\$461
San Diego County	\$486	\$479	\$478	\$480	\$491	\$484	\$480

Per Capita Sales as a % of Per Capita Income

	1990	1991	1992	1993	1994	1995	1996
Murrieta	N/A	N/A					
Temecula	2.84%	4.11%	1.21% 3.47%	1.00% 3.18%	0.96% 3.07%	1.21% 2.79%	1.04% 2.84%
Riverside County	2.84%	2.76%	2.74%	2.66%	2.70%	2.75%	2.93%
San Diego County	3.00%	2.88%	2.81%	2.75%	2.74%	2.64%	2.55%

(1) Includes apparel, 50% of home furnishings and appliances.

(2) Information unavailable for years 1990 - 1991.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/28/98\ija

TABLE G-7

**CONVENIENCE GOODS SALES (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Sales Per Capita</u>	1990	1991	1992	1993	1994	1995	1996
Murrieta (2)	N/A	N/A					
Temecula	\$3,349	\$4,105	\$2,958 \$3,475	\$2,127 \$2,845	\$2,254 \$2,688	\$1,575 \$2,675	\$1,537 \$2,782
Riverside County	\$2,206	\$2,280	\$2,309	\$1,877	\$1,828	\$1,826	\$1,889
San Diego County	\$1,931	\$2,077	\$2,204	\$1,821	\$1,759	\$1,772	\$1,820

Per Capita Sales as a % of Per Capita Income

	1990	1991	1992	1993	1994	1995	1996
Murrieta	N/A	N/A					
Temecula	19.82%	23.83%	18.20% 19.79%	12.72% 15.90%	13.10% 14.73%	8.90% 14.38%	8.44% 14.67%
Riverside County	15.21%	15.50%	15.48%	12.41%	11.92%	11.75%	11.98%
San Diego County	11.90%	12.49%	12.93%	10.42%	9.82%	9.65%	9.67%

(1) Estimated gross sales include food, liquor, and drug stores - liquor sales for Temecula were not disclosed.

(2) Information unavailable for years 1990 - 1991.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/28/98\lfa

TABLE G-8

HOME IMPROVEMENT SALES (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA

Sales Per Capita

	1990	1991	1992	1993	1994	1995	1996
Murrieta (2)	N/A	N/A					
Temecula	\$1,561	\$1,235	\$1,257 \$816	\$1,140 \$716	\$1,823 \$670	\$1,890 \$617	\$1,932 \$680
Riverside County	\$804	\$625	\$547	\$547	\$584	\$596	\$631
San Diego County	\$668	\$571	\$556	\$571	\$584	\$601	\$635

Per Capita Sales as a % of Per Capita Income

	1990	1991	1992	1993	1994	1995	1996
Murrieta	N/A	N/A	7.73%	6.82%	10.59%	10.67%	10.61%
Temecula	9.24%	7.17%	4.65%	4.00%	3.67%	3.32%	3.58%
Riverside County	5.54%	4.25%	3.67%	3.62%	3.81%	3.83%	4.01%
San Diego County	3.73%	3.11%	2.95%	3.04%	3.26%	3.27%	3.37%

(1) Includes 50% of home furnishings and appliances and 100% of building materials stores.  
(2) Information unavailable for years 1990 - 1991.

Source: State Board of Equalization  
Prepared by: Keyser Marston Associates, Inc.  
Filename: c:\mydocs\clients\Temecula\4/28/98\ija

TABLE G-9

**IMPORT/EXPORT ANALYSIS, CITY OF TEMECULA  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

Retail Category	Expenditure Potential Per Capita	Expenditure Potential As % of PCI	Total Potential (000's)	Actual 1996(1) (000's)	% of Actual to Potential	Import/ Export (000's)
Eating and Drinking	-	5.0%	\$39,682	\$64,960	164%	\$25,278
Specialty Goods	-	5.0%	\$39,682	\$93,536	236%	\$53,854
General Merchandise	-	6.0%	\$47,619	\$103,616	218%	\$55,997
Other Comparison Goods	-	3.0%	\$23,809	\$22,502	95%	(\$1,307)
Convenience Goods	\$1,900	-	\$79,515	\$118,407	146%	\$36,892
Home Improvement	-	4.0%	\$31,746	\$28,442	90%	(\$3,304)
<b>Total Above Categories, City of Temecula</b>			<b>\$262,053</b>	<b>\$429,463</b>	<b>179.32%</b>	<b>\$167,410</b>

(1) Equals adjusted gross sales including non-taxable items.

(2) Figure represents a weighted average.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/28/98\ja

TABLE G-10

**RETAIL SPACE DEMAND FORECAST, PRIMARY TRADE AREA, 1998 - 2003 (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

Retail Category	Estimated Sales Potential (2) (in thousands)		Projected Growth (in thousands) 1998 - 2003	Assumed Average Productivity Per SF (3)	Projected Trade Area Retail Space Demand (SF)
	1998	2003			
Eating & Drinking	\$116,407	\$166,922	\$50,514	\$300	170,000
Specialty Goods	\$116,407	\$166,922	\$50,514	\$250	200,000
General Merchandise	\$139,689	\$200,306	\$60,617	\$250	240,000
Other Comparison Goods	\$69,844	\$100,153	\$30,309	\$250	120,000
Convenience Goods	\$246,010	\$297,895	\$51,885	\$400	130,000
Home Improvement	\$93,126	\$133,537	\$40,412	\$225	180,000
Total, Above Categories	\$781,483	\$1,065,735	\$284,251		1,040,000

(1) Based on seven U.S. Census Tracts shown in Exhibit F-1.

(2) Based on consumer spending behavior as determined by population, per capita income, and other factors.  
Projected growth reflects anticipated increases in population and income during period.

(3) Represents average of estimated productivity levels over the period, adjusted to reflect inflation.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/28/98.jla

TABLE G-11

**DISTRIBUTION OF SHOPPERS BY REGION OF RESIDENCE  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Region</u>	<u>Number of Shoppers</u>	<u>Percent of Total</u>	<u>Cumulative Percent</u>
Primary Trade Area	148	38.1%	38.1%
Balance of Riverside County	48	12.4%	50.5%
Balance of San Diego County	44	11.3%	61.9%
Orange County	20	5.2%	67.0%
San Bernardino County	25	6.4%	73.5%
Los Angeles County	29	7.5%	80.9%
Other California Counties	30	7.7%	88.7%
Out-of-State	44	11.3%	100.0%
<b>Total</b>	<b>388</b>	<b>100.0%</b>	

(1) Temecula, Murrieta, Rainbow area encompassed by the zip codes.

Source: Keyser Marston Associates, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/30/98\ja

TABLE G-12

**RETAIL SPACE CAPTURE POTENTIAL, PRIMARY TRADE AREA, 1998 - 2003 (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

Retail Category	Projected Trade Area Retail Space Demand (SF)	Estimated Old Town Capture Rate (2)		Estimated Old Town Retail Space Demand (SF) (2)	
		Low (3)	High (4)	Low (3)	High (4)
Eating & Drinking	170,000	5.0%	7.5%	8,500	12,750
Specialty Goods	200,000	5.0%	7.5%	10,000	15,000
General Merchandise	240,000	2.5%	5.0%	6,000	12,000
Other Comparison Goods	120,000	2.5%	5.0%	3,000	6,000
Convenience Goods	130,000	0.0%	0.0%	0	0
Home Improvement	180,000	0.0%	0.0%	0	0
<b>Total, Growth-Generated Demand</b>	<b>1,040,000</b>			<b>28,000</b>	<b>46,000 SF</b>
<b>Add: Demand from Beyond Trade Area</b>	<b>67.0% of Local-Supported Demand (5)</b>			<b>19,000</b>	<b>31,000 SF</b>
<b>Subtotal, Local- and Visitor-Supported Demand</b>				<b>47,000</b>	<b>77,000 SF</b>
<b>(Less): Demand Accommodated by Increased Sales Productivity in Existing Space</b>	<b>25.0% of Demand Projection</b>			<b>(12,000)</b>	<b>(19,000) SF</b>
<b>Total Estimated Old Town Retail Capture, 1998 - 2003</b>				<b>35,000</b>	<b>58,000 SF</b>

(1) Based on seven U.S. Census Tracts shown in Exhibit F-1.

(2) Figures reflect amount of retail space supported by local trade area only.

(3) Low estimate reflects a modest level of tenant recruitment activity on part of the City/Agency.

(4) High estimate assumes a successful, aggressive recruitment effort.

(5) Assumes that out-of-town visitors will provide 40% of total demand.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/26/98\ja



TABLE G-13

**RETAIL SPACE DEMAND FORECAST, PRIMARY TRADE AREA, 2003 - 2008 (1)  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Retail Category</u>	<u>Estimated Sales Potential (2)</u> (in thousands)		<u>Projected Growth</u> (in thousands) 2003 - 2008	<u>Assumed</u> <u>Average</u> <u>Productivity</u> <u>Per SF (3)</u>	<u>Projected</u> <u>Trade Area</u> <u>Retail Space</u> <u>Demand (SF)</u>
	<u>2003</u>	<u>2008</u>			
Eating & Drinking	\$166,922	\$244,719	\$77,797	\$350	223,000
Specialty Goods	\$166,922	\$244,719	\$77,797	\$300	260,000
General Merchandise	\$200,306	\$293,663	\$93,357	\$300	311,000
Other Comparison Goods	\$100,153	\$146,831	\$46,678	\$300	155,000
Convenience Goods	\$297,895	\$360,696	\$62,801	\$475	132,000
Home Improvement	\$133,537	\$195,775	\$62,238	\$275	226,000
<b>Total, Above Categories</b>	<b>\$1,065,735</b>	<b>\$1,486,403</b>	<b>\$420,668</b>		<b>1,308,000</b>

(1) Based on seven U.S. Census Tracts shown in Exhibit F-1.

(2) Based on consumer spending behavior as determined by population, per capita income, and other factors.  
Projected growth reflects anticipated increases in population and income during period.

(3) Represents average of estimated productivity levels over the period, adjusted to reflect inflation.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocclients\Temecula\4/28/98\jja

TABLE G-14

RETAIL SPACE CAPTURE POTENTIAL, PRIMARY TRADE AREA, 2003 - 2008 (1)  
 OLD TOWN TEMECULA MARKET ASSESSMENT  
 CITY OF TEMECULA

Retail Category	Projected Trade Area Retail Space Demand (SF)	Estimated Old Town Capture Rate (2)		Estimated Old Town Retail Space Demand (SF) (2)	
		Low (3)	High (4)	Low (3)	High (4)
Eating & Drinking	223,000	5.0%	7.5%	11,150	16,725
Specialty Goods	250,000	5.0%	7.5%	13,000	19,500
General Merchandise	311,000	2.5%	5.0%	7,775	15,550
Other Companion Goods	156,000	2.5%	5.0%	3,900	7,800
Convenience Goods	132,000	0.0%	0.0%	0	0
Home Improvement	226,000	0.0%	0.0%	0	0
<b>Total, Growth-Generated Demand</b>	<b>1,308,000</b>			<b>36,000</b>	<b>60,000 SF</b>
<b>Add: Demand from Beyond Trade Area</b>				<b>24,000</b>	<b>40,000 SF</b>
<b>Subtotal, Local- and Visitor-Supported Demand, 2003 - 2008</b>				<b>60,000</b>	<b>100,000 SF</b>
<b>Add: Estimated Old Town Retail Capture, 1998 - 2003</b>				<b>35,000</b>	<b>58,000 SF</b>
<b>Total Estimated Old Town Retail Capture, 1998 - 2008</b>				<b>95,000</b>	<b>158,000 SF</b>

(1) Based on seven U.S. Census Tracts shown in Exhibit F-1.

(2) Figures reflect amount of retail space supported by local trade area only.

(3) Low estimate reflects a modest level of tenant recruitment on part of the City/Agency.

(4) High estimate assumes a successful, aggressive recruitment effort.

(5) Assumes that out-of-town visitors will provide 40% of total demand.

Source: State Board of Equalization

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\client\Temecula\4/28/98\fa

## H. OFFICE MARKET CONDITIONS

### 1. Overview

According to local real estate brokers, there is an inventory of approximately 543,000 SF of existing office space in Temecula. This figure encompasses a total of 14 Class A and B buildings, ranging in size from about 20,000 to 80,000 SF. (See Table H-1.) Temecula's office inventory is divided between campus-style buildings in the business parks on the west side of the freeway and selected low- to mid-rise office buildings located primarily on the east side. The City's two largest multi-tenant office buildings are located across the freeway from Old Town off the Rancho California Road exit: Town Center (83,000 SF) and Tower Plaza (72,000 SF).

There is a significant concentration of employment west of the freeway and north of Old Town. Buildings in this area house a variety of users ranging from office to light industrial. City Hall is also located in this area. The typical product within this area is a single-story, concrete tilt-up building. A number of these buildings are owner-occupied.

Local brokers estimate a current vacancy within the Temecula office market of about 92,000 SF, indicating a 17% vacancy rate. This range represents an improvement of 4% from one year prior. Nearly one-third of the current vacancy is attributable to a single building, Jefferson Plaza. This building has reportedly suffered from management and financial problems.

Office rents in Temecula currently range from about \$0.80 to \$1.30 per SF per month, typically on a Modified Gross (MG) basis. These low rents, combined with the high vacancy factor, tend to indicate that speculative new office development would be unfeasible in the near-term.

Brokers confirm that large spaces are difficult to lease due to the lack of corporate office tenants in the area. The strongest demand is generated by small firms, typically businesses in finance, insurance, and real estate (the "FIRE" sector), law firms, and medical and dental offices.

## 2. Old Town

There is relatively little office space in Old Town. The largest office building is the Chaparral Center. This mixed-use building, at 28465 Front Street, contains three stories with a mix of office, service, and retail uses. Typical tenants include beauty salons, an insurance agent, and a construction firm, among others. Rents range from \$0.50 to \$0.90 per SF on a Full Service Gross (FSG) basis.

In addition, there are several office buildings located on lower Front Street south of Old Town within the Southside Specific Plan area. Although these buildings are relatively small, they tend to be functional with good freeway access and visibility.

TABLE H-1 PAGE 1

**SURVEY OF OFFICE DEVELOPMENTS  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Property</u>	<u>Year Built</u>	<u>Bldg. Class</u>	<u>Total SF</u>	<u>Available SF</u>	<u>% Vacant</u>	<u>Rent</u>	<u>Lease Type</u>
Town Center* 27450 Ynez Road	1990	A	82,538	14,870	18.0%	\$1.25	MFSG
Tower Plaza* 27555 Ynez Road	1990	A	72,350	11,495	16.0%	\$1.30	FSG
Jefferson Plaza 27720 Jefferson Ave.	1989	A	41,000	26,641	65.0%	\$1.25	MG
Linden Building 27740 Jefferson Ave.	1990	A	35,000	8,757	25.0%	\$1.00	MG
Highlands 1* 29379 Rancho California Rd.	1989	B	21,902	0	0.0%	\$1.05	FSG
Executive Park 41661 Enterprise Circle North	1989	B	39,640	9,079	23.0%	\$0.87	MG
Atrium 41707 Winchester Rd.	1991	B	21,230	3,803	6.0%	\$0.80	MG

\* = East Side Of I-15

MG = Modified Gross

FSG = Full Service Gross

MFSG = Modified Full Service Gross

TABLE H-1 PAGE 2

**SURVEY OF OFFICE DEVELOPMENTS  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Property</u>	<u>Year Built</u>	<u>Bldg. Class</u>	<u>Total SF</u>	<u>Available SF</u>	<u>% Vacant</u>	<u>Rent</u>	<u>Lease Type</u>
Lyndie Office* 42145 Lyndie Lane	1991	B	26,600	1,107	4.10%	\$1.00	MG
Winchester Plaza 41593 Winchester Rd.	1989	B	48,080	6,428	13.30%	\$1.15	MG
Plaza Del Rio 28991 Front St.	1987	B	37,000	2,533	7.60%	\$0.90	MG
CourtYard 27349 Jefferson Ave.	1989	B+	32,032	671	4.00%	\$1.20	MG
Crystal View 43500 Ridge Park Dr.	1991	A	27,000	0	0.00%	\$1.05	MG
Temecula Valley Bank Bldg. 27710 Jefferson Ave.	1984	A	27,735	3,000	11.00%	\$1.25	MG
Single Oak Business Center 28765 Single Oak Drive	1988	B	30,972	3,300	11.00%	\$1.00	MG
<b>Totals</b>			<b>543,079</b>	<b>91,684</b>	<b>16.88%</b>	<b>Low \$0.80 High \$1.30</b>	

\* = East Side Of I-15

MG = Modified Gross

FSG = Full Service Gross

MFSG = Modified Full Service Gross

Source: CDMWestmar Commercial Real Estate Services, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\4/28/98\jja

## I. HOTEL MARKET CONDITIONS

### 1. Overview

The City of Temecula is home to several major hotels/motels ranging in quality and amenities from higher-end to budget. As shown in Table I-1, the City contains 629 hotel/motel rooms in eight separate properties. Temecula Creek Inn and Embassy Suites — are full-service hotels with room rates in excess of \$100. These two properties represent approximately one-third of the City's hotel room inventory. In addition, the Embassy Suites, which is located directly across the freeway from Old Town, is currently constructing 40 additional rooms.

Most of the remaining properties offer "motel-style" accommodations in the \$50 to \$70 range. Two of these are located on Front Street in, or close to, Old Town: the Butterfield Inn (39 rooms) and Downtown Inns/Ramada Inn (70 rooms).

Hotel occupancies in Temecula have rebounded substantially from the lows of the early 1990s. Weekend demand, in particular, is reportedly strong for the more affordable properties. In addition, after years of flat revenues, room rates appear to be rising slightly.

### 2. Survey of Hotel Managers

In an effort to better understand occupancy factors and sources of hotel room demand, KMA surveyed property managers. Three properties responded; their feedback is summarized below:

- (a) *Temecula Creek Inn*: The Temecula Creek Inn is an 80-room hotel built in 1971. It features a championship golf course as one of its major attributes. The hotel also offers 5,600 SF of meeting space. The manager reports that the majority of the inn's visitors are in Temecula for leisure (i.e., golf). The majority of guests come from Los Angeles, Orange, and San Diego counties. In 1997, the occupancy rate was estimated at 74% and the year-to-date figure is roughly 76%. The inn's year-to-date average daily rate is approximately \$121.

(b) *Embassy Suites*: The Embassy Suites currently has 136 rooms, but will expand to 176 rooms by summer 1998. The hotel offers about 3,200 SF of meeting space. In 1997, the average daily rate was \$101 and the year-to-date average daily rate is reported to be approximately \$105. The 1997 occupancy rate hovered around 70% while the year-to-date is somewhat higher at 72%. The hotel reports that room rates seem to be trending upwards and that the market is growing. Guests of the hotel come from all over the United States. Surveys conducted by management show that Temecula, for most guests, is a destination, rather than a stop on a journey to some other location. As a reason for visiting the City, 50% indicate leisure, 40% business, and 10% other.

(c) *Motel 6*: Motel 6 offers 135 guestrooms. In 1997, the average daily rate was \$34 and the current average daily rate is approximately \$35. Management reports the 1997 occupancy rate as 57%, while currently it is at 60%. The manager reports that weekend business at the motel is very strong, usually reaching full occupancy. Much of this activity is attributed to special weekend events such as horse shows/rodeos, hot-air balloon festivals at wineries, antique auto club events, tractor pulls, etc. Weekday business is reported to consist mainly of individuals traveling through Temecula or who are stationed there for temporary work assignments. The weekdays are usually light from a standpoint of daily room rentals.

### 3. Bed & Breakfast Inns

Many districts comparable to Old Town offer another form of overnight accommodation – the small bed & breakfast (B & B) inn. Typically, these inns are located in older buildings or historic mansions. Rooms tend to be smaller, while amenities and services tend to be more limited. Yet such facilities often command higher room rates and occupancy than their more modern counterparts. B & B inns tend to cater to the affluent, educated, and well-traveled individual.

Across the nation, bed & breakfast inns are often located in small rural villages, scenic or recreational destinations, and historically important sites. Guests prefer inns located in close proximity (walking distance) to amenities and attractions. The majority of such inns tend to be relatively small in size with approximately eight to 15 rooms. Approximately 15% of all inns in the U.S. are on national, state, and/or local historic registers.



KMA is aware of one existing bed & breakfast inn in Temecula, the Loma Vista Bed & Breakfast. This facility is located in the wine country, about five miles from Old Town. The Loma Vista offers six guestrooms ranging in price from \$100 to \$150 per night.

TABLE I-1

**SURVEY OF HOTELS, CITY OF TEMECULA  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

	<u>Room Count</u>	<u>Planned Room Additions</u>	<u>Ave. Rate</u>	<u>Category</u>
Motel 6 41900 Moreno Road, Temecula	135	-	\$38.00	Budget
Butterfield Inn 28718 Front Street, Temecula	39	-	\$52.00	Moderate
Comfort Inn Temecula 27338 Jefferson Avenue, Temecula	71	-	\$54.00	Moderate
Uyemura Guest House (Best Western) 41873 Moreno Road, Temecula	24	-	\$54.00	Moderate
Country Inn (Best Western) 27706 Jefferson Avenue, Temecula	74	-	\$55.00	Moderate
Downtown Inns (Ramada Inn) 28980 Front Street, Temecula	70	-	\$69.00	Moderate
Embassy Suites 29345 Rancho California Road, Temecula	136	40	\$119.00	High
Temecula Creek Inn 44501 Rainbow Canyon Road, Temecula	80	-	\$122.00	High
<b>Totals</b>	<b>629</b>		Low \$38.00 High \$122.00	

Source: Keyser Marston Associates, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\my documents\Temecula\428786.ja

## **J. RESIDENTIAL MARKET CONDITIONS**

### **1. Housing Supply Overview**

The City of Temecula is a rapidly growing suburban residential community. Temecula has continued to add housing and population throughout the 1990s, even while much of Southern California experienced a prolonged recession and real estate downturn. The City's housing stock increased nearly 46% between 1990 and 1997, with nearly all of this increase taking the form of single-family detached homes. (See Table J-1.) In 1997, the City's housing stock consisted of 77% single-family, 21% multi-family, and 2% mobile home.

Temecula has provided a steady supply of relatively affordable for-sale housing to serve employment centers in San Diego, Orange, and Los Angeles counties. Table J-2 summarizes 1997 single-family home sales for the City of Temecula. California Market Data Cooperative tracked 332 home sales in 1997. The average price was approximately \$160,000; the median price was approximately \$135,000. Nearly 52% of homes sold were priced between \$100,000 and \$150,000.

Relative to neighboring counties, Riverside County's apartment rents are among the lowest in Southern California. Most of Temecula's apartment properties have been developed since the late 1980s. As shown in Table J-3, KMA surveyed 13 apartment properties totaling 3,120 units. Approximate average rents are \$515 for a one-bedroom, \$625 for a two-bedroom, and \$695 for a three-bedroom. The current vacancy factor is relatively low, estimated at 3%.

### **2. Housing Demand Overview**

KMA estimates that the number of households in the primary trade area will increase by nearly 9,000 between 1997 and 2002. Table J-4 presents a distribution of these future households by household income and housing affordability, summarized as follows:

- Nearly 1,500 new households in the trade area (16% of total five-year demand) are expected to earn less than \$20,000 annually. These households will be limited to apartments renting at \$500 and less or homes priced at \$88,000 and less. In effect, these households are more likely to rent than own.
- Nearly 1,700 new households (19% of demand) are projected to earn between \$20,000 and \$35,000. These households can afford rents of \$500 to \$875, or homes priced between \$88,000 and \$155,000.
- The balance of housing demand for the trade area during 1997-2002 is expected to originate from households earning \$35,000 and more. This market segment comprises about 5,700 households, or 65% of the demand. These households can afford rents of \$875 and up, and home prices of \$155,000 and up. This income bracket is more likely to own than rent.

The anticipated income distribution of new households in the trade area suggests a continued preference for traditional single-family detached homes.

### 3. Housing Development Capacity

There is significant capacity for expansion of residential uses in the Old Town area. City staff estimates the following potential increases in housing supply:

- *Old Town, east of the creek:* Undetermined; capacity will vary depending on product type and density.
- *Pujol Street Corridor, west of the creek:* Potential to develop an additional 500 units, including the portion of the corridor within the Southside Specific Plan area.

- **Westside Specific Plan, west of Pujol Street:** At present, this 154-acre hillside area west of Old Town is designated for a mix of destination entertainment, retail, recreation, and hotel uses. It is unclear at this time whether the property owner intends to proceed with these development plans. Assuming that the current land use plan is amended, approximately 2,000 housing units could be developed in this area.

TABLE J-1

HOUSING INVENTORY TRENDS, CITY OF TEMECULA  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA

	<u>1990</u>	<u>1997</u>	<u>Percent of Total</u>	<u>Total % Change 1990-1997</u>
<b>Single-Family</b>				
Detached	7,128	11,827	76.1%	65.9%
Attached	186	186	1.2%	0.0%
Subtotal	<u>7,314</u>	<u>12,013</u>	<u>77.3%</u>	<u>64.2%</u>
<b>Multi-Family</b>				
2 to 4	269	331	2.1%	23.0%
5 Plus	2,801	2,926	18.8%	4.5%
Subtotal	<u>3,070</u>	<u>3,257</u>	<u>21.0%</u>	<u>6.1%</u>
<b>Mobile Home</b>	275	275	1.7%	0.0%
<b>Total</b>	<u>10,659</u>	<u>15,545</u>	<u>100.0%</u>	<u>45.8%</u>

TABLE J-2

**SINGLE-FAMILY HOME SALES BY CATEGORY, CITY OF TEMECULA, 1997 (1)**  
**OLD TOWN TEMECULA MARKET ASSESMENT**  
**CITY OF TEMECULA**

<u>Price Category</u>	<u>Number of Home Sales</u>	<u>% of Total</u>
Under \$100,000	27	8.13%
\$100,000 - \$124,999	89	26.81%
\$125,000 - \$149,999	82	24.70%
\$150,000 - \$174,999	51	15.36%
\$175,000 - \$199,999	29	8.75%
\$200,000 - \$225,000	10	3.00%
Above \$225,000	44	13.25%
<b>Total</b>	<b>332</b>	<b>100.00%</b>

	<u>Sale Price</u>	<u>Price/SF</u>
Average	\$159,919	\$82
Median	\$135,500	\$80
Minimum	\$73,000	\$24
Maximum	\$472,500	\$233

(1) From January 1997 to January 1998.

Source: California Market Data Cooperative, Multiple Listing Service  
 Prepared by: Keyser Marston Associates, Inc  
 Filename: c:\mydocs\clients\Temecula\4/28/98\lja

TABLE J-3

**SURVEY OF APARTMENT COMPLEXES, CITY OF TEMECULA  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

Location	1 Bedroom		2 Bedrooms		3 Bedrooms		Units	Annual Vacancy	Approx. Year Built
	Units	Rental Range	Units	Rental Range	Units	Rental Range			
Acacia Park Resort Apartments	160	\$555-625	160	\$675-755	-	-	320	4%	1989
California Oaks	280	\$445-480	200	\$800-840	-	-	480	4%	1989
Desert Shadow Apartments	-	-	318	\$585-595	-	-	318	6%	1988
Los Alamos	100	\$485-515	320	\$575-625	-	-	420	2%	1993
Margarita Summit Apartments	-	-	140	\$645-720	3	\$810-850	143	1%	1988
Morning Ridge	48	\$535	152	\$636	-	-	200	5%	1989
Palm Valley Apartments	-	-	32	\$600	-	-	32	10%	1993
Rancho Las Brisas	48	\$475	152	\$610	-	-	200	2%	1990
Rancho West	20	\$450-460	80	\$530-540	14	\$790-810	144	1%	1978
Summerbreeze Apartment Homes	-	-	124	\$610-745	-	-	124	1%	1987
Sycamore Terrace Apartments	48	\$535-550	177	\$660-680	-	-	225	1%	1987
Village View Apartments	160	\$635-665	60	\$650-680	-	-	220	2%	1987
Woodcreek Apartments	-	-	282	\$535-570	62	\$675-685	344	2%	1987
<b>Total:</b>	<b>844</b>	<b>\$445-625</b>	<b>2,197</b>	<b>\$530-800</b>	<b>79</b>	<b>\$675-850</b>	<b>3,120</b>	<b>3%</b>	
<b>Average:</b>		<b>\$515</b>		<b>\$625</b>		<b>\$685</b>			



TABLE J-4

**HOUSEHOLD INCOME DISTRIBUTION AND HOUSING AFFORDABILITY, PRIMARY TRADE AREA, 1997 - 2002  
OLD TOWN TEMECULA MARKET ASSESSMENT  
CITY OF TEMECULA**

<u>Income Category</u>	<u>Increase in Households From 1997 - 2002</u>		<u>Housing Affordability</u>	
	<u>Absolute</u>	<u>Percent</u>	<u>Rental (1)</u>	<u>For Sale (2)</u>
Less than \$20,000	1,447	16.4%	Less than \$500	Less than \$88,000
\$20,000 to \$34,999	1,671	18.9%	\$500 - \$875	\$88,000 - \$155,000
\$35,000 to \$49,999	574	6.5%	\$875 - \$1,250	\$155,000 - \$220,000
\$50,000 to \$74,999	2,066	23.4%	\$1,250 - \$1,875	\$220,000 - \$330,000
\$75,000 and Above	3,063	34.7%	Over \$1,875	Over \$330,000
<b>Totals</b>	<b>8,821</b>	<b>100.0%</b>		

(1) Based on maximum 30% allocation of income to monthly rent.

(2) Based on maximum 35% of income, 10% down payment, and 8% interest on a 30-year mortgage.

Source: Keyser Marston Associates, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: c:\mydocs\clients\Temecula\428198\ja

## **K. CONCLUSIONS AND RECOMMENDATIONS**

### **1. District Identity**

The objective of this market assessment has been to identify the market opportunities that will offer the greatest possibilities for expanded economic activity in Old Town. In the course of this assessment, KMA considered three distinct, but potentially overlapping, "positioning" strategies, or district identities, for the Old Town area. Each of these is outlined below.

- (a) *Neighborhood/Community Serving District:* Neighborhood- and community-serving uses typically include day-to-day shopping and services such as grocery, drug, dry cleaning, etc. A neighborhood or community center usually draws shoppers from a two- to three-mile radius and multiple shopping trips per week are common.
- (b) *Specialty/Entertainment District:* This type of district offers shopping, services, and entertainment that are not readily available in conventional shopping centers. Highlights may include an attractive ambiance, a unique mix of stores and restaurants, or a series of special events. Specialty/entertainment districts typically draw customers from a larger trade area than convenience retail uses. At the same time, customers are likely to visit specialty/entertainment districts less frequently than neighborhood/community shopping districts.
- (c) *Tourist District:* A tourist-oriented district has a regional and super-regional draw beyond the local trade area. Examples include La Jolla or Solvang. These districts typically offer a range of specialty shopping and eating and drinking establishments in combination with important recreational or cultural resources. It is common for activity in these districts to peak on weekends and during the summer season.

At present, Old Town serves a dual purpose, offering a combination of specialty and entertainment uses for the local trade area and serving a larger tourism market. Old Town does not serve as a neighborhood/community retail/service center for several reasons. Temecula's existing supermarket- and drugstore-anchored shopping centers are conveniently located with respect to the City's population base. On the other hand, there is limited

residential population in/around the Old Town area to patronize convenience shopping and services. Absent a significant increase in residential uses, the neighborhood/community district scenario is unrealistic for Old Town. For this reason, KMA strongly recommends that the City prioritize the introduction of new residential development in the Old Town, Southside, and Westside Specific Plans. Once a critical mass of population has been achieved, it may be feasible to attract a specialty grocery store such as Henry's, Wild Oats, Bristol Farms, or Trader Joe's.

According to the CIC Research survey, the current mix of patrons in Old Town is approximately 40% locals / 60% visitors. Most visitors originate from other parts of Southern California -- areas that are not anticipated to grow as rapidly as the immediate Temecula trade area. In order for Old Town to thrive, KMA believes that it will need to strengthen its appeal to the local trade area. KMA recommends that the City and Old Town stakeholders target a minimum threshold of 60% local / 40% visitor patronage for the district. The local trade area will continue to experience strong growth, affording Old Town the opportunity to capture a share of the consumer expenditures of new residents. At the same time, the mix of retail, restaurant, and entertainment uses in Old Town should represent a refreshing alternative to the more conventional uses planned for The Promenade Mall.

KMA recommends that the City and Old Town stakeholders seek to position Old Town as Temecula's "downtown." This strategy would confer a special status on Old Town in the eyes of community residents and promote Citywide "ownership" of Temecula. During the 1990s, many suburban communities in California have devoted extensive resources to revitalizing, or reinstating, a strong commercial and entertainment hub at their downtown cores. Old Town could be developed as Temecula's downtown, providing a special destination for "lifestyle" shopping and services, eating and drinking, entertainment, and special events.

KMA understands that the City's present City Hall will need to be replaced or expanded within a ten-year timeframe. KMA recommends that the City consider siting a new City Hall within Old Town. Such a move could offer several benefits: (1) It would reinforce Old Town's status as Temecula's downtown; (2) It would draw employees and visitors to Old Town on a regular basis; and (3) A new City Hall building, and associated public plaza or other amenities, could create a significant architectural statement and become a prominent new landmark in Old Town.

## 2. Retail Market Opportunities

KMA estimates that the Old Town district could capture between 35,000 and 58,000 SF of new retail and restaurant uses over the next five years (1998-2003). During the following five years (2003-2008), KMA estimates that Old Town could capture between 60,000 and 100,000 SF of additional retail space, for a total ten-year capture ranging from 95,000 to 158,000 SF. In KMA's view, the higher end of the range will only be achievable with aggressive intervention on the part of the Temecula Redevelopment Agency.

Most new retail uses are likely to be Eating and Drinking establishments and Specialty Stores, followed by General Merchandise and Other Comparison Goods stores. KMA has identified three specific categories of potential retailing opportunities for Old Town:

- (a) *Eating and Drinking Establishments:* As a central focus of the Old Town revitalization strategy, KMA recommends the expansion of the area's mix of restaurants and bars as a full-scale restaurant row. In the absence of large retail stores, a "critical mass" of restaurants can provide an anchor for the district. Old Town provides one of the few "nightlife" environments in southern Riverside County. There is ample opportunity to expand, and diversify, the existing mix of restaurants and bars and market the area's unique environment. One strategy to accomplish this is to create a row of restaurants along a pedestrian promenade on the eastern bank of the Murrieta Creek. (See discussion below.) KMA estimates that the district could capture between 14,000 and 21,000 SF of new Eating and Drinking establishments over the next five years (inclusive of visitor-supported demand). These figures potentially represent between four and eight new restaurants

and/or bars. Appropriate establishments might include tenants such as the following (examples only):

- Ethnic restaurants, such as Asian cuisine or a Spanish tapas bar
- A health or vegetarian restaurant
- Dinner restaurants with live entertainment
- A coffee shop with performance space (poetry, music, etc.)
- Old Spaghetti Factory
- Chevy's
- Corvette's Diner
- Red Lobster
- Ground Round
- Ponderosa Steak House
- Outback Steakhouse
- B & B Bar-B-Que Connection
- Love's Wood Pit BBQ
- Micro-breweries
- Sports bars
- Western-style saloons

(b) *Specialty Stores:* Even as The Promenade Mall increases the range and diversity of shopping available to trade area residents, Old Town has the opportunity to offer a unique array of Specialty Stores. In particular, KMA recommends two specific themes: (1) sporting goods and apparel, and (2) outdoor recreation equipment, supply, and apparel. These stores respond to the youthfulness of trade area residents, as well as the beautiful, natural setting of the Temecula Valley and surrounding mountains and desert. Examples include hiking and camping gear, Western-oriented apparel and gear, athletic supply and shoes, and theme bookstores. Possible tenants might include Golf Mart, Adventure 16, Cal Stores, Eastern Mountain Sports, or equestrian/western gear and supply stores.

(c) *Home Furnishings and Design*: The existing concentration of antiques stores in Old Town provides a strong foundation to add a range of other household furnishing and decorating establishments. The trade area will continue to add thousands of new homeowners each year. Old Town could provide a special shopping experience for residents seeking to accessorize their new homes. Examples might include: new furniture stores, lighting and lamp stores, wall art and mirrors, home accessories, patio and garden furniture, and specialty hardware stores. This retail mix has worked very successfully in other districts, such as Fourth Street in Berkeley and Cedros Street in Solana Beach.

(d) *"Lifestyle" Retailers (Long-Term)*: As a long-term goal, KMA recommends that recruitment efforts target such upscale specialty retailers as: Smith & Hawken, Restoration Hardware, REI, Pottery Barn, Z Gallerie, or Urban Outfitters, to name a few examples. A comparable mix of retailers exists on Fourth Street in Berkeley as well as 23<sup>rd</sup> Street in Portland, Oregon. These tenants are not likely to be feasible in the near-term, until certain conditions have been met: (1) other national credit tenants have been introduced; (2) a strong restaurant row has been established; and (3) a growing residential base is underway in the immediate area.

### 3. Office Market Opportunities

In KMA's view, there are relatively limited opportunities for office development within Old Town. This finding is attributable to the constraints imposed by the area's limited access and visibility, small parcel sizes, and building design limitations. Tenants seeking office space in Old Town are likely to be fairly small (say, less than 1,000 SF) businesses in finance, insurance, real estate, or law.

Notwithstanding these constraints, KMA recognizes the importance of office uses to the creation of a vibrant, mixed-use community in Old Town. Location of the Temecula Civic Center within Old Town would reinforce the district's role as Temecula's downtown and enhance the desirability of Old Town as an office location for architects, engineers, and other development industry tenants. In addition, office uses generate daytime population – both

employees and visitors – who are also likely to patronize Old Town shops and restaurants during the week.

KMA recommends that the City and Old Town stakeholders encourage development of office uses on upper floors of new or rehabilitated buildings. One strategy is to develop upper floors as adaptable, "hybrid" space or "live/work" modules. These suites could then be utilized as either office or residential. Such unique spaces, particularly in renovated buildings, may be appealing to small "boutique" professional firms.

#### 4. Hotel Market Opportunities

KMA's market assessment indicates that the Old Town hotel/motel market is rebounding from the downturn of the early 1990s. At the same time, KMA finds several noteworthy voids in the local hotel market:

- There are essentially no mid-priced accommodations in the City, priced say between \$70 and \$120.
- There are no high-end hotels or bed & breakfast inns within walking distance of Old Town.

As with office uses, space constraints in Old Town make it unlikely that a large-scale, full-service hotel with banquet facilities could be developed within the district. Moreover, even if such an establishment could be physically accommodated, Old Town's limited freeway access and visibility act as further constraints.

The Old Town environment is well-suited for development of several moderate to upscale bed and breakfast inns or small lodges, e.g., ranging from five to 30 rooms. Key opportunities would involve adaptive re-use of one of the area's historic hotels or older buildings.

In addition, KMA recommends that the City pursue mid-sized, limited-service or extended-stay, apartment-style hotels (say, 75 to 100 rooms and 5,000 to 10,000 SF of meeting space) in nearby locations outside of Old Town.

## 5. Residential Market Opportunities

The continued presence of a strong and integral housing component has been a key success ingredient for many older street retail districts. Significant expansion of residential uses within Old Town and vicinity will likewise be an important component of the area's revitalization, as new residents will provide an important patronage base for specialty retailers, convenience shopping and services, and restaurants in Old Town.

Key challenges affecting new housing development in the area include the following factors:

- For the most part, Temecula households prefer single-family detached housing.
- Prices for detached homes in Temecula are relatively affordable, thereby decreasing demand for alternative for-sale product such as condominiums, townhomes, or row homes.
- At present, Old Town offers little in the way of convenience shopping and services.
- Conventional apartments in large rental communities east of the freeway offer standard amenities at relatively affordable rents.

As noted above, the Old Town district and surrounding area could accommodate more than 2,500 new housing units. KMA has identified the following specific opportunities for new residential uses in Old Town:

- (a) *Development of new senior apartments, possibly near the senior center (Sixth Street).* This type of housing will potentially enjoy the strongest demand within Old Town proper. Old Town offers a safe and convenient walking environment with a limited array of shopping and services. There are no seniors-only rental communities in Temecula. KMA recommends that the Redevelopment Agency consider sponsoring development of up to 100 to 200 affordable and/or market-rate senior apartments.



- (b) *Adaptive re-use of older structures as loft apartments.* Old Town's unique architecture and historic ambiance present an opportunity to create rental lofts on upper floors of older buildings. As noted, traditional apartments in Temecula represent strong competition; therefore, this product would have to offer a unique living environment to a select small group of tenants.
- (c) *In-fill development of multi-family housing along Pujol Street (west of the creek).* This area offers the opportunity to develop mixed-income (affordable/market-rate) apartments. If a large enough site can be assembled, it may also be possible to develop a small community of affordable for-sale townhomes or row homes for first-time buyers.
- (d) *Housing uses within the Westside Specific Plan.* A major portion of this 154-acre hillside property could be developed as a medium-density residential community. This type of development could capture a portion of Temecula's strong housing growth, while simultaneously offering views of Old Town and the surrounding valley and mountains. Development of up to 2,000 housing units within the Westside Specific Plan would provide strong benefits to Old Town retail and restaurant uses.

## 6. Other Development Concepts

In addition to the market opportunities outlined above, KMA has identified a range of other development and marketing concepts that are likely to strengthen the economic vitality of Old Town. These concepts are discussed below. It should be noted that KMA has not tested the market or financial feasibility of these concepts.

- (a) *Arts and Cultural Uses:* KMA believes that Old Town needs an expanded mix of arts and cultural uses if the district is to be successful in maintaining its current share of local trade area expenditures as well as regional tourism spending. KMA's research on comparable districts generally indicated that such districts tend to include one or more of the following: (1) historic architecture; (2) landmark building(s) or monument(s); and/or (3) entertainment or cultural facilities such as museums and theatres. Moreover, there is at present a limited range of arts and entertainment venues within the local trade area. The City has commissioned a cultural arts study to assess demand for new cultural arts uses and

facilities. KMA recommends that the City consider siting such uses within Old Town in order to enhance the district's draw and leverage the City's investment to date. An optimal mix of uses would include: the addition of a playhouse theatre; one or more museums or galleries; and working artisans' craft shops. Museums and galleries could focus on Western or Native American themes. There may exist an opportunity to attract a satellite facility of an existing museum, such as the Autry Museum of Western Heritage in Griffith Park. For example, the Museum of Contemporary Art/San Diego is located on an oceanfront bluff in La Jolla and operates a second, smaller facility in downtown San Diego.

(b) *Enhancement of Murrieta Creek:* The location of Murrieta Creek within Old Town presents a unique asset. Many comparable districts have exploited their waterfronts or, in some cases, artificially created a waterfront environment. The City of Vista is currently working with a developer to create a "creekwalk" development of entertainment, retail, restaurants, and pedestrian promenades along a flood control channel. Murrieta Creek offers a natural setting that could be developed with landscaping and a meandering walkway, both as a recreational trail and a pedestrian promenade. KMA recommends that the City and Old Town stakeholders explore design options to accomplish the following: (1) beautify the creek bed and shoreline; (2) enhance pedestrian access along the creek shoreline; and (3) orient restaurant, retail, and entertainment uses toward the creek.

(c) *Cooperation with Wineries:* In KMA's view, Old Town's proximity to the Temecula wine country is one of its strongest assets. The steady annual volume of visitors to the wineries represents a relatively untapped market niche for Old Town. The City and Old Town stakeholders should consider structuring a cooperative marketing arrangement with the vintners so that the two sectors can maximize the synergistic impacts of their respective tourist draws. In addition, KMA recommends that additional representations of the wine country be incorporated within Old Town. At present, the area contains one winery outlet/gift shop (Old Town Wine Tasting). Possible expansions of this presence might include: (1) an information kiosk for the wine country; and/or (2) an "outlet" store showcasing all the wineries and offering their products for sale under one roof.

## 7. Other Strategic Recommendations

(a) *Establishment of a Business Improvement District (BID)*: KMA recommends that Old Town stakeholders consider formation of either a business- or property-based Business Improvement District (BID). In recent years, there has been a growing national trend among commercial districts to form Business-based Business Improvement Districts (BBIDs). The trend is true for major urban downtowns, older strip commercial corridors, and neighborhood districts. Historically, BBIDs have involved assessments on business owners through business license fees to raise funds that can then be used for marketing, promotion, security, special events, streetscape improvements, parking, and other costs. In 1994, California passed legislation (AB 3754 Caldera) to provide for assessments on property owners. Since then, several Property-based Business Improvement Districts (PBIDs) have been adopted in the State.

BBIDs/PBIDs provide a mechanism whereby downtown and suburban commercial areas can provide amenities usually associated with retail centers and office parks: coordinated management of publicity and public relations; better security and a sense of safety; organized/centralized parking; and a clean, well-maintained environment. BBIDs also allow businesses and property owners to advocate for their interests with a unified voice. BBIDs can also conduct research, establish mid- and long-term goals, and plan for district-wide activities.

Most BBIDs start out with a focus on either promotional, security, or maintenance activities, and eventually expand to larger efforts. Increasingly, BBIDs are actively pursuing tenant recruitment strategies to strengthen their districts. KMA is working with several cities and BBIDs on efforts to recruit new businesses and structure public/private financial transactions. The goal of a tenant recruitment strategy is to attract desired users to targeted locations. Successful programs have targeted major anchors with a track record for strong sales, loyal customer base, and the ability to draw other tenants in addition to customers.

BBIDs/PBIDs can be an important funding source for needed revitalization activities and improvements. It is also appealing to property and business owners because the funds raised are controlled by the private sector rather than the city. Over time, this mechanism allows a business community/commercial district to take charge of its own affairs and decrease its reliance on uncertain, public financial support. The City should consider providing the seed capital to implement an Old Town BID as well as a small operating subsidy for the first year of operation.

(b) *Creation of a Uniform Shopping Environment:* KMA recommends that the City and Old Town stakeholders work to standardize operating hours and parking arrangements for Old Town shops and restaurants. This would create a less uncertain environment for the typical suburban shopper. The current relatively short, and inconsistent, store hours present a particular problem in attracting local residents, many of whom commute to work outside Temecula. Several key steps toward this goal would include: (1) formation of a BID; (2) installation of the City's proposed streetscape improvements; (3) expansion of public parking resources; and (4) enhanced wayfinding signage.

(c) *Enhancement of Freeway Visibility:* There are several approaches to enhancing Old Town's visibility from the freeway. These include:

- Certification of a historic structure within the district, which would ensure CalTrans signage on the freeway.
- Development of a landmark building or monument that would be visible from the freeway. Examples include a new City Hall or a historic feature such as a water tower.
- Renaming of Front Street as, say, Old Town Avenue, and incorporation of appropriate signage at the current Highway 79 South off-ramp.

(d) *Promotion of Special Events:* KMA recommends that the current calendar of special events in Old Town be expanded. Research into comparable districts indicated that special events are a regular and important marketing tool. Possible additional events could include:

- California Gold Rush in Murrieta Creek, i.e., panning for "gold" in the creek bed.
- Wine and cheese receptions tied to musical performances or art exhibits.
- Free outdoor theatre performances.
- Arts and craft fairs featuring working artisans, period costumes, and stagecoach and horseback rides.
- Sunday picnics along Murrieta Creek featuring performances by local musicians.

(e) *Recruitment Strategies:* In the course of this market assessment, KMA has identified a range of new development and types of business that are likely both to be successful in Old Town and to contribute to the economic revitalization and expansion of the district. These uses include both market-driven uses and arts and cultural amenities. KMA recommends that the City and Old Town stakeholders prioritize these development opportunities and consider the following potential strategies for implementation:

- The Redevelopment Agency can solicit developers for adaptive re-use of "historic" buildings as restaurants, shops, housing, office space, or bed & breakfast inns.
- The Redevelopment Agency can directly solicit end users, such as restaurants or hotel operators.
- The City and/or Redevelopment Agency can provide partial financial sponsorship for development of arts and cultural facilities.

- The City and/or Redevelopment Agency can continue to invest in public improvements in the area. For example, the City will undertake construction of an extensive streetscape improvement program along Front and Main Streets. To some extent, this significant beautification of the area will act as a catalyst for new real estate and business development. As a next step, the City/Agency may wish to pursue an improvement program for Murrieta Creek and its eastern shoreline.

### L. LIMITING CONDITIONS

1. Information provided by such local sources as governmental agencies, financial institutions, realtors, buyers, sellers, and others was considered in light of its source, and checked by secondary means. However, no responsibility is assumed for possible misinformation.
2. Neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
3. All numerical references should be assumed to be "more or less" and accurate to a degree consistent with their use for purposes of socioeconomic analysis and forecasting.
4. Any estimates of demographic or economic variables are based on the best available data sources but are not intended to be predictions of the future. Rather, they should be viewed as an indicator of future conditions given available data. No warranty or representation is made that any of these estimates or projections will actually materialize.
5. The findings are based on economic rather than political considerations. Therefore, they should neither be construed as a representation nor opinion that government approvals for development can be secured.
6. Market feasibility is not equivalent to financial feasibility; apart from whether there is a demand for various retail uses, other factors are of crucial importance in determining feasibility. These factors include the cost of acquiring sites, relocation burdens, traffic impacts, the remediation of toxics (if any), and mitigation measures that would be required through the approval process.
7. The development opportunities defined herein as being warranted during the near-term will be achieved within a reasonable period of time. This precludes major changes in the conditions assumed in this study.

8. The analysis, opinions, recommendations and conclusions of this report are our informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic situations and conditions of the building and development industry, conclusions and recommended actions contained within this report should not be relied upon as sole input for final business decisions regarding current and future development and planning.