Agenda Item # 2odev 3

This report was reviewed for:
Legal Implications ✓WRS
Financial Implications [illegible]
Dept. Approval [illegible]

STAFF REPORT
May 24, 2006

To: Chair Cashell and Redevelopment Agency Board Members
Thru: Charles McNeely, Executive Director
From: Kristin Rossiter, Economic Development Manager KMR
Re: Receive Grocery Store Study
Date: May 10, 2006

Summary: The Redevelopment Agency Board is requested to receive the "Downtown Grocery Store Study", prepared by the Nevada Small Business Development Center (NSBDC). The report follows the "Downtown Retail Study" prepared by the Agency in partnership with the University of Nevada, Reno's Department of Economics. The Study provides a detailed analysis of the current market conditions in the downtown as well as forecasts for the future and how these conditions impact the ability to attract a downtown grocery store to the area. Finally, the report provides the Agency with an outline of available strategies to establish the downtown as a viable location for a specialty grocery store in the future.

Previous Agency Board/Council Action: Agency Board received the Downtown Retail Study on January 26, 2006.

Background: With the planned development of some 1,400 market-rate condominiums in downtown Reno, and with new residents moving into completed projects such as Riverwalk Towers, discussion has ensued regarding the desire to locate a specialty grocery store such as "Trader Joe's" to the downtown.

A lease with the Downtown Marketplace in the Agency-owned Parking Gallery has been secured, and staff is proactively working with developers to attract a specialty grocer to downtown. In December 2005, staff began a marketing initiative to attract a grocery store to downtown, and has followed initial mailings with phone calls and meetings with real estate representatives of specialty grocery stores. In February 2006, these efforts led to hosting a tour of downtown and its development opportunities with real estate representatives working on behalf of "Whole Foods". The announcement of the location of "Whole Foods" in the former ShopKo location on South Virginia Street, outside of the Redevelopment Project Area, was announced soon thereafter.

To provide staff with further data to utilize in attracting a specialty grocer to the downtown, an in-depth analysis of the current market trends and conditions, inclusive of forecasts for future growth was necessary in order to effectively market the downtown to potential grocery store tenants. The Downtown Grocery Store Study was prepared in order to meet this need.
The Downtown Grocery Store Study examines a variety of socio-economic and demographic variables and trends within the downtown. These results were compared to the average

residential population and average household median income for the respective service areas for the approximately 40 grocery stores operating throughout the Reno-Sparks area. Following these comparisons, the NSBDC was able to calculate the market potential within the downtown to support a specialty retailer.

Discussion: The Study provides a comprehensive evaluation of the current and projected demographic trends for the downtown, and offers an understanding of trends in grocery store development. New grocery stores are 50,000 to 65,000 square feet or larger in size, with large surface parking lots, that provide shoppers with additional amenities such as drive-up windows, pharmacies, gas stations, and non-food items as grocers work to compete with grocery "supercenters". In order to compete in today's marketplace, even some specialty retailers who began as a "downtown model" are increasing the size of their facilities as well as expanding the services they provide in order to retain their market position.

In its analysis, the Study provides The Redevelopment Agency with an identification of strategies to implement proactively to attract a grocery store to downtown. These strategies include continuing to attract and support mixed-use development in the downtown; working to eliminate barriers to the development of a specialty grocery store; through enhancing the overall levels of economic activity in the downtown; in supporting the existing "Downtown Marketplace" and by continuing to market the area directly to a specialty grocer. In the immediate future, this direct marketing initiative will continue at the May, 2006 International Conference of Shopping Centers in Las Vegas, where the Redevelopment Agency is an exhibitor and has the opportunity to meet directly with prospective tenants and developers.

These strategies are identified within the Downtown Grocery Store Study, and are also supported by the Food Marketing Institute's (FMI) publication "Urban Supermarkets". In the report, FMI profiles more than 20 urban grocery store developments across the country and identifies strategies government entities can employ to attract a downtown grocery store. FMI's recommendations for local governments include providing financial incentives or assistance to grocery stores; assembling parcels of land for development, improving infrastructure in the immediate area, pledging extra police support, and through acting as a liaison for the project, among others.

Legal Implications: None.

Financial Implications: None.

Recommendation: Staff recommends that the Redevelopment Agency Board accept the Downtown Grocery Store Study.

Proposed Motion: I move to approve the staff recommendation.

Downtown Grocery Store Study

Examining the Market Feasibility of a Grocery Store – Supermarket in Downtown Reno

March, 2006

Prepared for:

The Reno Redevelopment Agency

Prepared by:

Nevada Small Business
Development Center

University of Nevada, Reno
College of Business Administration
Ansari Business Building, Room 411
Reno, NV 89557-0100

Table of Contents

List of Tables

List of Figures

List of Exhibits

Executive Summary

The Nevada Small Business Development Center, Bureau of Business and Economic Research was asked by the Reno Redevelopment Agency to examine the market feasibility and conditions of grocery store development in the City's downtown Redevelopment Project Area No. 1. The purpose of the study was to determine whether or not different socio-economic conditions in the City's urban-core merited further recruitment of either a supermarket chain or specialty grocery store.

In an attempt to define the downtown's specific grocery store market conditions, this report identified existing conditions regarding residential population, downtown tourism and visitor counts and downtown employment (both within and adjacent to the existing downtown redevelopment district). Further effort was made to estimate future residential population growth for downtown Reno based upon several residential projects underway or planned for different parts of the City's urban-core. These results were then compared to the average residential population density and average household median income for approximately 40 grocery stores throughout the greater Reno-Sparks area. After this comparison was made, it was then possible to extrapolate market demand and market supply for downtown Reno's grocery store market.

In 2005, the average residential population and the average household median income of those residents living within a one mile radius of any grocery store in the greater Reno-Sparks area was 12,812 residents and \$50,784 respectively. In 2005, the actual residential population and the average household median income of those residents currently living within Redevelopment Project Area No. 1 was 3,291 residents and \$21,222 respectively. In 2008, assuming normal growth in the existing downtown residential population and the successful completion of eight new residential projects throughout downtown Reno, the estimated residential population and the estimated average household median income of those residents anticipated to live within Redevelopment

Project Area No. 1 is 7,647 residents and $35,000 respectively. In both 2005 and 2008, the residential population in downtown Reno is both too small in-terms of total numbers and does not have a high enough buying power to meet the market requirements of area supermarkets or chain grocery stores.

Several strategies are available to the Redevelopment Agency in order to grow the downtown grocery store market.

- First, the Redevelopment Agency can continue to its policy of enhancing and increasing the downtown residential project through continued mixed-use, mixed-income development strategies.

- Second, the Redevelopment Agency can continue to remove the key barriers to new grocery store in-fill development in downtown Reno through the continued targeting of existing physical blight, the continued effort to work with existing passive land owners and the development of a comprehensive downtown parking strategy.

- Third, the Redevelopment Agency can continue to enhance the overall level of economic activity throughout downtown Reno. It has been observed that tourists, visitors and employees (specifically professional-office workers) in downtown environments have a measurable level of grocery store market demand. Through the continued enhancement of the downtown's tourism-visitor market and the downtown's employment market, the Redevelopment Agency can off-set the relatively low residential population density level and the relatively low residential buying power.

  Enhanced economic activity applies to individual businesses located within the City's urban-core as well. The "Downtown Market", a specialty grocery store opened in early 2005 at the Redevelopment Agency's owned Parking Gallery, will continue to require the technical and business services of the Redevelopment Agency in order to grow and expand over the next several years. In lieu of attracting a new supermarket or specialty grocery store, the Redevelopment Agency can help the Downtown Market to expand its operations as new residents, new visitors and new employees begin to work, play and live throughout the City's downtown redevelopment district.

- Fourth, the Redevelopment Agency can continue to aggressively recruit a new supermarket or specialty grocery store to downtown Reno based upon new developments in specific areas of the City's downtown redevelopment district. West Street is an ideal location for a new supermarket or specialty grocery store because of its proximity to existing downtown hotel and casino properties, its proximity to a major employment center (St. Mary's Regional Medical Center to the north) and its proximity to many of the new residential projects (Belvedere Tower, the Montage, the Residence at the Riverwalk, North River Condominiums) planned for downtown Reno over the next several years.

The key to the downtown's grocery store market will be the understanding that *volume* of sales per grocery store customer and the *frequency* of grocery store customer visits are the principal concerns of grocery stores in the greater Reno-Sparks area. In order for grocery stores to remain profitable, customers must shop often and purchase many items per visit. Without continued growth of the downtown's grocery market demand well beyond current and even projected levels, it is unlikely that a new grocery store in downtown Reno will be successful.

1 - Downtown Grocery Store Market, Measuring Demand

Introduction

Over the past two years, the City of Reno's Downtown Redevelopment Project Area No. 1 has experienced a surge in the number of residential units planned for development. Over the next two years, the City's urban-core will begin to transition itself from a primarily gaming-tourism and business-commercial center to a blend of gaming-tourism attractions, business-commercial opportunities as well as a residential neighborhood offering retirees, "empty-nesters" and young professionals with a variety of different housing options throughout the City's downtown.

Unlike the largely tourism-based population, a permanent residential population throughout the Downtown Redevelopment Project Area No. 1 area has several unique demands for service retail that is not currently provided within the small geographic confines of the redevelopment district without leaving the immediate urban-core.

In relation to the residential population growth in other parts of the Truckee Meadows (South Reno, Northwest Valley's and Spanish Springs in Sparks), the rate of growth in the urban-core's residential population, as well as the actual number of residential units being built, may still not merit the aggressive recruitment and development of a national chain grocery supermarket.

This study presents a variety of findings concerning the City's urban-core in relation to other parts of the Reno-Sparks area. Data is provided regarding new residential development throughout the downtown as well as population growth and per capita income levels. Data is also provided regarding similar residential socio-economic conditions in other parts of the City of Reno where residential population densities are significantly higher than the City's urban-core. Data is also provided on the market characteristics of existing supermarket grocery stores in other parts of the City of Reno. The principal purpose of this study is to provide the Reno

Redevelopment Agency, as well as others, with an understanding of the specific market conditions for the supermarket grocery store industry specific to the City of Reno and the downtown Reno Redevelopment Project Area No. 1.

General Market Conditions, Reno Redevelopment Project Area No. 1

A natural place to begin this study is an examination of general conditions in the City's Downtown Redevelopment Project Area No. 1 (RDA No. 1). By examining a variety of socio-economic demographic variables, an estimation of market demand can be extrapolated.

Table 1
Estimated Completion for Downtown Residential Projects
2006 – 2008

Project Name	Project Type	Estimated Year of Completion	Estimated Total Units	Estiamted Total Residents	Estimated Per Capita Income of Residents
Palladio	Condominiums	2006	90	270	$120,000
Residence at the Riverwalk	Condominiums	2006	120	360	$80,000
Belvedere Tower	Condominiums	2007	380	1,140	$80,000
The Montage	Condominiums	2007	388	1,164	$150,000
North River Condominiums	Condominiums	2007	131	393	$145,000
Village on the River	Townhomes	2007	137	411	$95,000
Chambolle	Condominiums	2008	53	159	$120,000
Waterfront Tower	Condominiums	2008	153	459	$150,000
Total/Average			1,452	4,356	$117,500

**Source: Reno Redevelopment Agency Staff, Downtown Retail Study (2005)*

Table 1 was developed from several different sources including Redevelopment Agency documents made available to the public, interviews with key Redevelopment Agency staff as well as data presented in the *Downtown Retail Study* (2005) developed for and received by the Reno City Council – Redevelopment Agency Board in January, 2006.

Over the next two years, the Redevelopment Agency estimates that approximately 1,500 new residential units will be built throughout the City's urban-core, specifically along West Street (running north to south) and the Truckee River (running west to east). Assuming an average number of three residents per residential unit, 1,500 new residential units will yield an increase in the urban residential population of approximately 4,400 individuals with per capita incomes of approximately $118,000 by the year 2008. It is important to note that one residential project the Metropolitan (condominium conversion of the Cal-Neva Nevadan Tower, which would have had 70 new residential units, with an estimated 210 new residents with per capita incomes of $110,000) has been withdrawn as a potential residential project.

Certainly, with these new residential developments either planned or underway, consumer demand for increased grocery services will increase between now and 2008. Although it is difficult to determine if this is just the beginning of a new wave of additional residential projects in the City's immediate urban-core, or if this is all the residential development that is likely for the downtown, new residents living in close proximity to each other throughout the City's immediate downtown will require some form of grocery service that offers a variety of items like baked goods, fresh produce, meats and dairy.

The existing residential population in the City's Redevelopment Project Area No. 1 does indicate some growth in both the number of individuals and the number of families living within the redevelopment district.

Table 2
Population Estimates for Reno Redevelopment Project Area No. 1
2003 – 2005

Year	Total Population (No. of Individuals)	Annual Percentage Change	Total Population (No. of Families)	Annaul Percentage Change
1990 Census	2,590		n/a	
2000 Census	2,810	8.49%	336	n/a
2003	3,132		334	
2004	3,132	0.00%	334	0.00%
2005	3,291	5.08%	475	42.22%
2003-2005 Average	**3,185**	**2.54%**	**381**	**21.11%**

** Source: Nevada Small Business Development Center, 2002 through 2005 Business Activity Reports*

Since 2003, the number of individuals living within RDA No. 1 increased at annual average rate of 2.54%, increasing from 3,132 individuals in 2003 to 3,291 individuals in 2005. Since 2003, the number of families living within RDA No. 1 increased at annual average rate of 21.11%, increasing from 334 families in 2003 to 475 families in 2005.

The positive growth in both the total number of individuals and the total number of families living within RDA No. 1 does indicate a measured level of growth in the number of potential grocery store customers within the redevelopment district. As stated above, these individuals do have a demand for grocery store services. Families are of a particular interest for potential grocery store supermarkets as families tend to spend more money per visit to a grocery store than individuals living alone. Families with children are also likely to shop more than just once a month for grocery store items like fresh produce, baked goods, meat and dairy products.

This is advantageous for a grocery store supermarket due to the existing need of grocery store supermarkets to have multiple sales by multiple customers at multiple times during the month in order to remain profitable.

Without consistent growth in both the existing customer base as well as the frequency of each customer's visit, many existing grocery store supermarkets are unable to remain profitable. The low per-item transaction profit margin requires grocery store supermarkets to sell items in large quantities to a growing customer base to remain profitable. Only specialty grocery stores that have a significantly higher per-item transaction profit margin are able to survive in areas where both the customer base is comparably smaller and the frequency of visits is comparably lower than other areas. However, the use of specialty grocery stores (i.e. – Trader Joes, Wild Oats Market, World Market), in-lieu of a grocery store supermarket chain (i.e. – Albertson's, Safeway, Smith's) requires the immediate population to have significantly higher income levels primarily because specialty grocery stores sell their product at a significantly higher per-item unit cost.

Table 3
Income Estimates for Reno Redevelopment Project Area No. 1
2003 – 2005

Year	Median Household Income	Annual Percentage Change	Median Family Income	Annual Percentage Change	Per Capita Income	Annual Percentage Change
2000 Census	$21,304	n/a	$36,995	n/a	$21,286	n/a
2003	$19,909		$36,355		$23,231	
2004	$20,228	1.60%	$36,781	1.17%	$23,978	3.22%
2005	$21,222	4.91%	$38,809	5.51%	$25,957	8.25%
2003-2005 Average	$20,453	3.26%	$37,315	3.34%	$24,389	5.73%

*Source: *Nevada Small Business Development Center, 2002 through 2005 Business Activity Reports*

Since 2003, median household income for households located within RDA No. 1 increased at an average annual rate of 3.26%, increasing from $19,909 in 2003 to $21,222 in 2005. Since 2003, median family income for families living within RDA No. 1 increased at an average annual rate of 3.34%, increasing from $36,355 in 2003 to $38,809 in 2005. Since 2003, per capita income for individuals living within RDA No. 1 increased at an average annual rate of 5.73%, increasing from $23,231 in 2003 to $25,957 in 2005.

Despite positive growth in median household income, median family income and per capita income, all three indicators of consumer buying-power remained significantly below the level of median household income, median family income and per capita income for the greater

Reno-Sparks area according to the Nevada Small Business Development Center's 2005 Business Activity Report.

- In 2005, median household income was $60,489 for the greater Reno-Sparks area. Between 2003 and 2005, the *average* median household income for households located within RDA No. 1 was only $20,453, nearly $40,000 lower than the median household income for the greater Reno-Sparks area.

- In 2005, median family income was $70,554 for the greater Reno-Sparks area. Between 2003 and 2005, the *average* median family income for families located within RDA No. 1 was only $37,315, nearly $33,000 lower than the median family income for the greater Reno-Sparks area.

- In 2005, per capita income was $29,820 for the greater Reno-Sparks area. Between 2003 and 2005, the *average* per capita income for individuals located within RDA No. 1 was only $24,389, nearly $5,000 lower than per capita income for the greater Reno-Sparks area.

It appears that both the population density level as well as the combined buying power of individuals and families living within the City's Redevelopment Project Area No. 1 is significantly lower than the population density level and combined buying for the greater Reno-Sparks area.

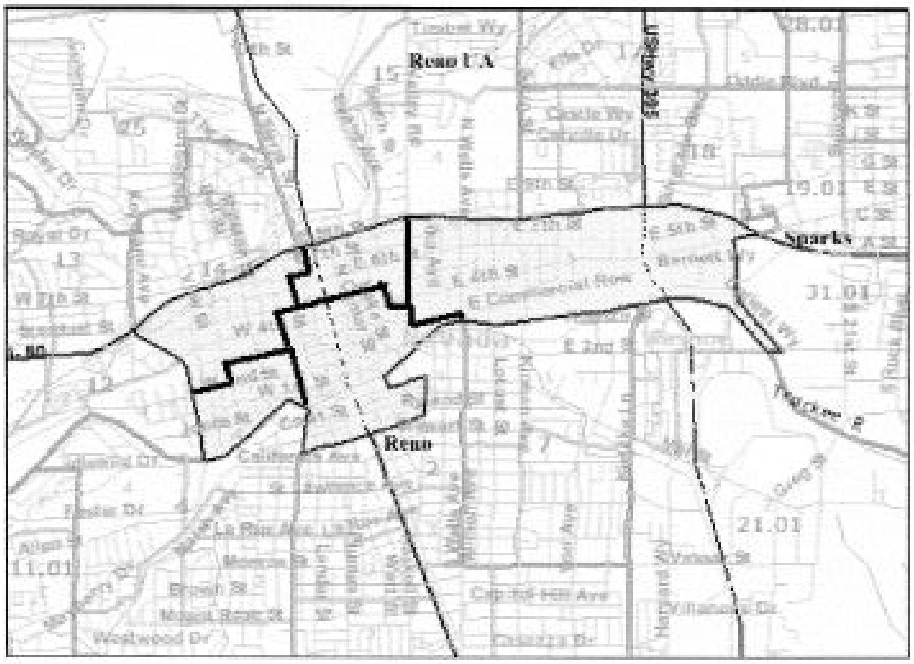
In short, it would appear at first glance that RDA No. 1 has neither a substantial enough customer base for a grocery store supermarket chain (which requires a significantly higher population density level) or a substantial enough buying power base for a specialty grocery store (which requires a significantly higher level of potential buying power).

Expanding the Target Market Area

Up to this point, only market conditions in the City's Redevelopment Project Area No. 1 area have been considered as part of a "downtown grocery store market". Although using the existing area of the downtown redevelopment area is useful from the position of planning and urban renewal, it fails to consider the *actual* target – market area for either a grocery store chain supermarket or a specialty grocery store.

Even though policy makers and many developers may indeed recognize the redevelopment districts boarder as the urban-core's physical definition, many residents and visitors would likely view the City's downtown as more than just the redevelopment area distinction. Most would consider much of East 4th Street to the east and much of the area to the north-west around St. Mary's Regional Medical Center as part of the downtown area as well. Future development in those areas would likely impact the market demand for grocery services not only within the downtown Redevelopment Project Area No. 1 but the surrounding urban-core as well.

Exhibit 1
U.S. Census Tract 1



Source: U.S. Census Bureau, American FactFinder

As Exhibit 1 illustrates, Census Tract No. 1 for the City of Reno includes the current boundary of the City's Redevelopment Project Area No. 1 as well as the immediate and adjacent areas to the north-west, east, south-east and south-west. Census Tract No. 1 is generally bounded by the Interstate 80 to the north, the Reno-Sparks municipal boarders to the east, the Truckee River to the south and Keystone Avenue to the west. This map and the corresponding socio-economic demographic data was taken from the Redevelopment Agency's *Downtown Retail Study* (2005).

Within Census Tract No. 1, five individual Census Block areas exist. Data was collected from the United States Census Bureau and presented in the Redevelopment Agency's *Downtown Retail Study* (2005) for each Census Block within Census Track No. 1. The individual Census Track Block groups are the individual sub-areas within Census Track No. 1.

- Census Block No. 1 – the northern sub-area in the center of the census tract.

- Census Block No. 2 – the southern sub-area in the center of the census tract.

- Census Block No. 3 – the sub-area in the north-west corner of the census tract.

- Census Block No. 4 – the sub-area in the south-west corner of the census tract.

- Census Block No. 5 – the sub-area extending to the east of the current downtown redevelopment district, bordered by Interstate 80 to the north, Evans Avenue to the west, the City of Sparks to the east and the Truckee River to the south.

The census tract and block numbers were chosen as the delineation of the City's expanded urban-core for the two reasons used in the *Downtown Retail Study* (2005). First, these areas where chosen for ease in data collection, projection and analysis and, secondly, because of each census block's proximity to the City's urban-core.

Table 4 – Total Population and Per Capita Income
U.S. Census Tract No. 1, Individual Census Block No. 1 through 5
Calendar Year 2000

Census Tract, Block Group	Total Population 2000	Per Capita Income 2000	Est. Total Population 3% Growth, 2015	Est. Per Capita Income 1% Growth, 2015
Tract 1, Block 1	764	$15,338	1,190	$17,807
Tract 1, Block 2	1,603	$26,263	2,497	$30,491
Tract 1, Block 3	1,104	$11,711	1,720	$13,596
Tract 1, Block 4	745	$17,089	1,161	$19,840
Tract 1, Block 5	1,347	$13,242	2,099	$15,374
Total/Average	**5,563**	**$16,729**	**8,667**	**$19,422**

* *Downtown Retail Study, Reno Redevelopment Agency, October 2005*

According to the *Downtown Retail Study*, the United States Census reported in 2000 that approximately 5,500 people called the immediate and extended urban-core of the City of Reno home, with an average per capita income of approximately $17,000. Ignoring the residential projects within the current downtown redevelopment district presented in Table 1 above, the estimated total population, growing at an annual average rate of 3.00%, in 2015 is approximately 9,000 residents. Factoring in the eight residential projects listed in Table 1, the residential population of the immediate and extended urban-core could increase to anywhere between 13,000 and 15,000 residents in the next eight to ten years.

Although the *Downtown Retail Study* used a 3.00% annual average growth rate for the immediate and extended urban-core's residential population, the study used a 1.00% annual average growth rate for per capita income levels. At a 1.00% annual rate of growth, the estimated per capita income will grow from approximately $16,700 in 2000 to approximately $19,500 by 2015. Factoring in the estimated per capita income of residents living in the eight residential projects listed in Table 1, the per capita income of the immediate and extended urban-core could increase to anywhere between $50,000 and $70,000 in the next eight to ten years.

Within the next eight to ten years, it appears that the immediate and extended urban-core would have a substantial enough customer base for a grocery store supermarket chain (requiring a significantly high population density level of approximately 10,000 residents or more) and a substantial enough buying power base for a specialty grocery store (which requires a significantly higher level of potential buying power).

Although this estimation of future residential and per capita income levels indicates a certain degree of feasibility for the attraction of a grocery store supermarket chain or a well-known specialty grocery store, it assumes several things.

- First, it assumes that both the natural growth in population and per capita median incomes will grow without interruption and the residential projects listed in Table 1 above will go forward without interruption, cancellation or delay.

- Second, it assumes that no other grocery store supermarket chain or well-known grocery store will enter the market near-by but not inside the immediate or extended urban-core.

- Third, it assumes that the profitability equation for most supermarket chain grocery stores and specialty grocery stores will remain unchanged within the next eight to ten years.

Although the first assumption (no change in the natural growth of the residential population – per capita median income level and announced, planned and/or underway residential projects) is more likely to remain true, the last two assumptions are less certain to hold true in the next eight to ten years. Although the next chapter will provide greater insight into all three of these assumptions, it is possible to briefly touch on the final two.

The second assumption (no new supermarket or specialty grocery store in the next eight to ten years near-by but not inside) is already threatened by the proposed development of a Wal-Mart Supercenter proposed for the area immediately north of the existing Reno Hilton, south of the Truckee River and immediately adjacent to U.S. Highway 395. A one-mile radius of this sight for a proposed Wal-Mart Supercenter incorporates much of Census Block No. 1, Tract No. 5, the area immediately east of the existing downtown Redevelopment Project Area No. 1.

The third assumption (no change to the profitability equation of either supermarkets or specialty grocery stores) is also less likely to hold true in the next eight to ten years. Because the City's demographics are changing so quickly year-to-year and because the profitability equation for a grocery store (either supermarket or specialty) is highly dependent on local socio-economic demographics, any significant change in area demographics will significantly change the profitability of new grocery stores in the future. As it will become evident in the next chapter, the profitability equation of area grocery stores has changed so dramatically in the past few years that grocery stores are now requiring larger stores with more square footage with additional amenities like an in-house pharmacy, drive-up windows and gasoline refueling stations with large parking lots bettered suited in high density suburban developments.

The other half of the "residential formula" for the City's immediate and expanded urban-core is the overall trend in the growth of the number of families living within the immediate and expanded urban-core. As mentioned earlier, supermarket grocery store chains tend to gravitate towards areas of high family residential population densities because families typically spend significantly more money per visit to a supermarket grocery store and have a much higher frequency of visits to a supermarket grocery store than individuals living without children like retirees, empty-nesters and young professionals either married or single without children.

Table 5 – Total Number of Families and Family Median Income U.S. Census Tract No. 1, Individual Census Block No. 1 through No. 5 Calendar Year 2000

Census Tract, Block Group	Total Number of Families 2000	Median Family Income 2000	Aggregate Family Income 2000
Tract 1, Block 1	115	$30,729	$5,169,000
Tract 1, Block 2	264	$33,571	$11,322,500
Tract 1, Block 3	182	$32,000	$6,232,400
Tract 1, Block 4	101	$29,219	$3,988,500
Tract 1, Block 5	206	$26,375	$5,956,600
Total/Average	868	$30,379	$32,669,000

* *Downtown Retail Study, Reno Redevelopment Agency, October 2005*

According to the *Downtown Retail Study*, the United States Census reported that approximately 868 families called the immediate and extended urban-core of the City of Reno home in 2000, with an average median family income of $30,379 and an aggregate family income of approximately $32.7 million. Ignoring the residential projects within the current downtown redevelopment district presented in Table 1 above, the estimated total number of families, growing at an annual average rate of 3.00%, in 2015 is approximately 1,352 families.

Although the *Downtown Retail Study* used a 3.00% annual average growth rate for the immediate and extended urban-core's family population, the study used a 1.00% annual average growth rate for average median family incomes. At a 1.00% annual rate of growth, the estimated median family income will grow from an average of $30,379 in 2000 to an average median family income of $35,269 by 2015.

It would again appear as though the growth in the actual number of families expected to live within the immediate and extended urban core as well as median family income will grow within the next eight to ten years to a level significant enough to support either a grocery store supermarket or a specialty grocery store.

This conclusion is based on the same three assumptions listed above regarding an uninterrupted continuation in the natural growth of families living within the immediate and extended urban-core, no further entry into the market by a competing grocery store near-by but outside the immediate and extended urban-core and no further change in the profitability equation of either supermarket or specialty grocery stores. Unfortunately, it is clear that at least two of these three assumptions no longer hold true, placing in jeopardy the attractiveness of future levels of family population and family median income growth within the next eight to ten years.

2 - Local Market Conditions for Reno Grocery Stores

Introduction

Up to this point, the principal area of analysis has been the existing downtown Redevelopment Project Area No. 1 and the immediate and extended urban-core defined by Census Block 1 presented in Exhibit 1 in the previous chapter. Although demand for grocery store services is increasing, the level of demand still remains competitively lower than other parts of the City of Reno.

According to the Nevada Small Business Development Center's *2005 Business Activity Report*, the number of housing units built between April 2000 and October 2005 was only 258, accounting for only 1.00% of the 26,032 new housing units built over the same period throughout the greater Reno-Sparks area. In other areas throughout the City of Reno, like the Southwest Reno and South Reno areas where population density and per capita income levels are significantly higher than that of the downtown Redevelopment Project Area No. 1, the number of new housing units built between April 2000 and October 2005 was much higher (997 in Southwest Reno and 5,484 in South Reno respectively).

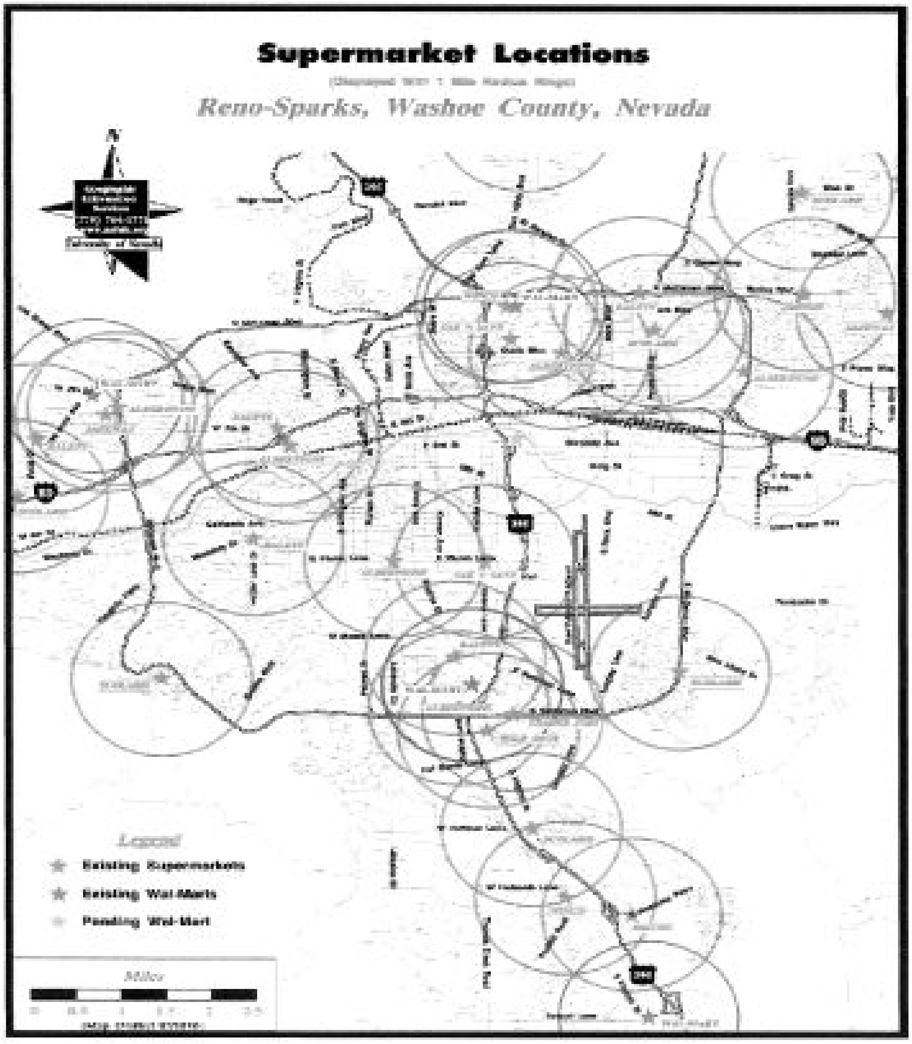
The following chapter outlines the different population and median income levels for grocery stores (either supermarket chain or specialty grocer) for areas throughout the City of Reno. By identifying the location of different grocery stores and the residential-income levels within a "sphere of influence" for each grocery store, it is possible to identify certain "trigger points" or "bright-lines" where the development of a large grocery store within either the City's immediate or extended urban-core becomes financially feasible for a grocery store. Without reaching these different "trigger points" in-terms of both the residential population level and the level of per capita median incomes, it will remain highly unlikely that a large grocery store (either supermarket chain like Albertson's, Safeway or Smith's, or specialty grocer like a Trader Joes, Wild Oats

Market, World Market) would be willing to invest within the City's urban-core by opening a new location.

Location and Market Conditions for Existing Grocery Stores

Exhibit 2 plots existing grocery stores (both supermarket chain and specialty grocer) located within the City of Reno as well as a proposed Wal-Mart Superstore for an area south of the Truckee River and north of the existing Reno Hilton.

Exhibit 2



The one mile radius rings plotted around each grocery store represents each grocery store's "sphere of influence". The one mile radius ring can also be defined as each grocery store's primary market, servicing residents living within one mile of the grocery store itself. (Exhibit 2 is provided as a separate attachment in this reports appendix.)

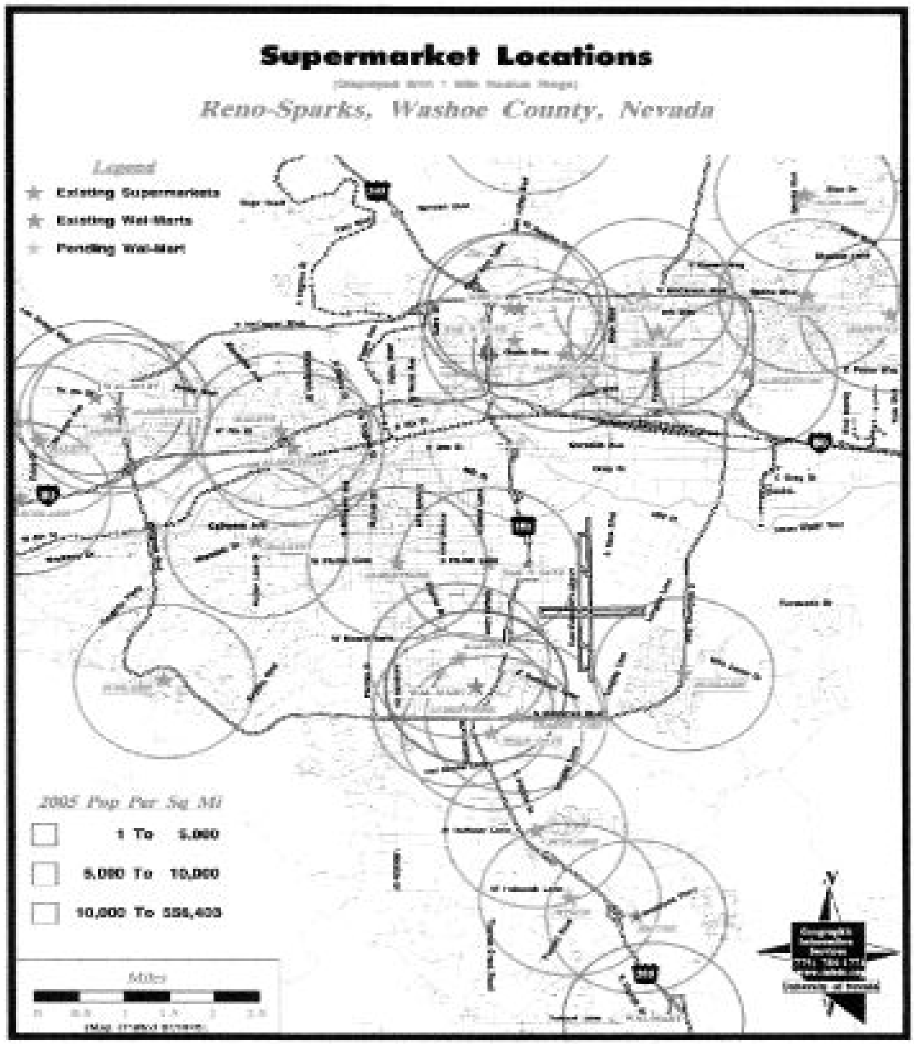
Even without examining the residential and income demographics for each grocery store within the one mile radius rings, several important observations can be made.

- First, almost every single grocery store is immediately adjacent to a main traffic corridor. Understanding that the frequency of customer visits and the quantity of product purchased are the two principal variables in a grocery store's (principally supermarket chain grocery store) profitability equation, grocery store's have tended to gravitate towards high traffic areas where potential customers can, with relative ease, drive their vehicle to the grocery store, park relatively close in a large surface parking lot, fill a shopping cart with their desired consumables and then leave for home. Not surprisingly, not a single grocery store is located in an area where the store itself cannot be seen from the main traffic corridor. This behavior tends to indicate that *visibility* is a key component of making a grocery store successful.

- Second, the density of grocery store locations increases as one moves farther out from the City's urban-core towards the City's suburbs. The majority of grocery store locations plotted above in Exhibit 2 illustrates that the majority of grocery stores have chosen locations either along the McCarran Boulevard loop or outside the loop, further away from the City's urban-core. These locations not only further support the first observation above, that *visibility* is a key component of making a grocery store successful, but that proximity to high density residential developments is also a key component of making a grocery store successful. This behavior tends to indicate that as population density levels have remained relatively flat within the City's immediate and extended urban-core, as compared to the significant rise in population density levels in the City's outlying suburban areas, grocery stores need to "chase" residential development in order to remain profitable and successful.

- Third, the location of a grocery store (principally a supermarket chain grocery store) seems to remain independent of per capita income levels. The large cluster of grocery stores along West Plumb and East Plumb lanes along Virginia Street to S. McCarran Boulevard are in principally commercial areas bracketed by relatively low median income residents compared to residents living in South Reno around the S. Meadows Parkway – S. Virginia Street area. This behavior tends to indicate that median per capita income levels are less important to the profitability and success of a grocery store than proximity to large residential population density areas. Exhibit 3 below further illustrates this point.

Exhibit 3



As Exhibit 3 illustrates, (Exhibit 3 is provided as a separate attachment in this reports appendix) the majority of grocery stores plotted are located either within or immediately adjacent to areas of high residential populations. The dark yellow areas, presented in Exhibit 3, plots areas of residential population per square mile for 2005 between 10,000 residents to 556,403 residents.

This observation does <u>not</u> mean that per capita median income levels are unimportant for potential grocery store development. In fact, as it will become quite evident, per capita median income levels are very important when a potential grocery store considers new store locations. Rather, what this third and final observation indicates is that population density levels, which directly affect the number of potential consumers and the frequency of visits to a possible store, appears to be a *greater* advantage than areas with higher median incomes.

In both Exhibit 2 and Exhibit 3, a total of 10 different grocery store companies are represented. 40 total stores where plotted in both exhibits. Those grocery stores include: Albertson's (7 locations), Raley's (8 locations), Safeway (3 locations), Sak 'n Save (2 locations), Scolari's (8 locations), Smith's (3 locations), Trader Joes (1 location), Wal-Mart (4 existing and 1 pending locations), Wild Oats (1 location) and Winco Foods (2 locations). Raley's and Scolari's both had the most locations with eight apiece, followed by Albertson's with seven locations. Trader Joes and Wild Oats both had the fewest locations with only one location apiece.

Table 6 presents the average population within one mile of store locations for each grocery store company for 2005. Data was provided by the Nevada Small Business Development Center, Bureau of Business and Economic Research. Basic descriptive statistics are provided immediately below.

Table 6
Average Populations within One Mile by Grocery Store Name
2005

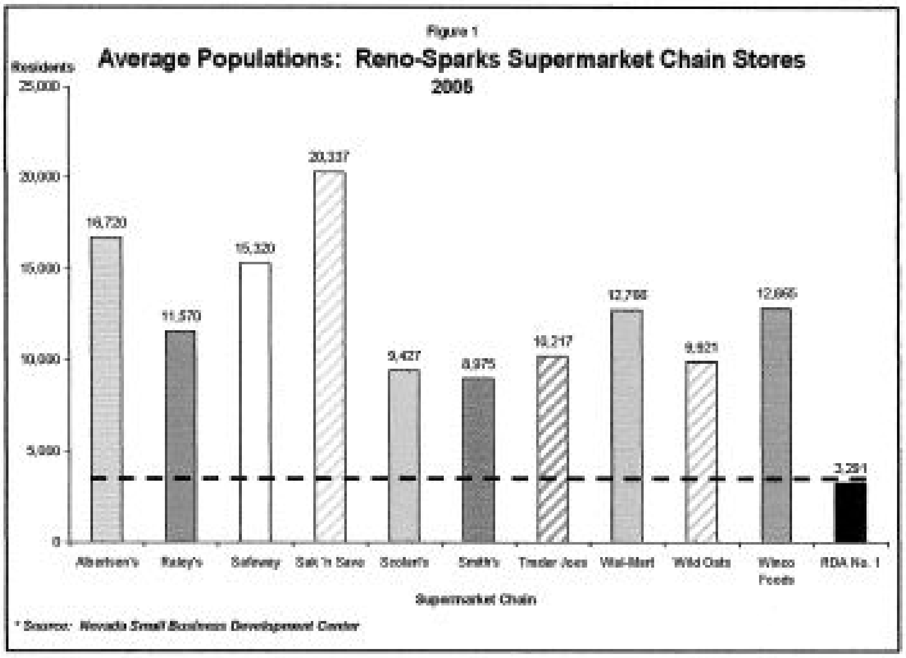
Supermarket Chain	2005 Average Population Within 1 Mile
Albertson's	16,720
Raley's	11,570
Safeway	15,320
Sak 'n Save	20,337
Scolari's	9,427
Smith's	8,975
Trader Joes	10,217
Wal-Mart	12,766
Wild Oats	9,921
Winco Foods	12,865
RDA No. 1	**3,291**
Average	**12,812**

** Source: NSBDC-BBER*

Descriptive Statistics:	(Avg. Population)
Mean	12,812
Median	12,168
Minimum	8,975
Maximum	20,337

In 2005, the average number of individuals living within a one mile radius of existing grocery stores, regardless of company name, was 12,812 with a reported median of 12,168 total residents. The minimum average number of residents living within a one mile radius of a grocery store was 8,975 belonging to Smith's and the maximum average number of residents living within a one mile radius of a grocery store was 20,337 belonging to Sak 'n Save. The reported range, the difference between the minimum and maximum was 11,362 residents.

Figure 1 charts the results presented in Table 6 against the estimated 2005 population level of the City's downtown Redevelopment Project Area No.1.



As Figure 1 illustrates, the actual population of the City's downtown Redevelopment Project Area No. 1 in 2005 was significantly lower than the average population density levels within a one mile radius of every one of the ten studied grocery store chains. Even compared to Smith's, the grocery store chain with the lowest average number of residents living within one mile of a Smith's store, the Reno Redevelopment Project Area No. 1 was almost 5,500 residents short of matching the residential population density level immediately surrounding any of the three Smith's grocery stores.

This suggests that as of 2005, the Reno Redevelopment Project Area No. 1 does not currently have a significantly high enough population density level to merit the development of a grocery store, either supermarket or specialty grocer. Even if the eight residential projects proposed for the downtown redevelopment district listed in Table 1 were completed today, and even if each residential unit in each of the eight residential projects for the downtown had an average number of three residents per unit (an admittedly very *optimistic* number of new residents), the 4,356 estimated new residents in the downtown would still be short of the Smith's average number of residents by almost 1,000 residents.

Table 7 presents the average median household income within one mile of store locations for each grocery store company for 2005. Data was provided by the Nevada Small Business Development Center, Bureau of Business and Economic Research. Basic descriptive statistics are provided immediately below.

Table 7
Average Median Household Incomes within One Mile by Grocery Store Name
2005

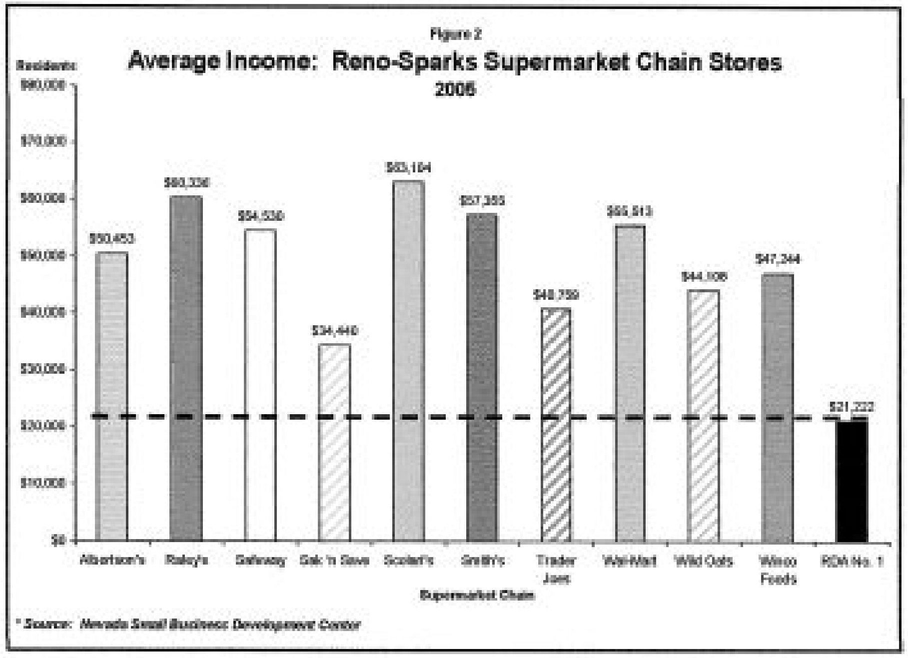
Supermarket Chain	2005 Average Incomes Within 1 Mile
Albertson's	$50,453
Raley's	$60,336
Safeway	$54,530
Sak 'n Save	$34,440
Scolari's	$63,104
Smith's	$57,355
Trader Joes	$40,759
Wal-Mart	$55,513
Wild Oats	$44,108
Winco Foods	$47,244
RDA No. 1	**$21,222**
Average	**$50,784**

** Source: NSBDC-BBER*

Descriptive Statistics:	(Avg. Population)
Mean	$50,784
Median	$52,492
Minimum	$34,440
Maximum	$63,104

In 2005, the average median household income within a one mile radius of existing grocery stores, regardless of company name, was $50,784 with a reported median of $52,492. The minimum average median household income within a one mile radius of a grocery store was $34,440 belonging to Sak 'n Save and the maximum average median household income within a one mile radius of a grocery store was $63,104 belonging to Scolari's. The reported range, the difference between the minimum and maximum was an average median household income of $28,665.

Like Figure 1, Figure 2 illustrates, the actual median household income of the City's downtown Redevelopment Project Area No. 1 in 2005 was significantly lower than the average median household income within a one mile radius of every one of the ten studied grocery store chains. Even compared to Sak 'n Save, the grocery store chain with the lowest average median household income within one mile of a Sak 'n Save store, the Reno Redevelopment Project Area No. 1 was almost $13,000 short of matching the level of median household income immediately surrounding any of the two Sak 'n Save grocery stores. Figure 2 charts the results presented in Table 7 against the estimated 2005 average median household income of the City's existing downtown Redevelopment Project Area No.1.



As of 2005, the Reno Redevelopment Project Area No. 1 does not currently have a significantly high enough level of median household income to merit the development of a grocery store, either supermarket or specialty grocer. Only if the eight residential projects proposed for the downtown redevelopment district listed in Table 1 were completed today, and only if each residential unit in each of the eight residential projects for the downtown had an average number of three residents per unit (an admittedly very *optimistic* number of new residents) with an average median income of $117,500, would median household incomes rise enough to match the mid-range of average median household incomes for each of the ten studied grocery store chains.

Grocer Store Industry Conditions vs. RDA No. 1

Further evidence that the existing Reno Redevelopment Project Area No. 1's current socio-economic demographic conditions still do meet even the most minimal qualifications to trigger either supermarket or specialty grocer development is evident by plotting the results from Table 6 against the results from Table 7. Figure 3 plots the 2005 average populations within a one mile radius for the ten studied grocery store chains against the 2005 average median household income within a one mile radius for the ten studied grocery store chains.

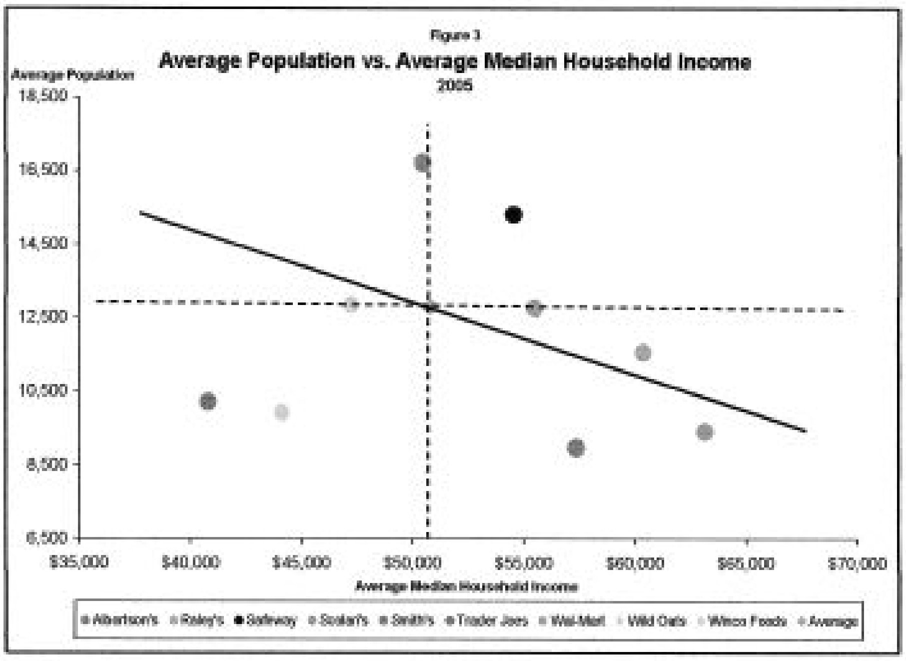
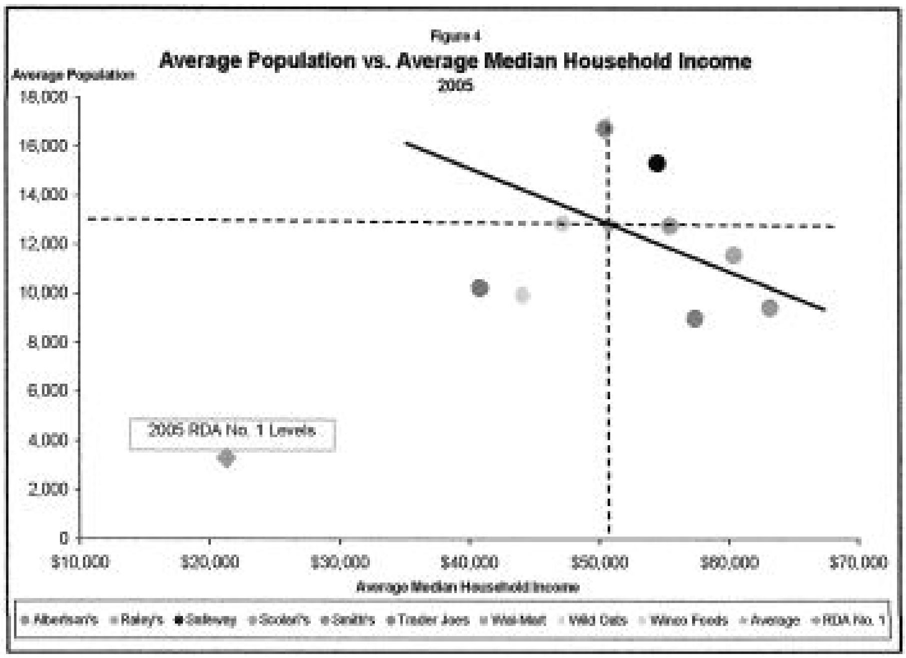


Figure 3 plots the average population and the average median household income within a one mile radius for each of the ten grocery store chains studied in this report. The two dotted lines crossing at an average population of 12,812 individuals and an annual average median household income of $50,784 is the statistical average of all ten grocery store chains studied in this report. The solid line crossing the two dotted lines in the center of the chart is a "least squares regression" or "best fit" showing that an inverse relationship between average population and average median household income exists.

Because an inverse relationship between average population and average median household income exists, grocery stores located in areas with a relatively low population density level require customers with relatively high median household incomes. The opposite is also true. Grocery stores located in areas with relatively low median household incomes require a relatively high population density level.

Only two of the ten grocery stores studied in this report trended in a dissimilar pattern. Trader Joes and Wild Oats appear not to fit the typical model that in order to remain profitable, a grocery store requires either high population density levels within a one mile radius of their stores *or* high median household incomes within a one mile radius of their stores. The only key difference between Trader Joes and Wild Oats and the other eight grocery stores presented in the Figure 3 scatter plot is that Trader Joes and Wild Oats are not supermarket chain grocery stores. Instead, Trader Joes and Wild Oats are specialty grocery stores that appear able to remain profitable with both a relatively low population density level and a relatively low median household income within a one mile radius of their store location. Because Trader Joes and Wild Oats are specialty grocery stores and not supermarket chain grocery stores, their market is much wider than a simple one mile radius. Both Trader Joes and Wild Oats target the greater Reno-Sparks market, offering innovative product lines found only at their stores.

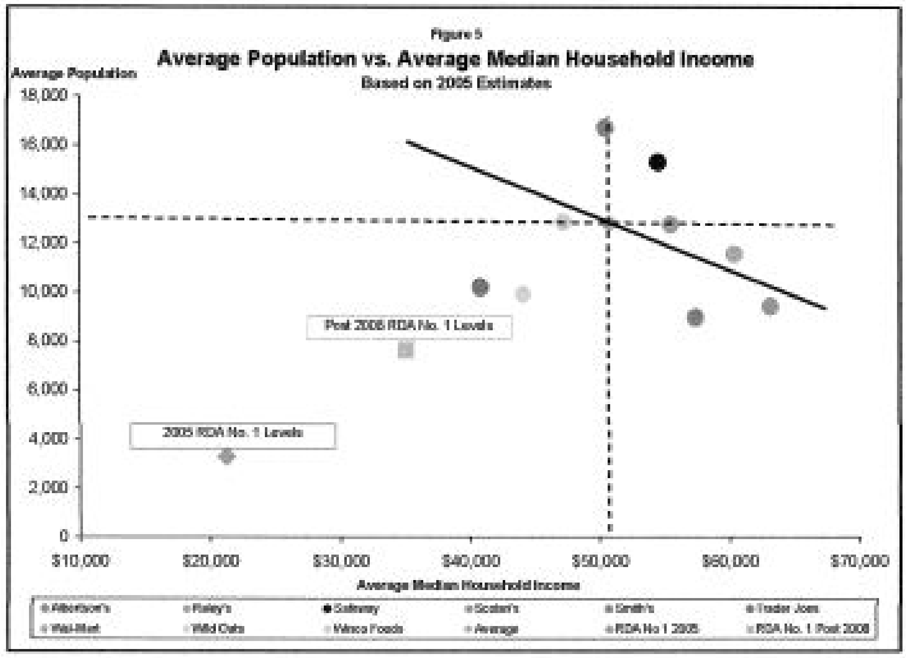
The scatter plot in Figure 3 is presented again in Figure 4, this time plotting the existing Reno Redevelopment Project Area No. 1 demographics including the actual 2005 population level and the 2005 median household income.



One glaring conclusion can be reached without any further analysis. The current socio-economic demographic conditions of the City's downtown Redevelopment Project Area No. 1 has neither high enough population density levels or high enough median household incomes to justify the introduction of either a specialty grocer like Trader Joes and Wild Oats or a supermarket chain grocer like Albertson's, Raley's, Safeway, Scolari's, Smiths, Wal-Mart and Winco Food. Stated simply, it is highly unlikely that a grocery store, other than a very small and very specialized grocer offering a very unique product line, could survive in the existing downtown Redevelopment Project Area No. 1.

However, this does not negate the possibility of a grocery store, like Trader Joes or Wild Oats, being able to operate and remain profitable within the next several years. If the eight residential projects proposed for the downtown redevelopment district listed in Table 1 are completed, and if each residential unit in each of the eight residential projects for the downtown had an average number of three residents per unit (an admittedly very *optimistic* number of new residents) with an average median income of $117,500, it may be possible to successfully attract and sustain a specialty grocer like Trader Joes or Wild Oats within the next three to four years.

Figure 5 presents the same scatter plot presented in both Figure 3 and Figure 4 with existing 2005 RDA No. 1 demographics and the estimated future demographics by 2008, assuming all of the residential projects listed in Table 1 are successfully completed.



The estimated impact of the eight new residential projects listed above in Table 1 is an effective doubling of both the residential population and the median household income level. Still, even with approximately 4,000 new residents, with average median incomes of approximately $117,500, the Reno Redevelopment Project Area No. 1 still falls below the lowest levels of population and median household income presented by both Trader Joes and Wild Oats.

However, this trend in the socio-economic demographics of the downtown RDA No.1 indicates that the Redevelopment Agency is on the "right track". Projects that are introducing new residents with above average per capita and median household incomes, have significantly improved the City's downtown grocery market.

3 - Conclusion and Policy Recommendations

Introduction

A lot of data has been provided through the first two chapters of this study. This final chapter will present a general summary of the data as well as policy recommendations based upon this report's general findings.

Grocery stores in the greater Reno-Sparks area continue to face a very dynamic market for their goods and services. As the area's population continues to grow there will be an increased demand for the goods and services that grocery stores, either supermarket chain or specialty grocers, provide. Although demand has increased, it has not increased in all parts of the City. Within the City's immediate and extended urban-core, population growth and the number of residential housing units built, along with both per capita median income and median household income, have not kept pace with the growth in other parts of the City like the North Valley's, South Reno and Southwest Reno. All of the large supermarket chain and specialty grocery stores have opted to locate closer and closer to the City's expanding population centers in the suburbs of the City of Reno in order to remain profitable.

Barriers to Grocery Store Development in the Downtown

Barriers to urban-infill within the City's urban-core present developers, as well as potential retailers like a grocery store, with certain obstacles difficult to overcome without some form of public assistance. The *Downtown Retail Study* (2005) presented seven general barriers to in-fill development facing retailers interested in developing projects and opening new stores within the City's urban-core. They included:

1. The continued presence of Blight
2. Existing Passive Land Owners

3. Existing and Future Tenants
4. Parking
5. Information
6. "Uniqueness of Reno"
7. Northern Nevada's Housing Price Bubble

Although each of these seven barriers to in-fill are certainly a concern for potential grocery store development in the City's urban-core, a few of them require special attention in relation to the attraction and long-term success of a possible grocery store, either supermarket chain like Albertson's, Wal-Mart or Safeway, or specialty grocer like Trader Joes and Wild Oats Market. The continued presence of blight, existing passive land owners and parking are the three general barriers to in-fill within the City's urban-core most important to the successful recruitment and long-term success of a large downtown grocery store.

The Continued Presence of Blight

The continued presence of blight, both physical and social, acts as a physical deterrent, both directly and indirectly, to the successful recruitment of a supermarket or specialty grocery store.

Directly, the presence of blight makes it difficult for a supermarket chain or specialty grocery store to willingly investment hundreds of thousands, if not millions, of dollars, in the development of new projects within the City's urban-core. The continued presence of blight also directly impacts the number of potential customers likely to both inhabit and visit the immediate surrounding area within the urban-core. In Exhibit 2 and Exhibit 3, the physical locations of different grocery stores in the Reno-Sparks area were mapped. Not surprisingly, it became evident that almost every single grocery store in the Reno-Sparks market tended to locate in areas with high traffic and high visibility to potential customers. The presence of blight within the City's urban-core will continue to deter potential consumers, in the form of both residential and visitor traffic, to the urban-core making it difficult for either a supermarket or specialty grocery store to be visible to their target market.

Indirectly, the presence of blight in the City's urban-core makes it difficult for a supermarket chain or specialty grocery store to be profitable because of the impact certain blighting conditions have on a potential customer base. Despite several residential projects either underway or planned within the City's urban-core, much of the downtown's residential population remains unable to support a larger supermarket or specialty grocer. Figure 3, Figure 4 and Figure 5 above indicated that grocery stores typically gravitate towards one of two areas. First, an area with high population densities but comparatively lower levels of median household income. Second, an area with high levels of median income with comparatively lower population density levels. Figure 5 was by far the most telling, plotting average population and average median income for ten area grocery stores against 2005 RDA No. 1 population and household median income levels and Post 2008 RDA No. 1 *estimated* population and household median income levels. In relation to the presence of blight indirectly impacting the successful development of a new grocery store in the urban-core, existing physical residential conditions are unlikely to attract a population that would successfully "close the gap" between 2005 and 2008 population and income levels and the estimated average population and income levels calculated for the ten area grocery stores studied in this report.

Within the City's existing downtown Redevelopment Project Area No. 1, new residential housing units being built throughout the downtown presents the Redevelopment Agency with a unique problem. Although population levels (a measure of potential grocery store customers) and per capita median incomes (a measure of potential buying power) appear to be growing, it is still unclear as to whether or not the recent wave in downtown residential projects will be enough on its own to first attract and then sustain in the long run a major grocery store, either supermarket or chain.

Existing Passive Land Owners

The phrase "existing passive land owners" is a reference to the difficulty assembling land within the City's urban-core. Almost every single block within Redevelopment Project Area No. 1 has multiple property owners with no unifying "vision" for large-scale, one-block-at-a-time development. In the Redevelopment Agency's past, it has been proven difficult to assemble enough land in a cost effective manner to make whole-block development possible.

Instead, many of the Agency's historical projects have been done on a parcel-by-parcel basis, in the hope that a large enough project on one parcel would trigger substantial new investment in the remaining parcels located on the single block. So far, it is unclear whether or not this method will prove successful in removing certain blighted properties, leading to large-scale private project development.

Although many stores like Wal-Mart, Albertson's, Safeway and Raley's have urban-center stores with smaller square foot footprints, the current Reno-Sparks grocery store market conditions require a substantial volume of sales in order to remain profitable. The need to consistently attract a large volume of sales translates into more and more customers shopping within the store at any given time. This need to attract more and more customers requires Reno-Sparks area grocery stores to build bigger and bigger stores with increased available square footage that can support the enlarged customer base. The need for larger square foot stores reduces the likelihood of successfully attracting a supermarket to the City's urban-core because of the demand for stores of 65,000 square feet of retail space or more, the need for a pharmacy, a bakery, a deli, a photo-shop and, in some cases, the need to sell gasoline to offset potential losses on grocery items like fresh produce and dairy products where the per-unit margin of profit is, at best, negligible.

The general trend in the Reno-Sparks grocery store market has been an expansion of available retail square footage in existing and new grocery stores, combining normal, non-grocery retail sales activity with grocery retail. The development of new Wal-Mart "supercenters" is the best example of this latest trend. Even traditionally non-grocery retailers like Target have opted to add additional square footage to their stores offering new expanded grocery items including pre-packaged foods (like crackers, chips and microwavable dinners), fresh dairy products (like cheese, milk and yogurt) and even pre-packaged fresh baked goods (like bread, pastries and bagels). Traditional grocery store retailers like Safeway have even begun to add non-grocery consumables to their product line. The last two Safeway stores built in the Reno-Sparks area (one on McCarran Boulevard in West Reno and one in Sparks on Vista Boulevard) now have a full-service multi-pump gasoline station with a full-sized convenience store. Other traditional grocery stores like Albertson's have recently merged with traditional drug stores and pharmacies like Sav-On, combining two medium sized stores into one very large store.

The need to build and operate larger and larger stores, combined with the difficulty of assembling enough land to build the store, makes it increasingly difficult to successfully recruit a new, urban grocery store to the City's urban-core.

Parking

Combined with the need for grocery stores to build and operate larger and larger stores comes the need for more and more parking. As mentioned throughout this study, many of the grocery stores throughout the Reno-Sparks area are built immediately adjacent to major traffic corridors allowing not only for greater visibility but also for greater access by a greater number of potential customers. Today's Reno-Sparks grocery stores require a high volume of sales in order to remain profitable. That required high volume of sales means that on an individual per-customer level, the customer must buy enough goods to fill a shopping cart and load their vehicle. This market reality is incompatible with the demand of the urban-population now developing within the City's urban-core where buying only one or two bags of groceries is not profitable for today's area grocery stores.

For any large urban grocery store, parking is essential. Many of the area supermarkets average between 200 and 400 surface parking lots where customers can easily park, shop, and then load their vehicle after they have purchased the goods they need. Even the specialty grocers like Wild Oats Market and Trader Joes have large surface parking lots surrounding them. The need for a large number of parking spaces is especially critical for the specialty grocers. The specialty grocery stores like Trader Joes and Wild Oats do not necessarily rely on the population within a one mile radius of their store location for their primary market as many of the supermarket chains do. The specialty grocery stores like Wild Oats and Trader Joes, market their stores to the greater Reno-Sparks area. This means that Wild Oats and Trader Joes requires the necessary parking to satisfy the demand customers from the greater Reno-Sparks area have to be able to park near the store, conduct their shopping and then return home.

A specialty grocery store like Trader Joes or Wild Oats could remain profitable in an area where individual residents simply buy one or two bags of groceries and then return home via public transportation or by their own bipedal movement (walking). However, if a Trader Joes or Wild Oats Market were to abandon the larger Reno-Sparks specialty grocery market in lieu of providing goods and services to the one mile radius market within the City's downtown redevelopment area, a very high density of population with a very high median household income would have to exist, much higher than what currently exists today.

As Figure 5, presented in the previous chapter, indicates, at both 2005 and the estimated 2008 levels, Redevelopment Project Area No. 1 does not even meet today's average population and average household median income for the one mile radius for either Trader Joes or Wild Oats Market. The only alternative for a specialty grocery store in the City's urban-core is to attract a high volume of new customers from outside the downtown redevelopment area. This inevitably leads to the need to develop sufficient parking that could support such a large increase in commuter traffic to the downtown. Without the necessary parking infrastructure already built and in place, a specialty grocer store, and especially a supermarket chain, will not locate a new store within the City's urban-core.

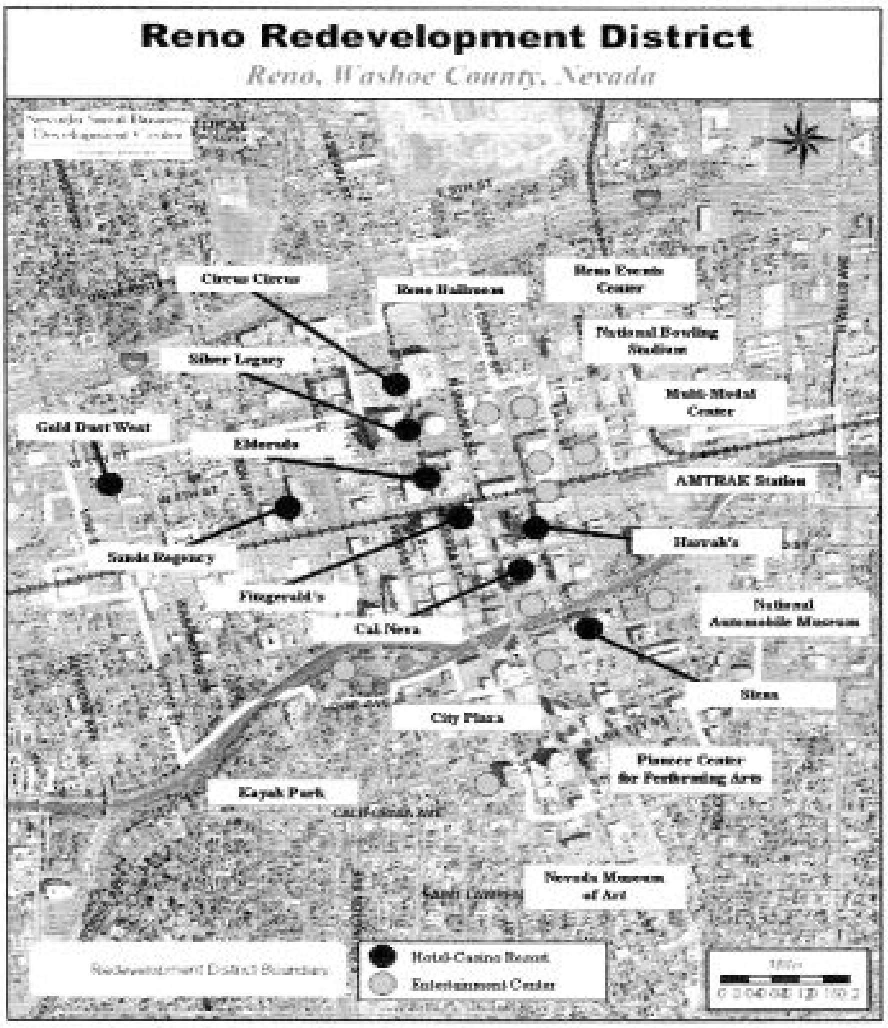
Before the Recommendations, Dispelling a few Important Myths

Before this reports final recommendations are presented, it is important to dispel a few important myths and some "over-reaching" assumptions regarding the market characteristics of the City's immediate and expanded urban-core in relation to the specific development of a grocery store.

The City's downtown Redevelopment Project Area No. 1 is one of the most unique areas throughout the greater Reno-Sparks area. No other part of the greater Reno-Sparks area, or any other part of all of Northern Nevada, has such a unique mix of different socio-economic and demographic characteristics. The downtown Redevelopment Project Area No. 1 is the center for the region's largest concentration of hotel and casino properties. This existing entertainment infrastructure is the region's center for tourism and visitor activity.

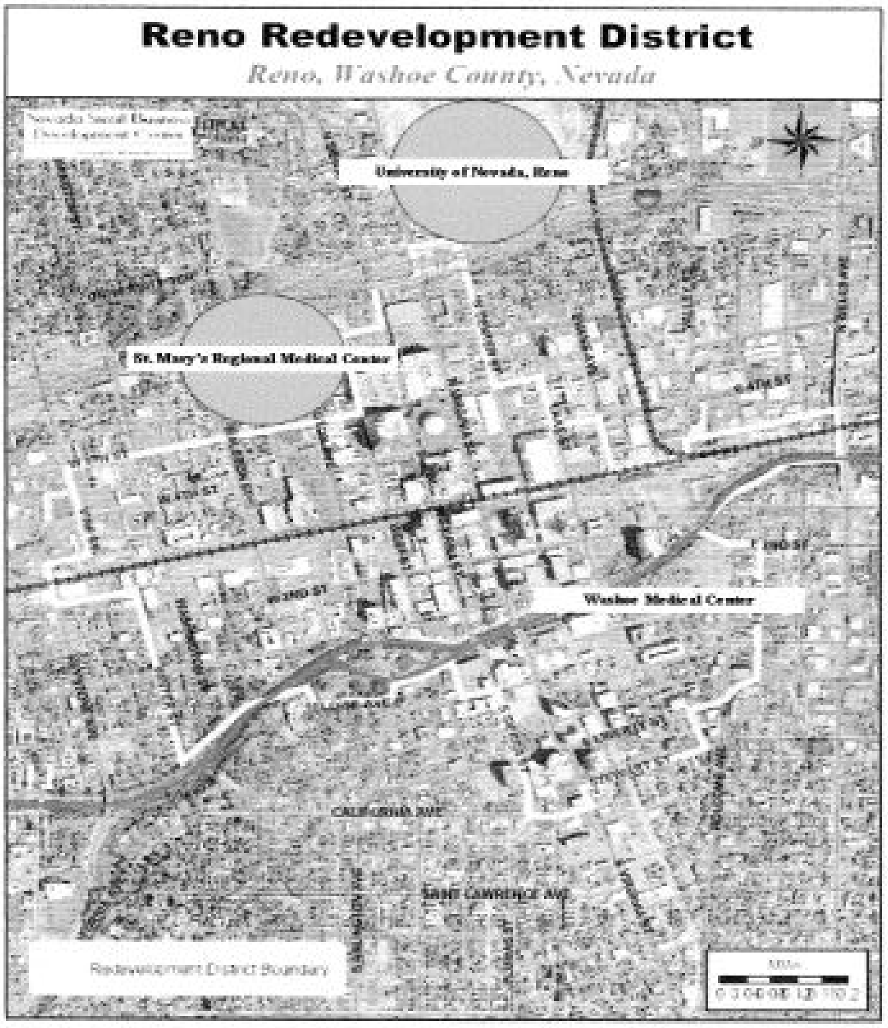
Exhibit 4 is a map of the downtown Redevelopment Project Area No. 1 mapping existing downtown hotel and casino properties and "tourist-oriented" developments that are part of the City's downtown entertainment infrastructure. (Exhibit 4 is provided as a separate attachment in this reports appendix.)

Exhibit 4
Downtown Reno's Existing Entertainment Infrastructure



The downtown Redevelopment Project Area No. 1 has one of the region's largest concentrations of employment in a wide variety of areas ranging from retail to entertainment to food services to professional office to even government jobs. And more recently, the downtown Redevelopment Project Area No. 1 is becoming an increasingly residential population with a growing concentration of condominium projects. The City's downtown is also surrounded by the two largest area hospitals, St. Mary's Regional Medical Center and Washoe Medical Center, as well as the University of Nevada, Reno, Nevada's largest four-year university. Exhibit 5 is a map of the downtown Redevelopment Project Area No. 1 mapping the existing "regional centers" which surround the downtown. (Exhibit 5 is provided as a separate attachment in this reports appendix.)

Exhibit 5
Downtown Reno Regional Centers



According to the *Downtown Retail Study* (2005), by 2008, their could be approximately 8,000 people living within the downtown redevelopment area, almost 17,000 students enrolled at the University of Nevada, Reno, over 3,000 employees and close to 25,000 patient admissions per year at

Washoe Medical Center, over 2,200 employees and close to 20,000 patient admissions per year at St. Mary's Regional Medical Center, an estimated average of 20,000 employees working immediately within the downtown redevelopment area and an average of approximately 2 million visitors staying in downtown Reno hotel and casinos.

Taking into consideration the level of economic activity within and immediately adjacent to the downtown redevelopment area, approximately 2.1 million potential customers are living, working, visiting and playing within walking distance or a short commute time via public transportation to the City's central urban-core.

It is also true that these potential customers have a tremendous, relatively untapped, retail buying power. Also according to the *Downtown Retail Study* (2005), the one-month buying power of all students at the University of Nevada, Reno in 2005 was approximately $21.4 million. The estimated one-year buying power for all employees, patient admissions and visitors at St. Mary's Regional Medical post-expansion is approximately $696.0 million and approximately $875.5 million at Washoe Medical Center.

Combined, these three "regional centers", have an estimated total annual buying power of approximately $1.6 billion. Combined with annual visitor-tourism counts and the estimated future residential population of the City's downtown redevelopment area and the City's downtown employment base, the total combined annual retail buying power of potential customers living, working, visiting and playing within walking distance or a short commute time via public transportation to the City's central urban-core is staggering, exceeding well over the $3 billion to $5 billion range.

Despite these impressive statistics regarding the potential customer base and the associated potential annual retail buying power of that potential customer base, two important questions remain unanswered: *What are these potential customers buying and what do they want to buy with their buying power?*

University of Nevada, Reno Shoppers

Although there is considerable overlap of UNR students shopping at a mix of different retailers by the type of retailer identified in column one of Table 8, the National Retail Federations 2005 study indicated that traditional grocery store shopping is not one of the principal shopping behaviors a typical American college student is likely to engage in. Instead, typical American college students are more likely to purchase items such as books, school supplies, audio-visual equipment, computer and personal electronics and apparel items.

Table 8 presents a breakdown of shopping patterns for students currently enrolled at the University of Nevada, Reno based on the *National Retail Federation, 2004 Back-to-College Retail Survey* (2005) and was originally published in the Redevelopment Agency's *Downtown Retail Study* (2005).

Table 8 - University of Nevada, Reno Study Retail Multipliers
Type of Retailer Used by UNR Students
Academic Year 2004-2005

(1) Type of Retailer Category	(2) Percent of Students Shopping at the Retailer	(3) Total Student Population UNR 2004-05	(2) * (3) Est. Percentage of Students by Retailer, UNR 2004-05
Catalog	4.20%	15,469	650
College Bookstore	51.90%	15,469	8,028
Discount Store	49.90%	15,469	7,719
Department Store	33.90%	15,469	5,244
Drug Store	13.00%	15,469	2,011
Home Furnishings Store	8.30%	15,469	1,284
Office Supply Store	29.10%	15,469	4,501
Online	21.60%	15,469	3,341
Speciality Store	14.50%	15,469	2,243
Thrift Store/Resale Shops	12.10%	15,469	1,872

** Multiplier Source: National Retail Federation, 2004 Back-to-College Retail Survey*

The lack of grocery store shopping is likely due to the fact that many college students, including students enrolled at the University of Nevada, Reno either live at home with their parents, live away from campus or live on campus for an average of only six out of twelve months, do not spend any measurable amount of their income on grocery items. Instead, the data in Table 8 indicates that the typical college student is likely to "eat out" or eat on campus than go to a grocery store.

The closest many typical American college students, including those students enrolled at the University of Nevada, Reno, get to grocery shopping is a drug store, not a traditional grocery supermarket or specialty grocer.

Using the multipliers developed in the 2005 National Retail Federation study, the majority of students at the University of Nevada, Reno spend the majority of their disposable income on merchandise, not on grocery items. Although this news is positive for the overall retail development of the City's downtown redevelopment area, it is not positive news for the specific development of a grocery store.

The most positive news regarding the specific development of a grocery store which could serve the University of Nevada, Reno student population is the estimation provided in Table 8 that approximately 14.50% of students tend to shop at a specialty store.

For the University of Nevada, Reno student population, this would translate into an estimated 2,243 students that would regularly shop at a specialty store. The specialty store category presented in Table 8, according to the 2005 National Retail Federation study, does include, but is not limited to, specialty grocers that offer products uniquely different than larger supermarket grocery store chains.

Downtown Tourist-Visitor Shoppers

In a 2000 report done by the Travel Industry of America Association, tourists on vacation accounted for 8.2% of all retail dollars spent in the United States. According to the research performed by the 2000 Travel Industry of America Association, retail shopping is the most "universal element in tourist experiences" and shopping ranked first among the most popular leisure activities among U.S. travelers. Table 9 presents a break-down of the types of items most frequently purchased by the "average" American tourist while on vacation.

Table 9 – Most Popular Retail Items Purchased by Tourists while on Vacation 2000

Items Purchased on Most Recent Trip	Percentage Purchased
Clothing or Shoes	77%
Souvenirs	49%
Books or Music	42%
Specialty Foods - Beverages	41%
Kids Toys	39%
Items - crafts, local or unique to destination	37%
Jewelry or Accessories	36%
Home Accessories / Furnishings	23%
Sports Equipment	16%
Home Electronics	15%
Camera and/or Equipment	15%
Artwork	15%
Luggage	9%
Camping Equipment	7%

**Source: Tourism Works for America Report, Travel Industry of America, 2000*

By far, the most popular item purchased by a tourist-visitor while on vacation was either clothes or shoes. 77% of the 2000 Travel Industry of America Association's survey respondents indicated that shopping for clothing or shoes was their number one shopping interest while on vacation. A distant second, souvenirs (49%) was the second most popular item to purchase while on vacation, books or music (42%) was the third most popular, specialty foods – beverages (41%) was the fourth most popular and kids toys (39%) was the fifth most popular. Luggage (9%) and camping equipment (7%) were the least popular items according to tourists surveyed by the Travel Industry of America Association in 2000.

Applying these percentages to the most current number of tourists who visited the City's downtown in 2004, according to the Reno-Sparks

Convention and Visitor's Authority, an estimated total number of downtown tourists who bought a particular item can be calculated. Table 10 presents the estimated number of tourist – shoppers in the City's downtown for 2004 based upon the item purchased during their visit.

Table 10 – Number of Tourist-Shoppers for Downtown Reno by the Item Purchased
2004

(1) Items Purchased on Most Recent Trip*	(2) 2004 Downtown Reno Visitor Count**	(3) Percentage Purchased*	(2) * (3) Est. Number of Visitor Shoppers By what they Purchased
Clothing or Shoes	1,885,243	77%	1,451,637
Souvenirs	1,885,243	49%	923,769
Books or Music	1,885,243	42%	791,802
Specialty Foods - Beverages	1,885,243	41%	772,950
Kids Toys	1,885,243	39%	735,245
Items - crafts, local or unique to destination	1,885,243	37%	697,540
Jewelry or Accessories	1,885,243	36%	678,687
Home Accessories / Furnishings	1,885,243	23%	433,606
Sports Equipment	1,885,243	16%	301,639
Home Electronics	1,885,243	15%	282,786
Camera and/or Equipment	1,885,243	15%	282,786
Artwork	1,885,243	15%	282,786
Luggage	1,885,243	9%	169,672
Camping Equipment	1,885,243	7%	131,967

* *Source: Tourism Works for America Report, Travel Industry of America, 2000*
** *Source: Reno-Sparks Convention and Visitors Authority, 2005 Annual Report*

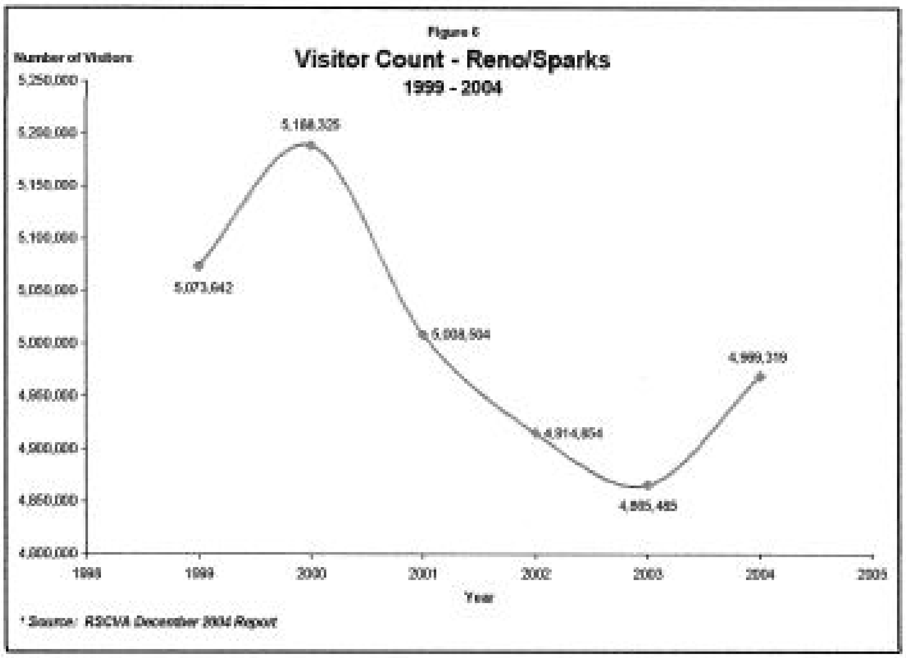
In 2004, an estimated 772,950 tourists visiting and staying at least one night in a downtown hotel and casino hotel room purchased at least one specialty food or beverage during their stay in Downtown Reno. The one troubling statistic is the *volume* of sales these visitors conduct, especially for specialty foods and beverages a customer would likely find in a specialty grocery store like a Trader Joes or a Wild Oats Market. According to the 2000 Travel Industry of America Association report, to equal the one month volume of sales at a specialty grocery store of a permanent local resident living within a one to three mile radius of the specialty grocer, it takes, on average 30 to 35 tourists within that same one month period.

To calculate the number of permanent resident shoppers that equal the number of tourists that stayed in a downtown hotel and casino property in 2004, the following formula can be applied:

$$\text{Resident per number of Visitors Ratio} = \frac{772{,}950}{35}$$

After performing the necessary calculation, the number of residents needed living within a one to three mile radius of a downtown specialty grocery store to equal the number of estimated tourists who visited downtown Reno in 2004 is approximately 22,084. This indicates that the estimated 772,950 tourists who purchased a specialty food or beverage in

2004 equaled the same buying power of almost 22,084 permanent residents living within a one to three mile radius of the City's downtown redevelopment area. However, tourism throughout the greater Reno-Sparks area has been in a state of flux for several years now, experiencing severe and sudden periods of both growth and decline. Figure 6 plots the behavior of visitor counts in the greater Reno-Sparks area from 1999 to 2004.



Although ample evidence exists to suggest that a specialty grocery store in the City's downtown Redevelopment Project Area No. 1 could be supported by the downtown's annual visitor count, with the condition that the specialty grocery store is within close proximity of much of the existing downtown entertainment infrastructure and downtown hotel and casino properties, any specialty grocery store that chooses to enter the downtown market now, without further development of the City's urban residential population, risks having their business tied to a regional visitor count that shows no stable and predictable trend.

Downtown Office Employee Shoppers

As indicated earlier, the downtown Redevelopment Project Area No. 1 employs approximately 20,000 individuals in a variety of employment fields ranging from entertainment to food preparation to retail to business professional to government employees.

Although each employment category no doubt has some degree of individuals who spent a large portion of their disposable income on service or product retail consumables within the City's downtown

Redevelopment Project Area No. 1, the only employment industry that has had any significant and consistent study done, in-terms of grocery store impacts, is the professional-office category. Within the professional-office employment category, several sub-categories exist.

The 2005 Business Activity Report, published by the Nevada Small Business Development Center and the Bureau of Business and Economic research (NSBDC-BBER) estimated that total employment for the downtown Redevelopment Project Area No. 1 in the 2nd Quarter of 2004 was approximately 17,103. Of the 15 different employment industries reported in the 2005 Business Activity Report, four of them are immediately recognizable as "professional-office" positions. Table 11 presents these four employment industries present in the City's downtown redevelopment area and the total number of employees per industry.

Table 11 – Total Number of Downtown Reno "Professional-Office" Employees 2nd Quarter, 2004

Employment by Industry	Total Number of Employees
Finance, Insurance & Real Estate	816
Government	630
Management & Admin. Services	545
Professional Services	557
Total	**2,548**

**** Source: 2005 Business Activity Report***

According to the NSBDC-BBER 2005 Business Activity Report, approximately 2,500 individuals worked in a "professional-office" capacity in the City's Redevelopment Project Area No. 1 in the 2nd Quarter, 2004. Using multipliers developed by several leading retail industry analyst groups, it is possible to estimate the overall level of grocery store buying power the existing downtown professional-office workers possess.

The International Council of Shopping Centers conducted a study in 1988, which was later updated by Mundie & Associates in 2002, that measured the average annual retail spending patterns of average professional-office workers located within urban-centers. The updated 2002 Mundie & Associates study concluded that the average American urban professional-office employee typically spends between $2,000 and $3,000 per year on various retail items within a one mile radius of their downtown office. According to the 2002 Mundie & Associates study, approximately half of the $2,000 to $3,000 spent per year was spent on lunches. Apparel and accessories accounted for approximately one quarter of their downtown spending.

Using this figure, it is possible to provide a rough estimate of the buying power of downtown Reno professional-office workers. Table 12 presents these estimates based upon data provided by the NSBDC-BBER 2005 Business Activity Report and the 2002 Mundie & Associates study.

Table 12 – Buying Power of Downtown Reno Professional-Office Employees
2nd Quarter, 2004

(1) Employment by Industry	(2) Total Number of Employees*	(3) Estimated Average Buying Power**	(2) * (3) Estimated Total Buying Power by Employment Industry
Finance, Insurance & Real Estate	816	$2,500	$2,040,000
Government	630	$2,500	$1,575,000
Management & Admin. Services	545	$2,500	$1,362,500
Professional Services	557	$2,500	$1,392,500
Total	2,548	$2,500	$6,370,000

* Source: 2005 Business Activity Report
** Source: 2002 Mundie & Associates Study

The estimated total annual amount of money spent by downtown professional-office employees in the City's downtown retail stores, using an average annual multiplier of $2,500 was approximately $6.4 million.

- The estimated total annual amount of money spent on retail purchases in the City's downtown retail stores by employees working in the City's downtown redevelopment area in the finance, insurance and real estate employment industry was approximately $2.0 million.

- The estimated total annual amount of money spent on retail purchases in the City's downtown retail stores by employees working in the City's downtown redevelopment area in the government employment industry was approximately $1.6 million.

- The estimated total annual amount of money spent on retail purchases in the City's downtown retail stores by employees working in the City's downtown redevelopment area in the management and administrative services employment industry was approximately $1.4 million.

- The estimated total annual amount of money spent on retail purchases in the City's downtown retail stores by employees working in the City's downtown redevelopment area in the professional services employment industry was approximately $1.4 million.

Although these conclusions do indicate that downtown Reno office workers, as well as workers in other employment categories, do tend to spend a substantial amount of their income in downtown Reno retail stores, it does not directly indicate whether or not these employees would spend their money at either a supermarket chain or a specialty grocery store located within the City's downtown redevelopment district. As the analysis presented above indicated, almost 75% of the $2,000 to $3,000 urban professional-office workers spend per year on downtown retail purchases within a one mile radius of their downtown office is spent on either lunches or apparel and accessories.

In-terms of lunch purchases, it is reasonable to assume that much of this amount is spent at restaurants or delis, not a specialty grocery store. That leaves only a small percentage of professional-office workers with little spending money left over to be spent at a downtown supermarket or specialty grocery store. Certainly not enough to fully support or replace the impact of a permanent, stable and growing residential population within the City's immediate urban-core.

There is some indication in national studies that professional-office workers, along with other employees in other employment industries, are beginning to demand increased grocery services as either an alternative to a prepared lunch at a restaurant or an alternative to driving into the suburbs to satisfy their grocery shopping needs. In a joint 1999 study, conducted by the Building Owners and Managers Association (BOMA) International and the Urban Land Institute (ULI), a national survey measured the level of demand for different retail amenities of urban-centered professional-office employees. Table 13 presents the 1999 BOMA and ULI survey results.

Table 13 – National Retail Amenity Demand of Urban Professional-Office Workers 1999

Amenity	Percent Who Feel it is Important/Very Important
Restaurants, Retail, Professional Services	81%
Food Stores	75%
Banking	70%
Convenience and Other Retail	64%
Health and Fitness Clubs	53%
Daycare Centers	44%

** Source: 1999 BOMA and ULI Study*

75% of the nation-wide urban professional-office workers surveyed indicated that food stores are an important or very important amenity within a downtown urban-center. When asked what type of grocery store, the survey respondents indicated that either a supermarket and/or small grocery store would be ample to satisfy their grocery shopping needs. This is especially important as it indicates that many professional-office workers are indifferent when it comes to shopping at either a supermarket chain or specialty grocery store.

For downtown Reno, this is very significant given the restrictions placed upon a supermarket grocery store where there is a general lack of available square footage and parking. It is significantly more likely for the City and the Redevelopment Agency to attract and grow a specialty grocer than a supermarket chain grocery store.

As long as the smaller specialty grocer offers a proper product mix, designed to not only support a growing residential and visitor population, but a product line that appeals to both professional-office employees and other workers in other fields within and immediately adjacent to the City's urban-core, it is likely that enough business can be generated to support a new specialty grocery store.

Although demand amongst professional-office workers within downtown Reno is significant, the potential pool of downtown employee grocery store customers is shrinking, not growing. Table 14 presents the level of total employment in downtown Reno between 1998 and 2004. Data was provided by the NSBDC-BBER Business Activity Reports from 1999 through 2005.

Table 14 – Downtown Redevelopment Employment
Annual Change in Employment Levels by Industry
1998 through 2004

Employment Industry	1998	1999	2000	2001	2002	2003	2004
Agriculture & Forestry	4	7	6	4	9	0	0
Construction	112	62	71	67	73	93	81
Educational, Health & Social Services	0	0	0	0	0	352	363
Entertainment, Accommodation, Food Services	0	0	0	0	0	13,383	12,306
Finance, Insurance, Real Estate	783	752	729	762	754	879	816
Government	59	1,213	1,226	1,347	1,643	1,957	630
Information	0	0	0	0	0	254	216
Management & Administrative Services	0	0	0	0	0	625	545
Manufacturing	59	45	62	225	146	144	212
Mining	1	0	3	4	4	0	5
Other Services	16,051	16,752	16,138	15,570	14,861	154	163
Professional Services	0	0	0	0	0	543	557
Retail Trade	897	793	793	960	783	248	252
Transportation & Utilities	1,053	1,089	1,263	1,172	1,246	850	817
Wholesale Trade	169	214	202	164	168	139	143
TOTAL	21,188	20,927	20,483	20,275	19,687	19,621	17,106
Percentage Change		-1.23%	-2.12%	-1.02%	-2.90%	-0.34%	-12.82%

* Source: *Reno-Sparks, Washoe County, Nevada Business Activity Reports, 1999 through 2005*

Total employment, regardless of employment industry, decreased a total of 23.86% between 1998 and 2004, falling by a total of 4,082. Between 1998 and 2004, total employment decreased each year, falling from a total of 21,188 total employees in 1998 to a total of 17,106 total employees in 2004. The average annual rate of decline in total employment in downtown Reno was 3.40% per year. Although total employment for all of downtown Reno declined, the total number of "professional-office" positions increased.

In the finance industry, the insurance and real estate industry, the government industry, the management and administrative services industry and the professional services industry, the total combined employment level grew by 1,706 total professional-office type employees or 66.95%, increasing from a total of 842 total professional-office type employees in 1998 to 1,706 total professional-office type employees. Although this is certainly positive news, the number of professional-office type employees has significantly declined over the past two years. Between 2003 and 2004, the number of professional-office type employees declined by 36.36%, falling from 4,004 total employees in 2003 to only 2,548 total employees in 2004.

Both results, the decline in total downtown employment and the recent decline in professional-office employees in downtown Reno, indicates that the potential pool of employee grocery store customers is contracting, not expanding.

For a grocery store, either a supermarket chain or a specialty grocery store, this is extremely troubling as the downtown redevelopment district does not have a significant enough residential population with a significant enough income level to support expanded grocery services alone. Additional customer markets within the downtown Redevelopment Project Area No. 1 will be needed in order to off-set the relatively low downtown residential population density and the relatively low median income levels.

Conclusions

Several important observations can be made given the information provided throughout this study. In regards to the information provided in the "myths" section of this chapter, three observations become evident after careful review of the available data.

First, a large majority of students at the University of Nevada, Reno are not likely to support either a supermarket or specialty grocery store in downtown Reno. Although some students are likely to make some purchases at a supermarket or specialty grocery store in downtown Reno, they should not be considered a primary market for a supermarket or specialty grocery store in downtown Reno.

Other retail amenities, like restaurants, an office supply store, apparel stores, bookstores and other specialty retailers other than a grocery store should be considered as a means of attracting additional students from the University of Nevada, Reno into the City's urban-core.

A grocery store, most likely a specialty grocer store, could use the University of Nevada, Reno's faculty, staff and other professional employees at the University as a target market. As the above section on downtown professional-office employees indicates, there is a measurable level of demand amongst professional employees. Although University faculty and staff should not be considered the sole customer base, or even a primary customer base, successful marketing at the University could attract additional revenue to help support a specialty grocery store.

Second, visitor and tourist activity, because it so densely concentrated in downtown Reno, appears to be a key demographic that a specialty grocery store would appeal to. With an estimated 1.8 to 2.0 million visitors per year lodging in any of the downtown hotel and casino properties, with an estimated 772,950 tourists out of approximately 1.9 million total downtown tourists in 2004 making at least one specialty food or beverage purchase, it would make sense for a specialty grocery store to take every action necessary to capture this important demographic.

With residential population density and median household income levels for residents living within the City's downtown redevelopment district still well below levels desired by most specialty grocery stores, the downtown's tourism and visitor demographic could help bolster a specialty grocery store's annual sales.

The primary concern regarding the City's downtown tourism and visitor counts is the recent level of uncertainty over the past five years. Since 1999, tourism and visitor counts throughout downtown Reno have fluctuated to such a degree it is impossible to determine the short-term trend in these statistics. Without a reliable and steady flow of tourists to downtown Reno, a specialty grocery store that enters the downtown retail market maybe too far ahead of the downtown "retail curve".

Third, employment activity throughout the different employment industries in downtown Reno is also an important grocery customer demographic that requires careful consideration. In recent years, the total numbers of employees working throughout the City's downtown Redevelopment Project Area No. 1 has decreased steadily.

Although there is significant demand amongst downtown Reno employees for grocery services, the pool of potential customers amongst not only professional-office workers, but all downtown employees has shrunk. Without a reliable and growing employee workforce within downtown

Reno, especially amongst professional-office workers with significantly higher median incomes than their workforce counterparts in other employment industries, it is unlikely that even a smaller specialty grocery store, and certainly not a supermarket, could attract enough customer activity from the downtown's total workforce to support their business.

In conclusion, these "myths" present a mixed-bag of results. On one hand, there does appear to be a measurable level of demand for increased grocery store services in the City's downtown Redevelopment Project Area No. 1. However, that level of demand does not appear significant enough to currently warrant expanded grocery services anywhere in the downtown redevelopment district. Current and even projected downtown residential population levels and median income levels through 2008 do not meet even the most basic requirements of an expanded specialty grocery store, let alone a supermarket chain grocery store.

Individuals, both living in and around the downtown Redevelopment Project Area No. 1 simply cannot generate enough grocery store demand to support expanded grocery store services for the foreseeable future. Without significant improvement in either the levels of residential density and residential median incomes, tourist traffic *and* downtown employment, it is unlikely that a new supermarket chain or specialty grocery store will be willing to enter the downtown grocery store market.

On the other hand, this does not mean that the case for expanded grocery stores in the downtown Redevelopment Project Area No. 1 should be fully abandoned. Although it appears unlikely that any one market segment, be it students at the University of Nevada, Reno, downtown tourists and visitors, or individuals employed throughout downtown Reno will likely be the *only* customer market for an expanded downtown grocery market, combined, each three market segments offer important support to a steadily developing downtown residential population that continues to grow steadily in both density and total buying power.

Figures 3, 4 and 5 presented in chapter two tend to confirm that, alone, neither the existing 2005 RDA No. 1 population density and median household income levels nor the projected post 2008 RDA No. 1 population density and median household incomes are sufficient enough to attract additional and expanded grocery store services in the downtown Redevelopment Project Area No. 1.

Even with the addition of 1,452 new residential units in the eight different residential projects listed in Table 1 of chapter one, the estimated number of new residents and their related estimated per capita income is insufficient by itself to enhance the downtown residential grocery store market demographics enough to merit an expanded downtown grocery market with additional grocery store locations and/or services.

Recommendations

The purpose of this section is not to provide actual policy formation regarding the development of new grocery store services throughout the downtown Redevelopment Project Area No. 1. The simple purpose is to provide some policy guidance based upon the data presented throughout this report.

Pursuit of Mixed-Income, Mixed-Use Residential Development

It is impossible to understate the importance of continued residential development throughout the City's urban-core as a precursor to successful expansion of the downtown grocery store market. At almost every turn throughout this study, both the level and characteristics of the City's permanent urban residential population is by far the most important market segment in the consideration of attracting and retaining expanded downtown Reno grocery store services.

So far, the Reno Redevelopment Agency has been very successful in helping developers move forward with new residential projects throughout downtown Reno. Over the past year, the Redevelopment Agency has aggressively sought out new developers to engage in both the construction of new mixed-use residential projects, like Palladio and the recently announced new townhouse development at Mill Street and Museum Drive known as Village on the River, and the reuse of vacated structures or marginal hotel casino properties, like the former Comstock (now the Residence at the Riverwalk) and the former Golden Phoenix (to be known as the Montage).

However, this success comes with a catch. Over the past year, nine total residential projects were announced, not eight as Table 1 in chapter one indicates. Of the nine announced projects, one project has apparently fallen through. The Metropolitan, a condominium conversion of the Cal-Neva's Nevadan hotel tower would have added additional population and additional spending power to the downtown redevelopment district. Out of the remaining eight projects, only one, the Residence at the Riverwalk (formerly Comstock) has been completed and opened and only one, Palladio, is far enough along in construction to reasonably assume this project will be completed.

The remaining five, despite some progress made on some of them, still largely remain not started, at least not far along enough to ensure timely completion. Because in-fill development, especially mixed-use residential in-fill, is so difficult and significantly more complex (in-terms of both effort and money), it is unclear whether or not all of these projects will be completed by 2008. Without knowing whether or not all these projects will be completed successfully, and without knowing whether or not any new projects will be announced for the City's downtown redevelopment district, the continued pursuit of new mixed-use residential development is critical to the success of expanding grocery store services throughout the downtown.

Even if the eight residential in-fill projects listed in Table 1 of chapter one are all completed on time, it will still not be enough to support increased grocery store activity in the City's urban-core due to the unique market characteristics local grocery stores face. No matter how many people living within the downtown demand it, a grocery store, be it a supermarket chain or specialty grocery store will not enter the downtown market unless the immediate residential population meets minimal requirements in-terms of both density and median income.

Although other grocery store market customer segments in the downtown do exist (surrounding regional centers, downtown tourism and visitor traffic, downtown employment levels, etc.) do positively contribute to the level of demand, it is the immediate downtown residential population, in-terms of both density and median income levels, that grocery stores first look to. Without meeting this first basic requirement, it is highly unlikely that either a new supermarket chain or specialty grocery store would be willing to enter the downtown grocery store market.

It is also important to consider mixed-income residential development. Many of the chain grocery stores, be it a supermarket (like Albertson's or Safeway) or a specialty grocer (like Trader Joes and Wild Oats), look at the diversity of the housing stock and residential population within a given radius of possible store locations. Because the *volume* of sales at a grocery store per visit is so important to the profitability of either a supermarket chain or specialty grocery store, many grocery stores will locate in areas where the *volume* of sales per customer is likely to be the highest.

So far, many of the existing downtown redevelopment residential in-fill projects will attract one of four household types: retirees, empty-nesters, single young professionals with no children and married/couple young professionals with no children. These four household types are much more likely to have a low *volume* of sales per customer. At most, it is likely that each potential customer in any of the four household types would purchase anywhere between two to four bags of groceries per visit; enough to satisfy the grocery demands for one or two people for two to four weeks. Families, with two adults and one or more children are much more likely to have a significantly higher *volume* of sales per customer, buying anywhere between 10 to 12 bags of groceries per visit and a significantly higher *frequency* of visits to a grocery store.

Regardless of the household type that is developed over the next few years in the City's downtown redevelopment district, any type of residential development is desirable. Because the current population density level is so low compared to other parts of the City of Reno, new residential development in the downtown is one, if not the most important, key to the successful expansion of the downtown grocery store market.

Continued Effort on the Removal of Barriers to In-Fill Development

For the past 23 years, the Reno Redevelopment Agency has aggressively and strategically attacked the different blighting conditions that have historically existed in downtown Reno. Although many barriers to in-fill development exist, not only in downtown Reno but throughout urban-centers in many American cities, certain barriers to in-fill development are specifically unique to downtown Reno. The continued presence of physical blight, the existence of passive land owners and parking are three barriers to in-fill development most likely to interfere with the positive development of the downtown grocery store market.

In regards to the continued presence of physical blight and the existence of passive land owners, the Reno Redevelopment Agency, in conjunction with many other parts of the City of Reno and other organizations, individuals and developers not affiliated with the Reno City Government, have had tremendous success in reducing each barrier. Projects like the Riverside Artist Lofts, the Palladio and the Reno Events Center have demonstrated the Agency's and the City's ability to work with, not against, existing property owners to create projects that remove blight and increase wealth throughout the City's urban-core.

However, the Agency and the City is becoming a "victim of its own success". The Agency's and the City's ability to reduce physical blight and work with passive land owners has made downtown Reno an increasingly attractive area to work, play and live in. With that increased attractiveness comes increased traffic and increased visitors and with that increased traffic comes an increased need for additional parking.

If the Redevelopment Agency successfully attracts a new supermarket or specialty grocery store to downtown Reno over the next few years, that grocery store is going to require sufficient parking for their customers. More importantly, that new grocery store will likely require much of that parking to be surface parking as a convenience to their customers, with close proximity to a major traffic corridor. To reduce the impact of this barrier to in-fill development, several different strategies could be employed. Those strategies run from a mix of surface and garage parking, increased emphasis on pedestrian-oriented development and even an increased emphasis on the use of public transportation.

The most important thing to keep in mind, in regards to the parking barrier to grocery store in-fill development, is that grocery stores in the greater Reno-Sparks area, be it a supermarket chain or specialty grocery store, require a high *volume* of sales per customer and a high *frequency* of customer visits in order to remain profitable. This requirement will undoubtedly require any grocery store that opens a new store in downtown Reno to offer a significant level of available, and most likely free, parking to satisfy the demands of its customers not only in the immediate urban-core but the extended urban-core as well.

Continued Enhancement of the Overall Level of Economic Activity

In addition to enhancing the residential population, in-terms of both density and household median income, and in addition to the continued efforts of the Redevelopment Agency to aggressively target certain barriers related to the in-fill development of additional grocery store services, the Agency can enhance the downtown grocery market by continually enhancing the general level of economic activity throughout Redevelopment Project Area No. 1.

By increasing both employment and tourism throughout downtown Reno, the Redevelopment Agency can indirectly affect the number of people both working in downtown Reno and the number of tourists who stay in downtown Reno. Because each grocery store customer market segment substantially impacts the overall level of demand for grocery services, any improvement in the number of employees or the number of tourists in the City's urban-core will positively impact the ability of grocery store in downtown Reno to be successful.

Both the Redevelopment Agency and the City of Reno have partnered with downtown hotel and casino properties in an attempt to enhance downtown tourism. Projects like the National Bowling Stadium (completed and opened in 1993) and the Reno Events Center (completed and opened in December 2004) have already had positive impacts on the downtown tourism economy. Both projects have helped expand the downtown tourism market as a means of enhancing total room nights in downtown hotel and casino properties.

An added bonus to such projects is the impact they have on the overall level of demand for additional goods and services outside the hotel and casino property. With these two projects completed, it is likely that the Reno Ballroom (due to begin construction in mid-2006) will have the same positive impact on increasing visitor counts in the City's downtown redevelopment district.

The overall level of employment in the downtown has not progressed as positively as tourism and visitor counts. As presented earlier in this chapter, the total number of employees working within the downtown redevelopment district has decreased each year over the 1998 to 2004 period. Without a focused and concentrated effort on business recruitment in the downtown, specifically in the professional-office employment category, it may take quite sometime to see positive growth in employment without public intervention.

The Redevelopment Agency does have the necessary tools available to aggressively recruit new companies into the downtown either directly or through its economic partners. Although residential in-fill projects should remain a top priority for the Redevelopment Agency, some additional effort should be made on the development of the City's urban office core, located south of the Truckee River to California Avenue. Some recent developments will certainly improve the employment numbers for downtown Reno.

The expansion of the Reno City Hall at 1 East First Street, the consolidation of Washoe County Social Services at the corner of Liberty and Center streets and the recently completed Mills B. Lane Municipal Justice Center within the downtown redevelopment district will have a positive effect. Adjacent to the downtown redevelopment district, both St. Mary's Regional Medical Center and Washoe Medical Center have either completed or will soon complete recent expansion efforts and the University of Nevada, Reno continues to grow both its student population and faculty substantially within the next 20 years. However, it is currently impossible to determine whether or not these projects will have a significant enough impact on their own to offset the current decline in the level of total employment within the urban-core.

Specifically, the Redevelopment Agency can, and has in the past, enhanced the overall level of economic activity for individual businesses who have decided to enter the downtown redevelopment district market. By reading much of this report it would appear as if the downtown lacked any grocery services but the Redevelopment Agency in early 2005 successfully recruited and opened a small, but apparently profitable, specialty grocery store. The "Downtown Market" opened its doors in early 2005 at the Redevelopment Agency-owned Parking Gallery, located on the north-west corner of First and Sierra streets.

Unlike many of the convenience stores in downtown Reno, the Downtown Market was the first true specialty grocery store to enter the downtown redevelopment district market. Offering a fairly wide array of fresh produce, fresh dairy, pre-packed fresh meats and fresh baked goods, the Downtown Market continues to expand its business taking requests from neighboring residents and providing other amenities like dry cleaning, fresh brewed coffee and specialty goods from specialty food manufactures from throughout the area.

Understanding that the likelihood of attracting a new supermarket chain or specialty grocery store like Trader Joes or Wild Oats Market within the next three to four years is low, the Redevelopment Agency can help develop the Downtown Market into a highly competitive and profitable private business, helping the Downtown Market grow not only its product line and profits, but its total square footage as well. Through relatively low lease rates, discounted marketing and available parking on-site in the Parking Gallery above-store floors, the Redevelopment Agency has helped incubate a specialty grocery store at a time where the probability of any grocery store surviving past only a few months, regardless of type or size, was understandably low.

Focusing on the business development of the Downtown Market does *not* mean abandoning the active recruitment of either a supermarket chain or a second specialty grocery store. In fact, the Redevelopment Agency should continue to aggressively recruit additional grocery services in preparation and in conjunction with the development of the City's downtown residential, employment and tourism populations. However, it should be noted that without significant improvement in the City's downtown residential, employment and tourism populations, it is unlikely that the recruitment of additional grocery store services will be successful.

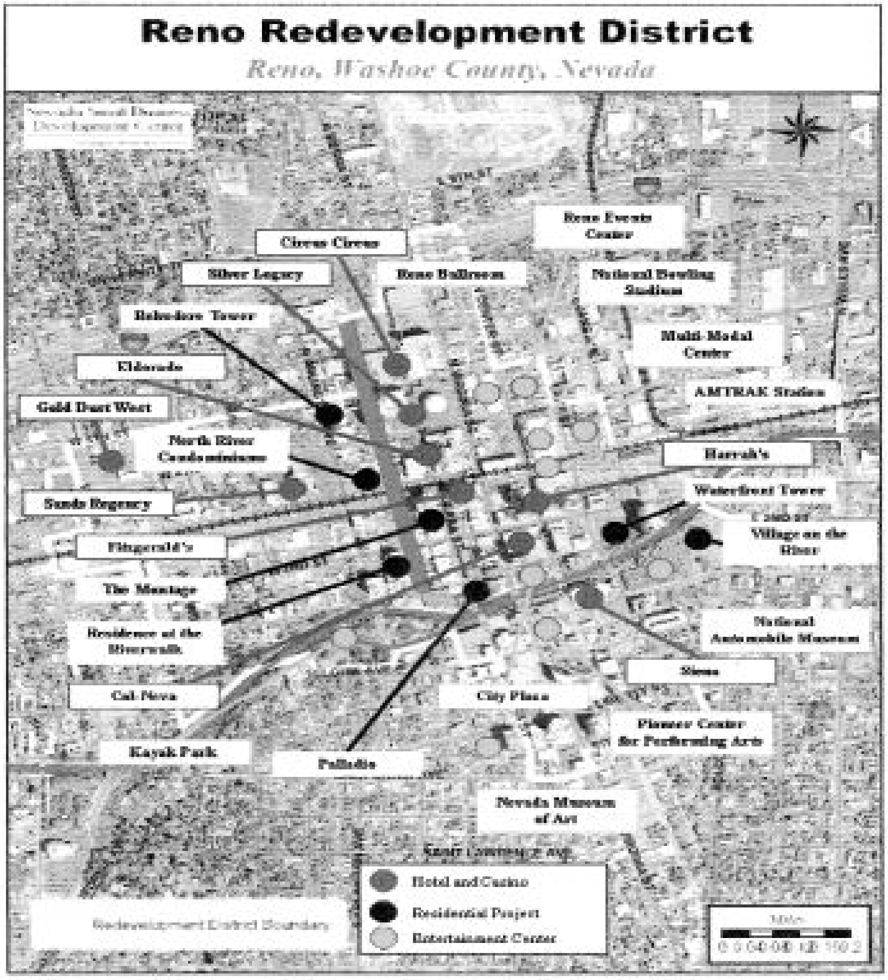
The Redevelopment Agency and the City of Reno, as well as the new residents currently moving into the downtown redevelopment area should all focus on developing the resources, like the Downtown Market, that already exist and realize that the development of a new grocery store, like an Albertson's, Safeway, Trader Joes or Wild Oats Market is not very feasible for right now. However, in a few more years, as residential, employment and tourism populations begin to increase as a result of increased economic activity and new projects, it maybe feasible to successfully attract and retain additional grocery store services within the downtown Redevelopment Project Area No. 1.

Location, Location, Location

Using the many complex variables presented in this report, it is clear that the success of a downtown grocery store depends on many things. In addition to removing the barriers to in-fill development, proximity to large residential population densities, proximity to large visitor and tourism densities, proximity to large employment densities and the convenience of location adjacent to a major traffic corridor are all key variables to the successful development of a downtown grocery store.

Exhibit 6 maps several different variables present in the downtown's grocery store market equation. The eight residential projects listed in Table 1, the physical location of existing downtown hotel and casino properties and different entertainment venues located throughout the City's downtown Redevelopment Project Area No. 1 are mapped together. Although not specifically labeled on this map, it is clear as to the location of the "general" centers of employment density throughout the downtown. For example, the University of Nevada, Reno and St. Mary's Regional Medical Center are just north, north-west of the downtown redevelopment district and many of the downtown professional-offices are located south of the Truckee River, north of California Avenue and generally bordered by Sierra Street to the west and Holcomb Avenue to the east. (Exhibit 6 is provided as a separate attachment in this reports appendix.)

Exhibit 6
Downtown Residential, Visitor-Tourism and Employment Population Densities



Given the physical location of new residential projects and the physical location of the existing downtown hotel and casino properties, it appears as though West Street, running north from St. Mary's Regional Medical to West Street Plaza and the Truckee River to the south and highlighted with the vertical orange line in Exhibit 6, is center to much of the planned residential and existing visitor population density in downtown Reno.

This observation corresponds with the Redevelopment Agency's *Downtown Retail Study* (2005) received by the Reno City Council – Redevelopment Agency Board on January 11, 2006. The *Downtown*

Retail Study identified four specific corridors within the downtown redevelopment project area best suited for strategic retail in-fill development. Virginia Street, between Interstate 80 and the Truckee River, West 4th Street, between Keystone Avenue and Virginia Street, East 4th Street, between Virginia Street and Valley Road and West Street between St. Mary's Regional Medical Center and the Truckee River.

Each of the four studied corridors in the *Downtown Retail Study* had specific strengths, weaknesses, opportunities and threats that uniquely shaped the suggested type of retail appropriate for each corridor. West Street, with its proximity to planned residential projects, major employment centers like St. Mary's Regional Medical Center, and the major downtown hotel and casino properties like the Silver Legacy, was targeted as a corridor best suited for a blend of specialty trend retailers, closer to the Truckee River like nightclubs, restaurants and coffee shops, and specialty service retailers like a pharmacy, home furnishing store, kitchen appliance store and even a grocery store.

The only drawback of West Street is that traffic counts are currently low, relative to other main traffic corridors in the downtown like 4th Street, Virginia Street, Center Street and Sierra Street. This is likely to change however as many of the new residential projects announced for West Street approach their completion dates and as new residents begin to occupy them. In real-estate, location is said to be everything. In retail, especially grocery stores in the greater Reno-Sparks area, location is also everything. As residential populations begin to rise along West Street, and as employment center populations and visitor-tourist center populations also begin to grow, West Street is likely to become an ideal location for a specialty grocery store that can support a growing residential, employee and visitor-tourist population.

Downtown Grocery Store Study

APPENDIX

March, 2006

Prepared for:

The Reno Redevelopment Agency

Prepared by:

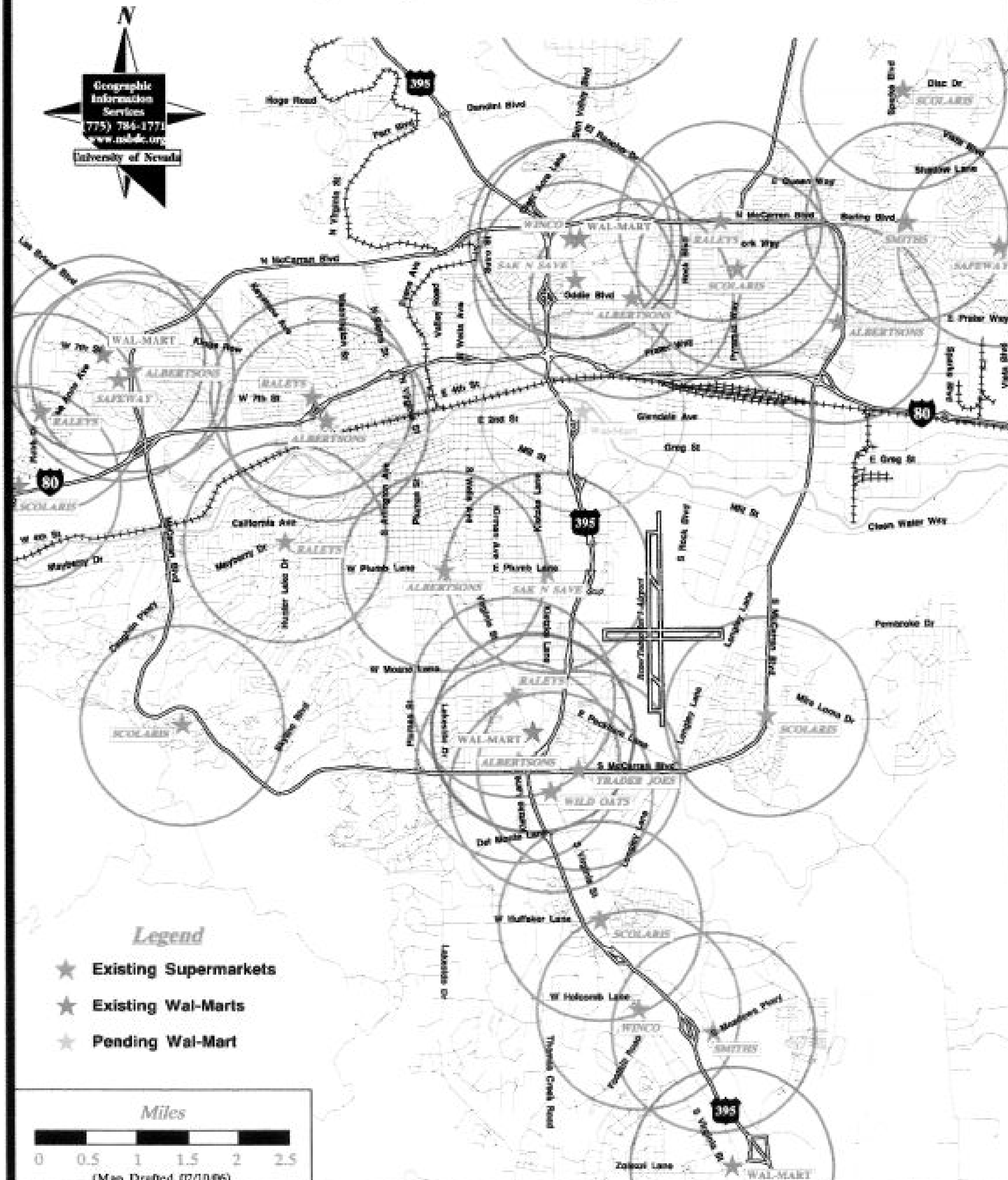
Nevada Small Business
Development Center

University of Nevada, Reno
College of Business Administration
Ansari Business Building, Room 411
Reno, NV 89557-0100

Supermarket Locations

(Displayed With 1 Mile Radius Rings)

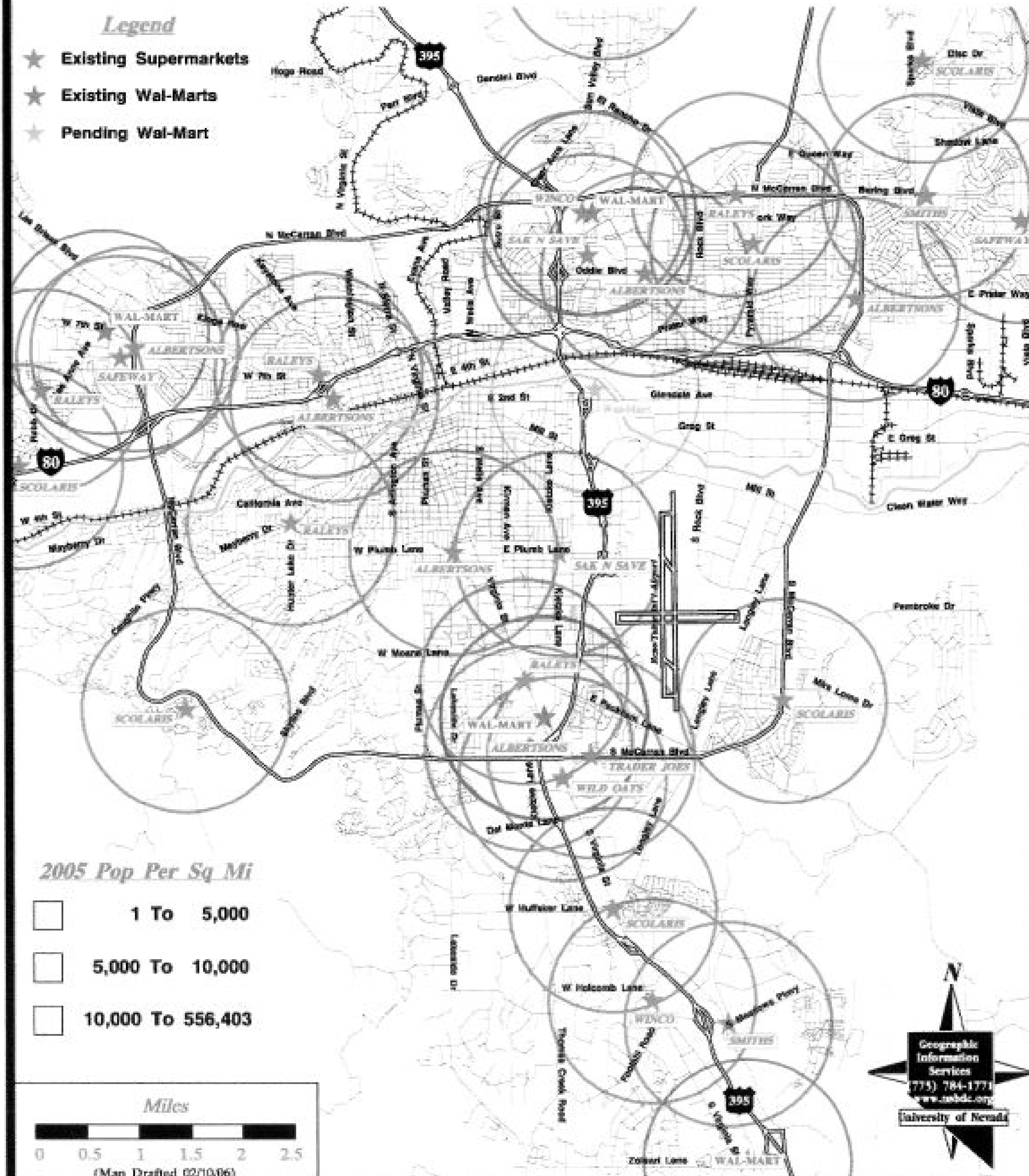
Reno-Sparks, Washoe County, Nevada



Supermarket Locations

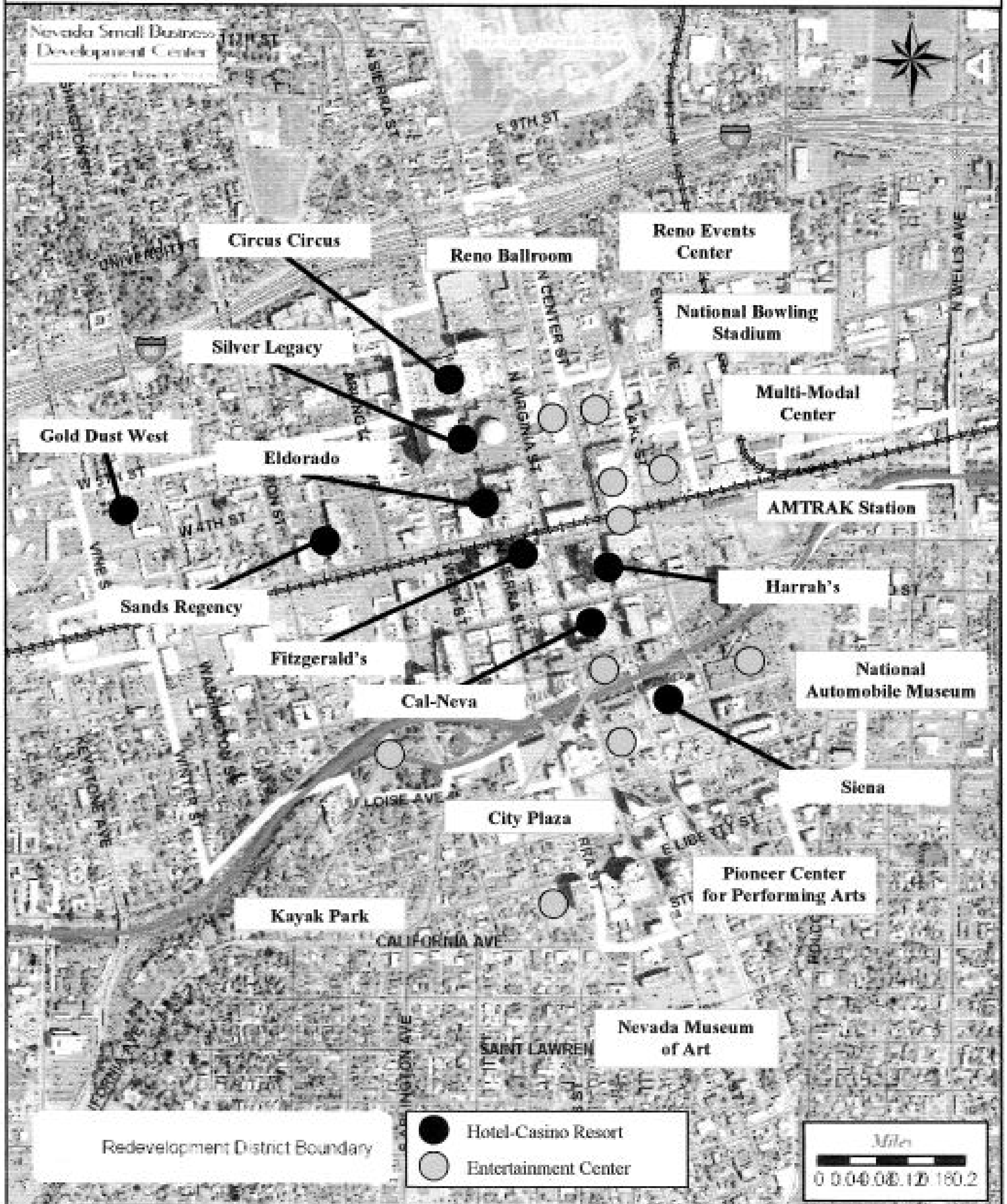
(Displayed With 1 Mile Radius Rings)

Reno-Sparks, Washoe County, Nevada



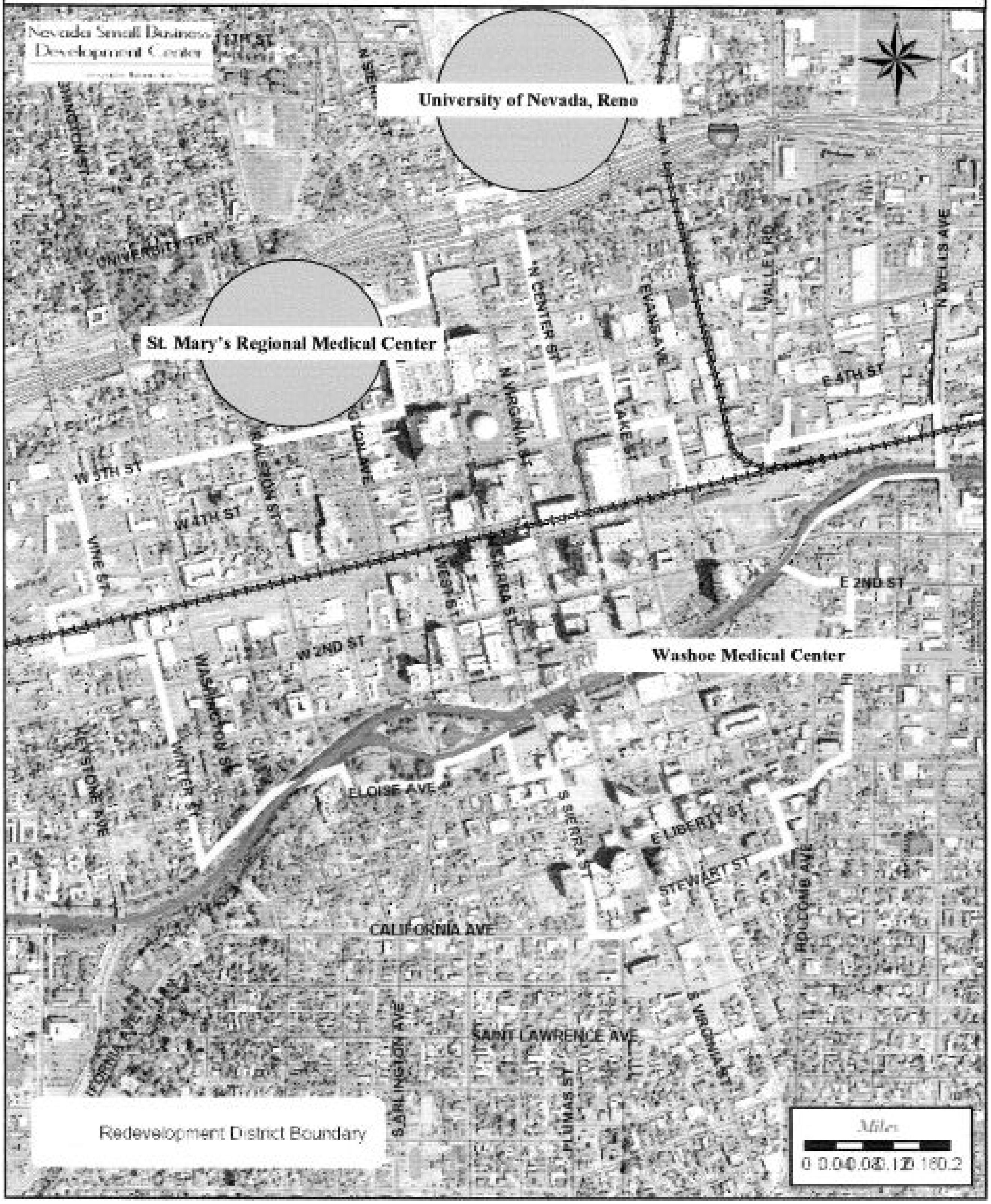
Reno Redevelopment District

Reno, Washoe County, Nevada



Reno Redevelopment District

Reno, Washoe County, Nevada



Reno Redevelopment District

Reno, Washoe County, Nevada