"spin-off" development could be triggered if a new visitor base can successfully be developed.

When the regional economy and population is considered, a unique opportunity exists for the City to reposition the downtown redevelopment district as a destination retail center.

Table 12 –Estimated Population and Per Capita Income Washoe County, Northern Nevada and California Counties Calendar Year 2000

Jursidiction	Est. Total Population 2015	Est. Per Capita Income 2015
Washoe County	528,908	$28,185
Northern Nevada Counties	213,138	$23,047
Northern California Counties	901,203	$25,235
Total/Average	**1,643,249**	**$25,489**

By 2015, assuming a 3.00% growth in current residential population levels and a 1.00% growth in current per capita income levels, the estimated total population of the larger Northern Nevada and Northern California region could potentially be approximately 1.6 million individuals with an average per capita income of approximately $25,500.

This larger "regional" examination indicates that a strong opportunity does exist to develop a destination retail center, with a strong service retail base, within the City's current downtown redevelopment district. Future efforts regarding redevelopment and revitalization efforts should consider the impact of anticipated growth in both the total population and average per capita income levels of the wider region.

The impacts of developing a destination retail center, with a strong service retail base, would significantly improve the overall level of economic activity through increased retail and visitor activity within the downtown redevelopment project area.

Visitor and Tourism Trends

Although the role of visitors and tourists from the larger region, including Northern Nevada and Northern California counties, has already been touched upon in the previous section of this chapter, the role visitors and tourists play in the development of the City's downtown redevelopment project area is critical to understanding the different retail opportunities present.

Tourism represents an important part of the City's overall level of economic activity. Tourism is especially important to the overall level of economic activity present within the downtown redevelopment project area primarily due to the high concentration of hotel rooms present. As of January, 2005, 7,368 hotel-casino hotel rooms were present within the City's current downtown redevelopment project area.

Table 13 – Downtown Hotel-Casino Properties by No. of Rooms January, 2005

Property Name	Number of Rooms
Gold Dust West	101
Cal-Neva	181
Siena	214
Fitzgeralds	360
Golden Phoenix	604
Sands Rengency	830
Eldoardo	843
Harrah's	943
Circus Circus	1,572
Silver Legacy	1,720
Total	**7,368**

The large concentration of available hotel-casino hotel rooms in the Reno-Sparks area within the City's downtown redevelopment project area indicates that despite growth of the area's tourism market in other parts of the Reno-Sparks area, gaming and tourism is still primarily centered within the City's urban-core.

According to a Wells-Gaming Research, January 2005 report, there were approximately 15,000 total hotel-casino hotel rooms within the Reno-Sparks area. Approximately 49% of all hotel-casino hotel rooms within the Reno-Sparks area were located within the City's current downtown redevelopment district as of January, 2005.

Between 1999 and 2004, approximately 30 million visitors made their way to hotel and casino hotel rooms in the Reno-Sparks area according to a December 2004 Reno-Sparks Convention and Visitor's Authority report.

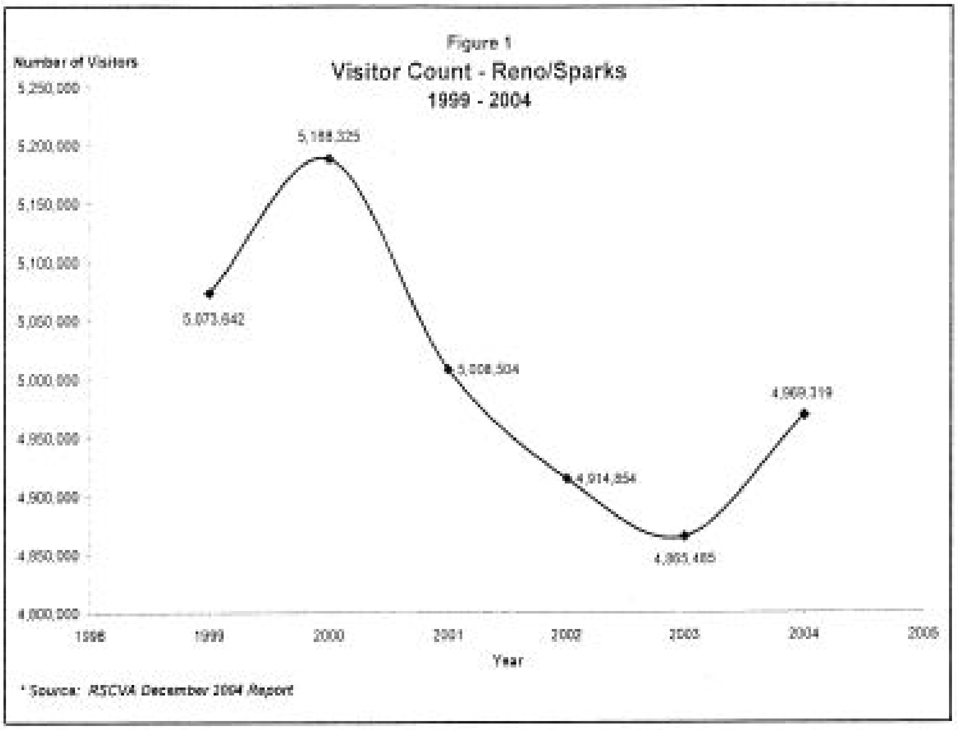


Figure 1
Visitor Count - Reno/Sparks
1999 - 2004

* Source: *RSCVA December 2004 Report*

Although 30 million visitors visited the Reno-Sparks area between 1999 and 2004, visitor counts declined between 1999 and 2004 at an average annual rate of 0.44%.

- Between 1999 and 2000, Reno-Sparks visitor counts increased by 2.21%, increasing from approximately 5.1 million visitors in 1999 to approximately 5.2 million visitors in 2000.

- Between 2000 and 2001, Reno-Sparks visitor counts decreased by 3.59%, falling from approximately 5.2 million visitors in 2000 to approximately 5 million visitors in 2001.

- Between 2001 and 2002, Reno-Sparks visitor counts decreased by 1.91%, falling from approximately 5 million visitors in 2001 to approximately 4.91 million visitors in 2002.

- Between 2002 and 2003, Reno-Sparks visitor counts decreased for a third straight year by 1.01%, falling from approximately 4.9 million visitors in 2002 to approximately 4.86 million visitors in 2003.

- Between 2003 and 2004, Reno-Sparks visitor counts increased by 2.09%, increasing from approximately 4.86 million visitors in 2003 to approximately 5 million visitors in 2003.

Although it appears that Reno-Sparks visitor counts have reversed a three year trend of decline, reaching previous 2001 levels, it is still uncertain whether or not this recovery is short-term or represents a longer-term restoration of the Reno-Sparks tourism market.

Four primary "macroeconomic" events are singled out as primary causes of this recent decline.

1. The rise of Indian casino gaming in neighboring jurisdictions like California, Oregon, Washington, Idaho, New Mexico and Arizona has significantly impacted the ability of the Reno-Sparks tourism market, as well as the City's downtown tourism market, to attract new visitors on the merits of casino gaming alone.

2. The burst of the "dot-com" bubble in the high-tech industry of the San Francisco bay area significantly impacted net disposable income and per capita incomes of the "young millionaire" that contributed to the expansion of the Reno-Sparks tourism market during the mid to late 1990's.

3. September 11^{th}, 2001 had a dampening effect on air travel reducing the number of tourists using air travel to visit the Reno-Sparks area.

Table 14 – Monthly Visitor Counts – Reno/Sparks
January 2001 – December 2001

Month	Total Visitor Count	Monthly Average Growth Rate
January	330,883	
February	362,626	8.75%
March	454,451	20.21%
April	429,549	-5.80%
May	441,891	2.79%
June	470,970	6.17%
July	471,732	0.16%
August	484,504	2.64%
September	448,778	-7.96%
October	427,174	-5.06%
November	352,534	-21.17%
December	333,412	-5.74%
Total/Average	5,008,504	-0.45%

** Source: December 2004 RSCVA Report*

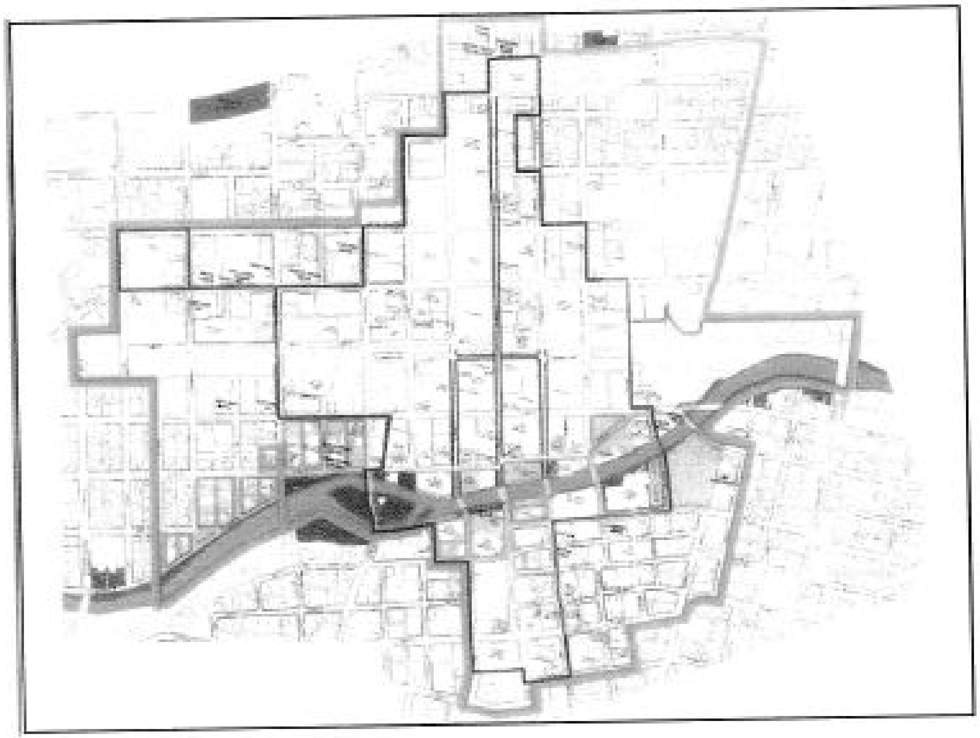
As Table 14 illustrates, over the first eight months of 2001 each month, except April, saw modest to significant growth in the month to month visitor count for the Reno-Sparks area.

Beginning in September, each month over the last four months of 2001 saw significant declines in the month to month visitor count for the Reno-Sparks area.

4. Rising gasoline and fuel prices in 2004 and 2005 have made automobile travel from neighboring jurisdictions increasingly expensive. Without any additional incentive to come to the Reno-Sparks area, gamblers will often choose to go to the "Nevada-style" casinos found throughout the Reno-Sparks area in communities closest to their own community to conserve on travel expenses.

Combined, these four "macroeconomic" events have left the Reno-Sparks tourism market vulnerable and exposed to increased competition and increased costs. The tourism market in the City's downtown redevelopment district has not been spared from the recent downturns evident in the Reno-Sparks tourism market. Exhibit 2 presents a map of the RSCVA's Reno Tourism District "D" which approximately imitates the City's downtown redevelopment district.

Exhibit 2
RSCVA - Downtown Reno Tourism District "D"



The only significant difference between the RSCVA's Reno Tourism District "D" and the City's downtown redevelopment district is the large portion of the Reno Tourism District "D" that extends to the north-east. The easterly boarder of the current downtown redevelopment district is generally Lake and Center streets.

Between January 2003 and December 2004, monthly hotel room-night occupancy counts in the City's downtown redevelopment district declined at an average rate of 1.12% per month.

- Total hotel room-night occupancies for the City's downtown redevelopment district totaled approximately 1.93 million in 2003. This total accounted for approximately 39.65% of all hotel room-night visitor count occupancies throughout the Reno-Sparks area.

- Total hotel room-night occupancies for the City's downtown redevelopment district totaled approximately 1.85 million in 2004. This total accounted for approximately 37.94% of all hotel room-night visitor count occupancies throughout the Reno-Sparks area.

It would appear as if the Reno-Sparks regional tourism market is beginning to recover from recent downturns as visitor counts and hotel room-night occupancies increased by 2.09% between 2003 and 2004.

Table 15 – Monthly Hotel Room-Night Occupancy RSCVA - Downtown Reno Tourism District "D" January 2003 – December 2004

Month	Hotel Room Night-Occupancy	Monthly Average Growth Rate
Jan-03	140,492	
Feb-03	142,554	1.45%
Mar-03	160,083	10.95%
Apr-03	160,306	0.14%
May-03	174,615	8.19%
Jun-03	184,404	5.31%
Jul-03	180,756	-2.02%
Aug-03	188,469	4.09%
Sep-03	170,015	-10.85%
Oct-03	169,929	-0.05%
Nov-03	128,493	-32.25%
Dec-03	129,070	0.45%
Jan-04	135,919	5.04%
Feb-04	140,015	2.93%
Mar-04	176,317	20.59%
Apr-04	171,543	-2.78%
May-04	176,978	3.07%
Jun-04	178,972	1.11%
Jul-04	172,023	-4.04%
Aug-04	170,132	-1.11%
Sep-04	158,996	-7.00%
Oct-04	160,301	0.81%
Nov-04	118,780	-34.96%
Dec-04	125,267	5.18%
Total/Average	3,814,429	-1.12%

** Source: Tim Smith, VP Finance, RSCVA*

However, the City's downtown redevelopment district has not demonstrated its own recovery from recent downturns as visitor counts and hotel room-night occupancies in the downtown decreased by 2.33% between 2003 and 2004.

Although visitor counts and hotel-room night occupancy levels in the City's downtown redevelopment district have decreased in recent years, they still represent a significant portion of the overall level of tourist activity in the Reno-Sparks area. This presents potential retailers in a potential destination retail center within the City's urban-core a unique opportunity to profit from a large portion of approximately 5 million visitors per year.

The development of a destination retail center within the City's urban-core also presents the primary downtown hotel and casino properties with a unique opportunity to reverse continued declines in annual visitor and tourist levels. The development of a regional destination retail center, drawing new visitors from across the region to the downtown, may have additional spill-over affects on the major downtown hotel and casino properties.

As mentioned earlier, the Department of Resource Economics calculated a tourism and gaming multiplier in 1997. The multiplier is estimated to be approximately 1.91, indicating that for every $1 a tourist spends on his/her primary expenditure, an additional $1.91 is generated on other expenditures. A destination retail center in close proximity of the major downtown hotel and casino properties could significantly increase gross revenues for those hotel and casino properties, helping reverse a declining trend in their primary revenue streams. Simply put, there is a premium on tourism-generated revenue because tourism-generated retail revenue imports cash from foreign services while exporting goods and services elsewhere. Tourism-generated retail revenue is simply more valuable than locally-generated retail revenue as it tends to generate additional expenditures not found by local visitors in the City's urban-core.

3 – Identifying Opportunities

Introduction

Unlike the preceding chapter, this chapter focuses solely on the specific opportunities for future retail development in the City's downtown redevelopment district. In the preceding chapter, the focus was primarily on identifying and calculating the existing and potential future residential and visitor-tourist populations that exist both within and around the downtown redevelopment district.

Washoe Medical Center, St. Mary's Regional Medical Center and the University of Nevada, Reno are three of the largest concentrations of population and potential retail customers located in the immediate vicinity of the City's urban-core.

In addition to the employment-population centers of Washoe Medical, St. Mary's and the University, the City's downtown redevelopment district is also the center of other large employment-population centers, ranging from the downtown hotel and casino properties to the professional offices located in the redevelopment district's southern office core.

The Regional Centers

Three of the City's largest regional centers are immediately adjacent and to the City's current downtown redevelopment district. The University of Nevada, Reno, the State's first four-year university, is directly north of the current redevelopment district, Washoe Medical Center is south-southeast of the redevelopment district and St. Mary's Regional Medical Center is to the north-northwest.

Each of these three regional centers have either announced or are well underway in major expansion projects that will employ even more individuals, educate even more students and attract even more visitors to key areas adjacent to the City's redevelopment district.

University of Nevada, Reno

The University of Nevada, Reno (UNR), is Nevada's first four-year university and has recently seen a need to increase the number of facilities present on the campus to meet the needs of a growing population.

UNR anticipates that within the next 20 to 25 years, the student population could potentially double, introducing a large population to an area immediately to the north of the City's redevelopment district. Recently, the University has also experienced tremendous growth as the Truckee Meadows area continues to experience similar trends in population growth.

Table 16 – Student Enrollment, University of Nevada, Reno Academic Year 1995-96 – Academic Year 2004-05

Academic Year	Number of Students	Percentage Change
1995-96	11,832	
1996-97	11,948	0.97%
1997-98	12,045	0.81%
1998-99	11,952	-0.78%
1999-00	12,144	1.58%
2000-01	12,902	5.88%
2001-02	13,913	7.27%
2002-03	14,664	5.12%
2003-04	15,176	3.37%
2004-05	15,469	1.89%
Average		**2.90%**

** Source: UNR Archives, UNR Admissions and Records*

Between academic year 1995-96 and academic year 2004-05, the total number of students attending the University of Nevada, Reno increased at an annual average rate of 2.90%, with record high enrollment growth rates in both 2000-01 (5.88%) and 2001-02 (7.27%). All told, the number of students enrolled at the University increased from 11,832 students in 1995-96 to 15,469 students in 2004-05.

What is surprising about the University is that despite a strong and growing student population, retailers have been either unable or unwilling to introduce new retail square footage around the University campus. Unlike many universities across the United States similar to UNR in-terms of total student enrollment and general land size, there exists no "university village" to support the retail and commercial needs of the University's students.

Exhibit 3
University of Nevada, Reno – South Campus

The University's South Campus is generally bordered by Virginia Street to the east and 9th Street and Evans Avenue to the south. A field study inventory of all structures and businesses immediately adjacent to the University's South Campus found only six parcels currently being used as retail outlets.

- The parcel on the north-east corner of 9th and Virginia streets is a gas station and convenience store.
- The parcel on the south-west corner of 9th and Virginia streets is a bar/nightclub.
- The two parcels located on the south-west corner of 9th and Center streets house a deli and a vacant retail store.
- The parcel on Virginia Street, between 9th and 8th streets is a record store.
- The parcel on the north-east corner of Sierra and 8th streets is a vacant and boarded up retail structure that was once a gas station and convenience store.

The remaining parcels and structures adjacent to the University's South Campus are primarily used as low-quality "temporary" housing. Six 28-day long-term residential motels exist in this area and many of the single family detached structures have been sub-divided several times as residential rental properties.

No major retailers surround the University's campus. Using the same retail industry categories developed by the Nevada Small Business Development Center for their 2004 Reno-Sparks Business Activity Report presented above in Chapter 3, it becomes increasingly clear how underserved the University's student retail demands are.

Table 17 – Retail Outlets by Retail Industry
University of Nevada, Reno South Campus
Academic Year 2004-05

Retail Industry	Number of Retail Outlets	Number of Retail Outles divided by 2004-05 Student Population
Home Improvement & Department Stores	0	0.00%
Food - At Home	1	0.01%
Food - Away from Home	3	0.02%
Motorized Equipment	0	0.00%
Appparel	0	0.00%
Home Furnishings	0	0.00%
Household & Personal Goods	1	0.01%
Miscellaneous Retail	0	0.00%
Total	5	0.03%

In academic year 2004-05, a field study and inventory of the retail outlets present in the area immediately adjacent to the University's South Campus indicated that the overall retail needs of the University's campus are simply not being supplied by the retailers currently present.

No Home Improvement & Department Store retailers exist. No Motorized Equipment retailers exist. No Apparel retailers exist and no Home Furnishing retailers exist in the immediate area adjacent to the University's South Campus and the retailers that do exist in other categories are far from satisfactory to support the campus's growing student population.

Although a strong retail customer base does exist just to the north of the City's downtown redevelopment district, many today still assume that college and/or university students do not have the financial means to support a large commercial or retail sector. However, the stereotype that college and/or university students are without financial means is a stereotype that no longer applies to the modern college and/or university student attending American universities and community colleges.

In 2004, the National Retail Federation (NRF) released a year-long study regarding the spending patterns of students in American community colleges and universities. The NRF retail study of American college and university students surveyed 7,443 college and university students. The reported consumer poll margin of error for this NRF study was plus or minus 1.00%.

NRF President and CEO Tracy Mullin stated, "By recognizing a historically-neglected market, retailers have found themselves in the middle of a gold mine. When retailers can satisfy the needs of new – and potentially lifelong – consumers by offering fun, in-demand, existing merchandise, everybody wins."

As the analysis presented above indicates, students of the University of Nevada, Reno remain a largely underserved segment of the area's retail market and retailers present within the area have failed to capitalize on a growing retail customer base.

The National Retail Federation's survey of American college and university students indicated that the retail and commercial buying power of these students has significantly increased in recent years. Some of the NRF's major findings include:

- In 2004, the "average" freshman spent approximately $1,205.97 in the first month of the academic term on various retail expenditures with the primary expenditure being personal electronics ($759.97).

- In 2004, the "average" sophomore spent approximately $444.66 in the first month of the academic term on various retail expenditures with no primary expenditure.

- In 2004, the "average" junior spent approximately $811.83 in the first month of the academic term on various retail expenditures with the primary expenditure being dorm and/or apartment furnishings ($278.47).

- In 2004, the "average" senior spent approximately $425.23 in the first month of the academic term on various retail expenditures with no primary expenditure.

- In 2004, the "average" graduate or medical school student spent approximately $397.44 in the first month of the academic term on various retail expenditures with no primary expenditure.

In 2004, the NRF survey concluded that, in all, parents and university/college students across the United States spent approximately $7.5 billion on electronics, $3.2 billion on clothing and accessories, $2.6 billion on dorm and/or apartment furnishings, $2.1 billion on school supplies and approximately $1.5 billion on shoes.

All together, the NRF survey found that the almost $40.5 billion students and parents spent on back-to-college expenses in the first month of the academic year's term, made up approximately 4.00% of total GAFS (general merchandise stores, clothing and clothing accessory stores, furniture and home furnishing stores, electronics and appliances stores, and sporting goods, hobby, book and music stores) sales, second to only the Thanksgiving to Christmas holiday shopping season.

Typically, the NRF survey found that a large portion of back-to-college shopping in the first month of the academic term in 2004 was done primarily in retail outlets not currently present or adjacent to the City's current downtown redevelopment district.

- In 2004, 51.9% of students and parents surveyed indicated that they had shopped for back-to-college items in the university or college campus bookstore.

  The University of Nevada, Reno has only one bookstore located on campus. Unlike schools like University of California Berkeley, University of Oregon or the University of Southern California, the University of Nevada, Reno does not have any owned and operated bookstore off-campus in an adjacent neighborhood.

- In 2004, 49.9% of students and parents surveyed indicated that they had shopped for back-to-college items at a nearby discount store.

  No discount store exists in the City's downtown redevelopment district or adjacent to the University of Nevada, Reno's campus.

- In 2004, 33.9% of students and parents surveyed indicated that they had shopped for back-to-college items at a nearby department store.

  No department store exists in the City's downtown redevelopment district or adjacent to the University of Nevada, Reno's campus.

- In 2004, 29.1% of students and parents surveyed indicated that they had shopped for back-to-college items at a nearby office supply store.

  No office supply store exists in the City's downtown redevelopment district or adjacent to the University of Nevada, Reno's campus.

Phil Rist, Vice President of Strategy for BIGresearch, a leader in online market intelligence and research, was quoted in the 2004 NRF report, saying that, "Many students plan to use large portions of their graduation money and summer job paychecks to fund their return to campus and retailers have to be quick to notice the opportunities."

Retailers within the City's downtown redevelopment district and new service and trend retailers from outside the area have not been quick to notice the opportunities for expanded retail opportunities to meet the demands of the University of Nevada, Reno's growing student population.

Table 18 – University of Nevada, Reno Study Retail Multipliers Total Dollars Spent by Expenditure Category Academic Year 2004-05

(1) Expenditure Category	(2) Average Amount Spent Per Student	(3) Total Student Population UNR 2004-05	(2) * (3) Est. Amount Spent - All Students UNR 2004-05
Clothing and Accessories	$151.03	15,469	$2,336,283
Shoes	$81.03	15,469	$1,253,453
Text Books	$306.29	15,469	$4,738,000
Msc. School Supplies	$73.47	15,469	$1,136,507
Electronics	$509.14	15,469	$7,875,887
Dorm/Apartment Furnishings	$260.09	15,469	$4,023,332
Total	$1,381.05	15,469	$21,363,462

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

Using different retail industry, college and university student multipliers developed in the National Retail Federation 2004 retail survey of college and/or university student expenditures, the net retail and commercial impact of the 15,469 students enrolled at the University of Nevada, Reno for the 2004-05 academic year is estimated to be approximately $21.4 million.

- In 2004-05, University of Nevada, Reno students spent approximately $2.3 million on clothing and accessories using NRF multipliers.

- In 2004-05, University of Nevada, Reno students spent approximately $1.3 million on shoes using NRF multipliers.

- In 2004-05, University of Nevada, Reno students spent approximately $4.7 million on text books using NRF multipliers.

- In 2004-05, University of Nevada, Reno students spent approximately $1.1 million on miscellaneous school supplies using NRF multipliers.

- In 2004-05, University of Nevada, Reno students spent approximately $7.9 million on electronics using NRF multipliers.

- In 2004-05, University of Nevada, Reno students spent approximately $4.0 million on dorm and apartment furnishings using NRF multipliers.

The current mix of retailers in the City's downtown redevelopment area is "out-of-sync" with national college and university retailer trends. The current mix of retailers present in the City's downtown redevelopment district includes retailers in only two categories listed below in Table 19, a drug store and a home furnishings store.

Table 19 – University of Nevada, Reno Study Retail Multipliers
Type of Retailer Used by UNR Students
Academic Year 2004-05

(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 City's downtown redevelopment district does not have the necessary mix or quantity of retail outlets needed to support the current and developing trends in the spending patterns of the students currently attending the University of Nevada, Reno.

Without significant improvement in the general mix of retailers present, UNR students will be forced to continue to do their primary shopping outside of the City's immediate urban-core.

Although current retailers in the City's downtown urban-core were largely unable to capture any significant portion of the estimated $21.4 million spent by UNR students going back to school in the 2004-05 academic year, the City's downtown urban-core will continue to forfeit even larger gains in total taxable sales if the University's population continues to grow as predicted.

Washoe Medical Center

Washoe Medical Center, located south-east of the City's downtown redevelopment district, has recently begun a multi-million dollar expansion of their primary campus.

The construction of a new 10-story Patient Care Tower with a new parking garage is a response to the growing medical needs of a growing population. The total estimated cost of Washoe Medical Center's new Patient Care Tower is approximately $240 million and will include new intensive care facilities and expanded high-tech patient care areas with a built-in 1,600 space parking garage.

Even without the new Patient Care Tower, Washoe Medical Center, like the University of Nevada, Reno, is a potential "built-in" retail market due to the high number of employees and patients Washoe Medical Center employs and services.

The total number of employees employed by Washoe Medical Center between 2000 and 2005 has grown at a stable pace.

Table 20 – Washoe Medical Center
Annual Number of All Employees
June 30, 2000 – June 30, 2005

Year	Total Number of Employees	Percentage Change
2000	2,519	
2001	2,624	4.00%
2002	2,687	2.34%
2003	2,841	5.42%
2004	2,736	-3.84%
2005	2,733	-0.11%
Average	**2,690**	**1.56%**

** Source: Washoe Medical Center, Public Relations*
1 year counted from 6/30/0x to 6/30/0y

For each year over the six-year period between June 30, 2000 and June 30, 2005, Washoe Medical Center averaged 2,690 total employees, growing at an average annual rate of 1.56%, increasing from a total of 2,519 employees in 2000 to 2,733 total employees by 2005.

The impact of having a densely concentrated number of employees with relatively high levels of disposable income adjacent to the City's urban-core on the retail potential of the City's redevelopment district should not be understated. In 2004, the Iowa Hospital Association developed

National retail multipliers to measure the impact hospital employees and hospital patients had on a local retail market.

Table 21 – Washoe Medical Center Retail Multipliers
Retail Impact of Hospital Employees
Annual Estimates, June 30, 2000 – June 30, 2005

Year	Estimated Annual Employee Retail Expenditure	Percentage Change
2000	$39,759,896	
2001	$41,417,216	4.00%
2002	$42,411,608	2.34%
2003	$44,842,344	5.42%
2004	$43,185,024	-3.84%
2005	$43,137,672	-0.11%
Total/Average	**$254,753,760**	**1.56%**

** Multiplier Source: Iowa Hospital Association*

The Iowa Hospital Association's 2004 study concluded that, on average, a typical hospital employee spends approximately $15,748 annually on various retail products. More importantly, the 2004 study indicated that many hospital employees will tend to shop near and around the hospital in which they work, using their lunch time or time before or after work, to do whatever retail shopping they need to, excluding groceries.

When the Iowa Hospital Association's hospital employee retail multipliers are applied to Washoe Medical Center, the results are startling. The estimated annual employee retail expenditure of all employees at Washoe Medical Center grew at an average annual rate of 1.56% between 2000 and 2005. The total six-year retail economic impact of Washoe Medical Center employees is estimated at approximately $254.8 million. The estimated annual employee retail expenditure of all employees working at Washoe Medical Center grew from approximately $39.8 million in 2000 to approximately $43.1 million in 2005.

Unfortunately, many of the retail shopping demands of Washoe Medical Center are not currently being met by the current retailers presently around the hospital campus or from current retailers present within the City's redevelopment district. With such a large and potentially profitable customer base at Washoe Medical Center, current and future retailers within the City's urban-core have a unique opportunity to capitalize and enhance their total taxable retail sales.

In addition to the impact hospital employees have on a local retail market, the net affect of a hospital's patients (including visiting friends and family) on a local retail market should also be considered. Due to Washoe Medical Center's status as a regional center, the patient and visitor base of

Washoe Medical Center extends farther than just the Reno-Sparks area. The construction of a new 10-story Patient Care Tower is in response to the growing number of patients who choose Washoe Medical Center for their health care needs.

Table 22 – Washoe Medical Center
Annual Number of Patient Admissions
Calendar Year 1999 – Calendar Year 2004

Fiscal Year Ending	Approximate Total Number of Admissions	Percentage Change
1999	18,000	
2000	18,500	2.70%
2001	20,500	9.76%
2002	23,000	10.87%
2003	23,000	0.00%
2004	23,500	2.13%
Total/Average	**126,500**	**5.09%**

** Source: Washoe Medical Center, Public Relations*

Between 1999 and 2004, the annual number of patient admissions at Washoe Medical Center grew at an average annual rate of 5.09%, totaling approximately 126,500 admissions over the six-year period. The annual number of patient admissions increased from approximately 18,000 admissions in 1999 to approximately 23,500 by 2004 with above average levels of growth in 2001 (9.76% increase) and 2002 (10.87% increase).

It is important to note that many of the patients admitted from Washoe Medical Center were from across the larger region, servicing patients and their visitors from the neighboring Northern Nevada counties as well as communities from California like Truckee, CA.

The annual number of patient admissions at Washoe Medical Center in Table 22 does not account for the number of visiting family and friends visiting patients admitted to Washoe Medical Center.

At an average number of 2 visitors per patient (provided by the Iowa Hospital Associations 2004 study), the total number of people visiting or admitted to Washoe Medical Center may well have exceeded 375,000 total visitors and patients visiting or admitted to Washoe Medical Center between 1999 and 2004.

Like the multipliers developed for hospital staff, the Iowa Hospital Association in 2004 developed similar retail multipliers for patients, visiting friends and visiting family members of patients staying or visiting in a typical American hospital.

Table 23 – Washoe Medical Center Retail Multipliers
Retail Impact of Admissions
Calendar Year 1999 – Calendar Year 2004

Year	Estimated Annual Admissions Retail Expenditure	Percentage Change
1999	$592,164,000	
2000	$608,613,000	2.70%
2001	$674,409,000	9.76%
2002	$756,654,000	10.87%
2003	$756,654,000	0.00%
2004	$773,103,000	2.13%
Total/Average	**$4,161,597,000**	**5.09%**

** Multiplier Source: Iowa Hospital Association*

Using the retail multipliers developed by the Iowa Hospital Association's 2004 study, the estimated six-year retail impact of all total admissions at Washoe Medical Center is approximately $4.2 billion.

This does not mean that all total admissions at Washoe Medical Center spent approximately $4.2 billion on retail sales during their stay at Washoe Medical Center. The analysis presented in Table 23 provides an estimate of the total <u>buying power</u> of all total admissions at Washoe Medical Center. As stated above, many of the admissions at Washoe Medical Center come from areas outside the Reno-Sparks area. Those who come from outside the Reno-Sparks area and are admitted to Washoe Medical Center would obviously do the majority of their retail shopping in the jurisdiction they are originally from.

However, current and future potential retailers and current and future developers interested in the City's downtown redevelopment district should take these numbers into consideration. For those patients with longer-stays at Washoe Medical Center from outside the Reno-Sparks area, there does exist different development opportunities for short-term housing and expanded retail facilities that could attract new shoppers from Washoe Medical Center to the City's urban core.

The expansion of Washoe Medical Center, mentioned earlier in this section, will have an added positive impact on the expansion of an already strong potential retail customer base at Washoe Medical Center. The development of a new 10-story Patient Care Tower will significantly increase the total number of employees and new admissions at Washoe Medical Center. Using the same multipliers used above to estimate the retail impact of current employees and current admissions at Washoe Medical Center, it is possible to estimate the increased retail impact Washoe Medical Center's new Patient Care Tower will have.

Table 24 – Washoe Medical Center Retail Multipliers
Retail Impact of Recent Expansion Efforts
1-Year Estimated Impact

Category	Est. Number of New Employees	Est. Number of New Admissions	Total
Total Number	500	4,000	4,500
Estimated Annual Retail Expenditures	$7,892,000	$131,592,000	$139,484,000

** Source: Washoe Medical Center, Public Relations*

At full employment and at full admissions capacity, the one-year estimated retail impact of Washoe Medical Center's new Patient Care Tower is estimated at approximately $139.5 million. This figure represents the totaling buying power of new employees and new admissions at Washoe Medical Center as a direct result of the hospital's recent expansion project.

Combined, the total retail impact of Washoe Medical Center, post-completion of the new Patient Care Tower is impressive.

Table 25 – Washoe Medical Center Retail Multipliers
Retail Impact of Employees and Admissions Post-Expansion
1-Year Estimated Impact

Category	Annual Average of Employees/Admissions	Annual Average Retail Expenditure
Estimated Annual Average Current Employee Retail Impact	2,690	$42,458,960
Estimated Annual Average Current Admissions Retail Impact	21,083	$693,599,500
Estimated Annual Average Expansion Employee Retail Impact	500	$7,892,000
Estimated Annual Average Expansion Admissions Retail Impact	4,000	$131,592,000
Annual Total	**28,273**	**$875,542,460**

Using different multipliers provided by the Iowa Hospital Association, the combined annual retail impact of both total employees and total admissions at Washoe Medical Center post-completion of a new Patient Care Tower is estimated at approximately $875.5 million. This figure represents the combined retail buying power of both employees and admissions at Washoe Medical Center in a one-year time frame.

Without a significant improvement in the City's downtown redevelopment district's retail mix, current downtown retailers and potential future downtown retailers will continue to forfeit the advantages of developing a mix of retail that could profit from an expanded retail customer base at Washoe Medical Center with an estimated annual retail buying power of approximately $875.5 million.

St. Mary's Regional Medical Center

St. Mary's Regional Medical Center, located to the north-west of the City's downtown redevelopment district, has begun completion of a multi-million dollar expansion of their primary campus.

The "Medical Plaza at St. Mary's", part of St. Mary's West Campus expansion, will include a new six-storey, 215,000 square foot patient care facility and wellness center. The "Medical Plaza at St. Mary's will include a new on-site laboratory, diagnostic imaging center, radiation-oncology center as well as a new 60,000 square foot "Wellness Center" for health, fitness and rehabilitation training. Several floors will also be dedicated for physician office space.

In addition to the "Medical Plaza at St. Mary's", the remaining West Campus expansion will include a new public plaza, a new 40,000 square foot, 50 bed emergency room, a new resource center and retail pharmacy with expanded dining area and critical care center. A new 1,086 space, six-storey parking garage is also part of St. Mary's West Campus expansion efforts.

The addition of a new six-storey patient care facility, with new treatment centers and additional physician office space, coupled with the expansion of St. Mary's existing emergency room, resource center, retail pharmacy and critical care center, the number of patients, visitors and employees is expected to increase. The addition of new patients, visitors and employees will significantly enhance the daily number of people present in and around the City's existing downtown redevelopment district.

Like the other two principal regional centers adjacent to the City's existing downtown redevelopment district, the University of Nevada, Reno and Washoe Medical Center, St. Mary's Regional Medical Center has a potential "built-in" retail market due to the high number of employees and patients already present at, and expected to be post-expansion, St. Mary's Regional Medical Center.

In relation to the number of employees already present at St. Mary's Regional Medical Center, the total number of employees employed by St.

Mary's Regional Medical Center between 2000 and 2005 has remained stable.

Table 26 – St. Mary's Regional Medical Center
Annual Number of All Employees
June 30, 2000 – June 30, 2005

Year	Total Number of Employees	Percentage Change
2000	2,226	
2001	2,226	0.00%
2002	2,226	0.00%
2003	2,226	0.00%
2004	2,226	0.00%
2005	2,226	0.00%
Average	**2,226**	**0.00%**

** Source: St. Mary's Regional Medical Center, Public Relations*
1 year counted from 6/30/0x to 6/30/0y

For each year over the six-year period between June 30, 2000 and June 30, 2005, St. Mary's Regional Medical Center averaged 2,226 total employees. Individual year-by-year employee number estimates were unavailable at the time of this study. St. Mary's was only able to provide an estimate of the annual number of total employees over the entire 2000 to 2005 period.

Using the same multipliers applied to the annual employment numbers for Washoe Medical Center presented above, provided by the Iowa Hospital Association, it is possible to estimate the approximate impact employees at St. Mary's Regional Medical Center could potentially have on downtown retail in the City's urban-core.

Table 27 – St. Mary's Regional Medical Center Retail Multipliers
Retail Impact of Hospital Employees
Annual Estimates, June 30, 2000 – June 30, 2005

Year	Estimated Annual Employee Retail Expenditure	Percentage Change
2000	$35,135,184	
2001	$35,135,184	0.00%
2002	$35,135,184	0.00%
2003	$35,135,184	0.00%
2004	$35,135,184	0.00%
2005	$35,135,184	0.00%
Total/Average	**$210,811,104**	**0.00%**

** Multiplier Source: Iowa Hospital Association*

When the Iowa Hospital Association's hospital employee retail multipliers are applied to St. Mary's Regional Medical Center, the results are as surprising as Washoe Medical Center's total retail potential. Although year-by-year employee averages were unavailable, the annual average number of employees working at St. Mary's Regional Medical Center of 2,226 employees per year translates into a six-year economic impact of approximately $210.8 million. The estimated annual employee retail expenditure, or the annual buying power of all employees at St. Mary's Regional Medical Center, is approximately $35.1 million.

Similar to the retail needs of students at the University of Nevada, Reno and employees at Washoe Medical Center, many of the retail shopping demands of St. Mary's Regional Medical Center are not currently being met by current retailers present around the hospital campus or from existing retailers in the City's redevelopment district. With a third large and potentially profitable customer base at St. Mary's Regional Medical Center, current and future retailers within the City's urban-core have yet another unique opportunity to capitalize and enhance their level of total taxable retail sales.

The affect of a hospital's patients (including visiting friends and family) also has a considerable impact on a localized retail market. Like Washoe Medical Center, the total number of admissions at St. Mary's Regional Medical Center can also help estimate the patient-admission impact on the City's downtown retail market.

Table 28 – St. Mary's Regional Medical Center
Annual Number of Patient Admissions
Calendar Year 1999 – Calendar Year 2004

Fiscal Year Ending	Approximate Total Number of Admissions	Percentage Change
1999	19,076	
2000	19,076	0.00%
2001	19,076	0.00%
2002	19,076	0.00%
2003	19,076	0.00%
2004	19,076	0.00%
Total/Average	**114,456**	**0.00%**

** Source: St. Mary's Regional Medical Center, Public Relations*

Between 1999 and 2004, the average annual number of patient admissions at St. Mary's Regional Medical Center was approximately 19,076. Like employment numbers for St. Mary's Regional Medical Center, a year-by-year accounting of the total number of patients was unavailable at the time of this study. Between 1999 and 2004, the total number of patient admissions for St. Mary's over the entire six-year period was approximately 114,456 total patient admissions.

For Washoe Medical Center, the estimated total number of visitors for St. Mary's Regional Medical Center, including patients, visiting family and visiting friends assuming 2 visitors per patient, may well have exceeded 340,000 total visitors and patients visiting or admitted to St. Mary's between 1999 and 2004.

Using the same multipliers developed by the Iowa Hospital Association applied to patient admissions data for Washoe Medical Center, it is also possible to estimate the net retail impact of visitors and patients at St. Mary's Regional Medical between 1999 and 2004.

**Table 29 – St. Mary's Regional Medical Center Retail Multipliers
Retail Impact of Admissions
Calendar Year 1999 – Calendar Year 2004**

Year	Estimated Annual Admissions Retail Expenditure	Percentage Change
1999	$627,562,248	
2000	$627,562,248	0.00%
2001	$627,562,248	0.00%
2002	$627,562,248	0.00%
2003	$627,562,248	0.00%
2004	$627,562,248	0.00%
Total/Average	**$3,765,373,488**	**0.00%**

** Multiplier Source: Iowa Hospital Association*

The estimated six-year impact of all total admissions at St. Mary's Regional Medical Center is approximately $3.8 billion, averaging approximately $627.6 million per year.

Similar to the analysis provided for Washoe Medical Center, this does not mean that all total admissions at St. Mary's Regional Medical Center spent approximately $3.7 billion on retail sales over the six-year 1999 to 2004 period during their stay at St. Mary's. The analysis presented in Table 29 is an estimate of the total buying power of all total admissions at St. Mary's Regional Medical Center. Because St. Mary's downtown campus services a much larger area than just the City's downtown, those visitors and patients who either visit or are admitted to St. Mary's Regional Medical Center obviously do the majority of their retail shopping in and around the neighborhoods most conveniently located for them.

However, current and future potential retailers and current and future developers and possible retail tenants interested in the City's downtown redevelopment district should take the estimated buying power of visitors and patients at St. Mary's into consideration. For those patients with considerably longer-stays at St. Mary's Regional Medical Center, different mixed-use development opportunities for short-term housing and expanded service retail facilities that could attract new shoppers and temporary residents to the City's urban-core do present themselves with continued expansion and development of the St. Mary's Regional Medical Center.

The completion of St. Mary's recent campus expansion will have an additional positive impact on the expansion of an already strong potential retail base at St. Mary's Regional Medical Center. Using the same multipliers used above to estimate the retail impact of current employees and current admissions at St. Mary's Regional Medical Center, it is possible to estimate the increased retail impact St. Mary's Regional Medical Center expanded facilities will have.

Table 30 – St. Mary's Regional Medical Center Retail Multipliers
Retail Impact of Recent Expansion Efforts
1-Year Estimated Impact

Category	Est. Number of New Employees	Est. Number of New Clients	Total
Total Number	25	1,000	1,025
Estimated Annual Retail Expenditures	$394,600	$32,898,000	$33,292,600

** Source: St. Mary's Regional Medical Center, Public Relations*

At full employment and at full admissions capacity, the one-year estimated retail impact of St. Mary's Regional Medical Center's West Campus expansion efforts is estimated at approximately $33.3 million. This figure represents the total <u>buying power</u> of new employees and new admissions at St. Mary's Regional Medical Center as a direct result of the hospital's recent expansion project.

Using different multipliers provided by the Iowa Hospital Association, it is possible to estimate the net impact St. Mary's Regional Medical Center could potentially have on existing and potential retailers within the City's downtown redevelopment district. With a significant increase in new employees and new visitors and patients either visiting or admitted to St. Mary's, the estimated retail impact is also significantly increased.

Combined with the level of existing employees and existing visitors and patients visiting or admitted to St. Mary's Regional Medical Center, the total impact of St. Mary's Regional Medical Center, post-completion of St. Mary's West Campus expansion project, is impressive.

Table 31 – St. Mary's Regional Medical Center Retail Multipliers
Retail Impact of Employees and Admissions Post-Expansion
1-Year Estimated Impact

Category	Annual Average of Employees/Admissions	Annual Average Retail Expenditure
Estimated Annual Average Current Employee Retail Impact	2,226	$35,135,184
Estimated Annual Average Current Admissions Retail Impact	19,076	$627,562,248
Estimated Annual Average Expansion Employee Retail Impact	25	$394,600
Estimated Annual Average Expansion Admissions Retail Impact	1,000	$32,898,000
Annual Total	**22,327**	**$695,990,032**

The one-year estimated retail impact of both total employees and total admissions at St. Mary's Regional Medical Center post-completion of St. Mary's recent West Campus expansion is estimated at approximately $696.0 million. This figure represents the estimated total retail buying power of both employees and admissions at St. Mary's Regional Medical Center in a one-year time frame.

Without a significant improvement in the City's downtown redevelopment district' existing retail mix, current downtown retailers and potential future downtown retailers will continue to forfeit the advantages of developing a mix of retail that could profit from an estimated annual retail buying power of approximately $696.0 million.

Other Downtown Centers of Employment

In addition to the three principal regional centers adjacent to the City's downtown redevelopment district, the City's urban-core has historically been the center for the region's largest concentration of different employment centers. Primarily, the downtown hotel and casinos, Washoe County, City of Reno and professional employees have long since occupied different areas of the City's downtown redevelopment district.

According to the 2000 Kosmont Report, an examination of the Redevelopment Agency's cost-effectiveness over 17 years of redevelopment activity in the City's urban-core, approximately 17% of Washoe County's total work force was employed within the City's downtown redevelopment district.

Although recent changes in the City's growth patterns has reduced the percentage of Washoe County's total workforce working in the City's downtown redevelopment district to 10.68% by the second quarter of 2003 according to the 2004 Business Activity Report produced by the Nevada Small Business Development Center, the remaining downtown employment centers still represent a significant opportunity for existing and future potential retailers within the City's downtown redevelopment district.

A large concentration of employees within the City's downtown redevelopment district should be considered as a primary component of any future catalytic and transformative retail in-fill project within the existing downtown redevelopment district.

With significant employment levels concentrated in the City's urban-core, retailers that offer before-work service retail opportunities, at-lunch or "break-time" dining opportunities and after-work entertainment, service and recreational retail opportunities can enhance the working environment within the City's urban-core and may spark future professional office and employment opportunities.

Downtown Hotel and Casino Properties

The ten principal downtown hotel and casino properties (Silver Legacy, Eldorado, Circus Circus, Harrah's, Siena, Fitzgerald's, Golden Phoenix, Gold Dust West, Cal-Neva and the Sands Regency) still remain the single largest employment industry within the City's downtown redevelopment district despite recent downturns in gaming revenue and hotel room night stays.

**Table 32 – Principal Downtown Hotel and Casino Properties
Annual Number of All Employees
June 30, 2000 – June 30, 2005**

Year	Silver Legacy	Eldorado	Cal-Neva	Sands Regency	Siena	Harrah's	TOTAL	Percentage Change
2000	2,569	2,407	1,471	764	0	1,838	9,049	
2001	2,473	2,374	1,424	678	800	1,671	9,420	3.94%
2002	2,308	2,165	1,376	619	750	1,859	9,077	-3.78%
2003	2,193	2,056	1,271	618	650	1,753	8,541	-6.28%
2004	2,189	1,979	1,139	638	580	1,638	8,163	-4.63%
2005	2,190	1,920	1,011	652	540	1,758	8,071	-1.14%
Average	2,320	2,150	1,282	662	664	1,753	8,720	-2.38%

* *Source: 2005 Phone Survey*

1 year counted from 6/01/0x to 6/01/0y

At the time of this study, only six of the ten principal properties (Silver Legacy, Eldorado, Cal-Neva, Sands Regency, Siena and Fitzgerald's) were able to provide annual average number of employees for each year over the six-year, 2000 to 2005 period. The Siena did not have any figures for 2000 as it did not open its doors for business until 2001.

Between 2000 and 2005, the six downtown hotel and casino properties listed in Table 32 employed a total of approximately 52,321 individuals, averaging approximately 8,720 total employees per year.

- Between 2000 and 2001, the approximate number of employees in the six studied downtown hotel and casino properties increased by 3.94%, increasing from 9,049 average annual employees in 2000 to 9,420 average annual employees in 2001.

- Between 2001 and 2002, the approximate number of employees in the six studied downtown hotel and casino properties decreased by 3.78%, falling from 9,420 average annual employees in 2001 to 9,077 average annual employees in 2002.

- Between 2002 and 2003, the approximate number of employees in the six studied downtown hotel and casino properties decreased by 6.28%, falling from 9,077 average annual employees in 2002 to 8,541 average annual employees in 2003.

- Between 2003 and 2004, the approximate number of employees in the six studied downtown hotel and casino properties decreased by 4.63%, falling from 8,541 average annual employees in 2003 to 8,163 average annual employees in 2004.

- Between 2004 and 2005, the approximate number of employees in six studied downtown hotel and casino properties decreased by 1.14%, falling from 8,163 average annual employees in 2004 to 8,071 average annual employees in 2005.

Although the current trend has been a general reduction in the workforce of downtown hotel and casino properties, the rate of decline has slowed. Downtown properties may begin increasing the size of their workforce as general industry trends and general economic conditions improve.

Each of the six individually studied downtown hotel and casino properties have experienced general declines in their workforce over the six-year, 2000 to 2005 period. Not surprisingly, the six individually studied downtown hotel and casino properties trended similar reductions in their individual workforces as did the downtown hotel and casino gaming industry's overall workforce. Almost all of the six individually studied downtown hotel and casino properties experienced a period of accelerated decline between 2000 and 2001, followed by a period of further workforce reduction but at a slowed rate of decline.

Table 33 – Principal Downtown Hotel and Casino Properties Annual Rate of Change in Workforce Size June 30, 2000 – June 30, 2005

Year	Silver Legacy	Eldorado	Cal-Neva	Sands Regency	Siena	Harrah's
2000						
2001	-3.88%	-1.39%	-3.30%	-12.68%		-9.99%
2002	-7.15%	-9.65%	-3.49%	-9.53%	-6.67%	10.11%
2003	-5.24%	-5.30%	-8.26%	-0.16%	-15.38%	-6.05%
2004	-0.18%	-3.89%	-11.59%	3.13%	-12.07%	-7.02%
2005	0.05%	-3.07%	-12.66%	2.15%	-7.41%	6.83%
Average	-3.28%	-4.66%	-7.86%	-3.42%	-10.38%	-1.22%

** Source: 2005 Phone Survey*
1 year counted from 6/01/0x to 6/01/0y

All but one of the six studied downtown hotel and casino properties reduced the overall size of their workforce over the entire six-year 2000 to 2005 period at an average annual rate greater than the industry as a whole. Only Harrah's reduced the size of their workforce at an average annual rate less than the rate of total decline for the entire downtown hotel and casino industry.

- Between 2000 and 2005, the Silver Legacy reduced the overall size of its workforce by 3.28% per year.
- Between 2000 and 2005, the Eldorado reduced the overall size of its workforce by 4.66% per year.
- Between 2000 and 2005, the Cal-Neva reduced the overall size of its workforce by 7.86% per year.
- Between 2000 and 2005, the Sands Regency reduced the overall size of its workforce by 3.42% per year.
- Between 2000 and 2005, the Siena reduced the overall size of its workforce by 10.38% per year. Note that the Siena did not open its doors for business until 2001 so no rate of change between 2000 and 2001 is reported.
- Between 2000 and 2005, Harrah's reduced the size of its workforce by 1.22% per year.

The development of a catalytic and transformative "destination retail" in-fill project has a symbiotic relationship with the downtown hotel and casino properties. On one hand, potential retail tenants who become tenants in a multi-block, multiphase "destination retail" project benefit from the high concentration of tourists as well as the high concentration of existing downtown hotel and casino employees.

On the other hand, the existing downtown hotel and casino properties may experience enhanced revenues and business as a result of new "destination retail" which begins to attract new visitors to the City's urban-core. If revenues and business begin to rise steadily for the downtown hotel and casino properties, as a result of a catalytic and transformative retail in-fill project, the major downtown hotel and casino properties may seek to enhance and increase their existing workforce.

This symbiotic relationship eventually becomes a self-reinforcing positive spiral. As retailers attract new visitors to the downtown, the hotel and casino properties experience increased revenue and business and expand their existing workforce. An expanded workforce introduces new potential customers into the downtown, adjacent to the retailer's location, thereby increasing revenue for the existing retailer. The retailer may choose to expand their operation, or more retailers maybe attracted to the City's urban-core, thereby increasing new visitor counts attracted by new "destination retail" outlets. This process is repeated over and over again.

Everything Else

In addition to the downtown hotel and casino properties, the City's redevelopment district is also the center for 10.68% of employment in the greater Reno-Sparks area.

Table 34 – Downtown Redevelopment Employment Redevelopment Project Area No. 1 vs. Greater Reno-Sparks Area Second Quarter, 2003 Averages

Employment Industry	Greater Reno-Sparks Area	Reno Downtown Redevelopment Project Area No. 1	Percentage of Greater Reno-Sparks Area
Entertainment, Accommodation, Food Services	36,533	13,383	36.63%
Government	8,565	1,957	22.85%
Finance, Insurance, Real Estate	10,008	879	8.78%
Information	3,082	254	8.24%
Transportation & Utilities	11,266	850	7.54%
Professional Services	7,807	543	6.96%
Management & Administrative Services	11,903	625	5.25%
Other Services	4,526	154	3.40%
Wholesale Trade	9,337	139	1.49%
Retail Trade	20,659	248	1.20%
Manufacturing	12,579	144	1.14%
Educational, Health & Social Services	31,381	352	1.12%
Construction	15,741	93	0.59%
Agriculture & Forestry	91	0	0.00%
Mining	244	0	0.00%
TOTAL	183,720	19,621	10.68%

* *Source: 2004 Business Activity Report, Reno-Sparks, Washoe County, Nevada, Nevada Small Business Development Center*

As of the Second Quarter in 2003, the City's existing downtown redevelopment district employed an estimated 19,621 individuals. By industry, the Entertainment, Accommodation, Food Services industry was the top employer, employing an estimated 13,383 individuals. Government was the second largest employer, employing an estimated 1,957 employees. Finance, Insurance, Real Estate was the third largest employer, employing an estimated 879 individuals. These three industries represent an estimated 68.27% of all available employment opportunities present in the City's downtown redevelopment district.

Since 1998, the total level of employment within the City's downtown redevelopment district has averaged an estimated 20,364 total jobs per year, decreasing each year by an estimated 1.55%.

Table 35 – Downtown Redevelopment Employment
Annual Change in Employment Levels
1998 through 2003

Employment Industry	1998	1999	2000	2001	2002	2003
Agriculture & Forestry	4	7	6	4	9	0
Construction	112	62	71	67	73	93
Educational, Health & Social Services	0	0	0	0	0	352
Entertainment, Accommodation, Food Services	0	0	0	0	0	13,383
Finance, Insurance, Real Estate	783	752	729	762	754	879
Government	59	1,213	1,226	1,347	1,643	1,957
Information	0	0	0	0	0	254
Management & Administrative Services	0	0	0	0	0	625
Manufacturing	59	45	52	225	146	144
Mining	1	0	3	4	4	0
Other Services	18,051	16,752	16,138	15,570	14,861	154
Professional Services	0	0	0	0	0	543
Retail Trade	897	793	793	960	783	248
Transportation & Utilities	1,053	1,089	1,263	1,172	1,246	850
Wholesale Trade	169	214	202	164	168	139
TOTAL	21,188	20,927	20,483	20,275	19,687	19,621
Percentage Change		-1.25%	-2.17%	-1.03%	-2.99%	-0.34%

** Source: Reno-Sparks, Washoe County, Nevada Business Acitivty Reports, 1999 through 2004*

Comparison by employment industry is difficult due to changes in the employment industry type. For example, between 1998 and 2003, all service based employment opportunities were counted together. In 2003, the Nevada Small Business Development Center separated the category into different categories like Entertainment, Accommodation, Food Services and Management & Administrative Services. However, it is still possible to identify trends in the total level of employment within the City's downtown redevelopment district from year-to-year.

- Between 1998 and 1999, the total number of estimated employees in the City's downtown redevelopment district decreased by 1.25%, falling from 21,188 estimated employees in 1998 to 20,927 estimated employees in 1999.

- Between 1999 and 2000, the total number of estimated employees in the City's downtown redevelopment district decreased by 2.17%, falling from 20,927 estimated employees in 1999 to 20,483 estimated employees in 2000.

- Between 2000 and 2001, the total number of estimated employees in the City's downtown redevelopment district decreased by 1.03%, falling from 20,483 estimated employees in 2000 to 20,275 estimated employees in 2001.

- Between 2001 and 2002, the total number of estimated employees in the City's downtown redevelopment district decreased by 2.99%, falling from 20,275 estimated employees in 2001 to 19,687 estimated employees in 2002.

- Between 2002 and 2003, the total number of estimated employees in the City's downtown redevelopment district decreased by 0.34%, falling from 19,687 estimated employees in 2002 to 19,621 estimated employees in 2002.

Although a considerable amount of people still work within the City's downtown redevelopment district, the total number of estimated employees working within the City's urban-core fell each year over the past six-year, 1998 to 2003 period.

Despite a current trend downwards, the City's downtown redevelopment district is still a large concentration of all employment found throughout the greater Reno-Sparks area.

Table 36 – Downtown Redevelopment Employment
Redevelopment Project Area No. 1 vs. Greater Reno-Sparks Area
1998 through 2003

Year	Greater Reno-Sparks Area	Annual Percentage Change	Reno Downtown Redevelopment Project Area No. 1	Annual Percentage Change	Percentage of Greater Reno-Sparks Area
1998	147,514		21,188		14.35%
1999	190,930	22.69%	20,927	-1.25%	10.96%
2000	168,826	-13.09%	20,483	-2.17%	12.13%
2001	184,936	8.71%	20,275	-1.03%	10.96%
2002	186,618	0.90%	19,687	-2.99%	10.55%
2003	183,720	-1.58%	19,621	-0.34%	10.68%
Average	177,107	3.53%	20,364	-1.55%	11.61%

* Source: *Reno-Sparks, Washoe County, Nevada Business Activity Reports, 1999 through 2004*

Between 1998 and 2003, the total estimated level of all employment in the greater Reno-Sparks area increased at an average annual rate of 3.53%.

averaging an estimated 177,107 total employees per year. In the greater Reno-Sparks area, the estimated total number of employees throughout the greater Reno-Sparks area increased by 19.65%, increasing from 147,614 estimated employees in 1998 to 183,720 estimated employees in 2003.

Over the same six-year, 1998 to 2003 period, the total estimated level of all employment in the City's existing downtown redevelopment district decreased at an average annual rate of 1.55%, as discussed earlier in this section, averaging an estimated 20,364 estimated employees per year. In the City's existing downtown redevelopment district, the estimated total number of employees decreased by 7.99%, falling from 21,188 estimated employees in 1998 to 19,621 estimated employees in 2003.

The City's existing downtown redevelopment district has historically been the region's largest employment center. The high concentration of downtown hotel and casino properties, government offices and large professional office towers has usually meant that the City's urban-core was a principal center of commercial, retail, entertainment and employment activity.

In recent years this trend has reversed somewhat. Since 1998, total employment in the greater Reno-Sparks area has increased while total employment in the City's downtown redevelopment district has declined. On average, the City's downtown redevelopment district has been the location of approximately, on average, 11.61% of total employment in the greater Reno-Sparks area. However, the year-to-year estimate of what percentage of the greater Reno-Sparks area total employment is located in the City's downtown redevelopment district has declined steadily from 1998 to 2003 with only two year-to-year periods of small growth.

- Between 1998 and 1999, the percentage of total employment in the greater Reno-Sparks area located within the City's downtown redevelopment district decreased from 14.35% in 1998 to 10.96% in 1999.

- Between 1999 and 2000, the percentage of total employment in the greater Reno-Sparks area located within the City's downtown redevelopment district increased slightly from 10.96% in 1999 to 12.13% in 2000.

- Between 2000 and 2001, the percentage of total employment in the greater Reno-Sparks area located within the City's downtown redevelopment district decreased from 12.13% in 2000 to 10.96% in 2001.

- Between 2001 and 2002, the percentage of total employment in the greater Reno-Sparks area located within the City's downtown redevelopment district decreased from 10.96% in 2001 to 10.55% in 2002.

- Between 2002 and 2003, the percentage of total employment in the greater Reno-Sparks area located within the City's downtown redevelopment district increased slightly from 10.55% in 2002 to 10.68% in 2003.

Although the six-year, 1998 to 2003, trend in the percentage of total employment in the greater Reno-Sparks area located within the City's downtown redevelopment district has been declining, recent developments throughout the City's downtown redevelopment district may begin to reverse this downwards trend. The development of facilities like the recently completed Reno Events Center, the consolidation of City of Reno offices at the new Reno City Hall located on the corner of 1st and Virginia streets and the recent expansion of the Washoe County courts complex including the Mills Lane Municipal Justice Center may begin to reverse this downwards trend.

The development of professional government offices typically generates additional development of new professional private offices. For example, the development of the World Trade Center was unsuccessful until the Port Authority of New York New Jersey occupied much of the top floors in one of the two towers. After government offices were established, private offices began to fill. In Reno, the development of the Mills Lane Municipal Justice Center may entice private attorneys to relocate their offices in office space near and adjacent to the new court complex.

Other developments, like the recent wave of announced and underway downtown condominium projects may also increase the level of employment in the City's downtown redevelopment district at a rate faster than the growth in employment found in the greater Reno-Sparks area. As more and more people begin to inhabit the downtown seeking a pedestrian oriented, urban environment, they may seek to relocate their offices or move into positions at work in the City's downtown redevelopment district.

If recent developments throughout the City's downtown redevelopment district continue to be successful, more and more employment opportunities will begin to develop as well. The combination of increased tourism and residents should successfully create additional demand for additional employment opportunities and as new employment opportunities begin to develop, an increase demand for new and expanded retail opportunities should follow as well.

4 – Barriers to In-Fill Development

Introduction

Any in-fill development project within an urban environment faces a unique set of barriers that act to prevent private market forces from developing property without public assistance. One primary goal of redevelopment is to "push" market forces beyond normal market conditions to a "higher and better" use.

Any redevelopment project, regardless of the scope, must consider the unique barriers to in-fill development before a comprehensive in-fill development strategy can be formed. For the City of Reno, a unique set of different in-fill development barriers exist. This chapter examines those barriers preventing private market development of the City's urban retail environment and what role the Redevelopment Agency can play in overcoming them.

Identifying Reno's In-Fill Development Barriers

Seven individual barriers to future retail, mixed-use oriented development were identified through the course of this study.

1. Blight
2. Land Owners – Fragmented Ownership Pattern
3. Existing and Future Tenants
4. Parking
5. Information
6. Uniqueness of Reno
7. Northern Nevada's Housing Price Bubble

Each of the seven individual barriers independent of each other present a unique challenge to the Redevelopment Agency in regards to developing a catalytic retail oriented mixed-use in-fill development project. Combined, these seven barriers to future retail, mixed-use oriented development presents a significant challenge the Agency must first be aware of, communicate effectively to potential developers and take steps to minimize the impact they have on potential in-fill development projects within the City's urban-core.

Blight

In many cases, just the existence of a redevelopment district, with specific findings of historical and existing blighting characteristics, may deter potential developers from investing in an urban environment. Many developers seek investment opportunities in areas that are clean, safe and present the developer with the greatest return on their investment. Profitability on any development project is a combination of reducing costs, enhancing selling points and a reasonable guarantee that their investment will not be ruined by undesirable activity like vandalism and graffiti.

By definition, redevelopment districts are not clean, they are not safe, they are not pedestrian oriented and they present developers, without public assistance, with no real certainty of a profitable return on their investment. Only after considerable public investment can a redevelopment district demonstrate market conditions best suited to entice private developers to develop new projects without public assistance.

Even if the developer is able to complete a retail development project within a redevelopment district, the developer will often find it difficult to attract new retailers to his/her development. Studies have indicated that commercial insurance companies charge, on average, three times the insurance rate for commercial businesses located within a redevelopment district than similar commercial businesses located outside a redevelopment district. The perception often is that redevelopment districts have disproportionately higher rates of crime, vandalism and undesirable activities that artificially increase the cost of doing business in a redevelopment district.

Although insurance rates are a primary cost potential retail tenants must consider when entering a redevelopment district's retail market, other costs may deter many retailers to choose not to locate their business within the redevelopment district. Redevelopment districts typically have lower population density levels, lower median and aggregate incomes, declining or flat visitor counts and low automobile and pedestrian counts. These factors, all of which currently exist within the City's current downtown redevelopment district, act as an additional barrier to future retail oriented mixed-use development throughout the City's urban-core.

Just the very presence of different blighting conditions will often deter both future developers and future retailers from participating in a catalytic retail in-fill development project within the City's urban-core. Without a perceived improvement along different blighting concerns, developers and retailers both will continue to overlook the long-term potential of the City's downtown redevelopment district.

Land Owners

After deciding on a project, many developers are confronted with the existence of several land owners who own property located within the new developments path. The basic concept of "redevelopment" is to development land that has already been developed in a way that no longer makes viable economic sense.

In a redevelopment district, like the City's own downtown redevelopment district, the land targeted for a new in-fill project was likely the location of a business, factory, warehouse, motel/hotel, gas station or other project that has already failed at that location. The existing structure(s) quickly become run-down and dilapidated and existing owners find it unprofitable to reinvest in their existing property.

The potential problem of existing land owners is compounded by the fact that parcel size within a city's urban-core, like the City of Reno, are significantly smaller than parcels located along the municipalities fringes. It is often the case that it outlying areas of a municipality, one property owner may own several hundred acres but only own one or two total parcels. In an urban environment, like the City's downtown redevelopment district, hundreds of property owners may share ownership of the same amount of land but because larger parcels have already been subdivided several times, the total number of land owners exponentially increases. This compounds the problem of land assembly for both the Redevelopment Agency as well as potential developers.

In the 2001 Journal of Property Research, Adams, Disberry, Hutchinson and Munjoma in their article "Urban Redevelopment: Contextual Influences and Landowner Behavior" classified existing urban land owners into two categories: (1) Active land owners and (2) Passive land owners.

Active land owners make every effort to maximize the utility of land ownership by developing the land themselves, entering into joint partnerships or offering their land to other developers. Active land owners react accordingly to favorable market conditions. Given a realistic market value for their property, active land owners will seek to profit from their investment quickly and then seek other investment opportunities elsewhere.

Passive land owners are the exact opposite of active land owners. Passive land owners neither attempt to develop their land or make it available to others for future development. Passive land owners are unwilling to react to existing market conditions for the anticipation of an even higher return. This behavior, what Chairman of the Federal Reserve called "irrational exuberance", compels the passive land owners to miserly hold onto their property because they truly believe the value of their property will always increase.

If a developer or public entity offers them market value, the passive land owner will ask for twice the market value. If a developer or public entity offers twice the market value, the passive land owner will ask for three times the market value. No matter what offer a developer or public entity offers, the passive land owner will regularly refuse to sell hoping for an exponentially higher selling price. Adams, Disberry, Hutchinson and Munjoma insist however, that the passive land owner is not irrational. Instead the passive land owner is behaving to market forces insisting on a higher and higher price as demand for their property increases. Unfortunately, the passive land owner will often price themselves out of the market and stall potential in-fill development.

The City's own redevelopment district has a mix of both active and passive land owners. Current developers and owners of projects like Palladio, Riverwalk-Comstock and even some of the larger downtown hotel and casino properties are active land owners. Routinely, these developers and land owners have sought to increase the value of their property through extensive new construction, expansion and/or remodeling. These active land owners see long-term profit potential through continued rejuvenation of their property.

Although many active land owners exist within the City's downtown redevelopment district, many passive land owners also exist. The prevalence of existing surface parking lots, vacant lots and the presence of many fully depreciated 28-day motels and retail buildings are systematic examples of passive land owners. Why invest in my property today when I can sell it tomorrow for a higher price? Many of the existing passive land owners within the City's downtown redevelopment district refuse to enhance their properties and, unwittingly, devalue the value of their initial investment.

Existing and Future Tenants

Assuming a developer successfully completes an in-fill project without public assistance, the developer will seek to transfer the high costs of in-fill development to future tenants through higher rental and leasing rates. Unfortunately, many retailers will opt for locations where rental and leasing rates are not kept artificially high due to the inflated developer costs of developing projects within a municipality's urban-core.

Eventually, the developer will either be unable to attract tenants or charge the higher rental and leasing rates. Either way the development may fail or the developer will lose their initial investment. Initial development failures tend to discourage other developers from engaging in a particular market. After a series of set-backs, the redevelopment effort will likely fail.

The Urban Land Institute's 2003 publication, "Ten Principles for Rebuilding Neighborhood Retail", argues that today's modern retail shopper demands low prices, convenience and the latest goods and services. The consumer demand for these characteristics has lead to the development of big-box chain stores, increasingly larger shopping malls, catalogs and Internet retailers where the retailers operating costs are significantly lower that the retailer located within the urban-core.

Retailers in the urban-core compete not only with neighboring retailers, but the big-box chain stores, larger shopping malls, catalogs and the Internet. However, the urban retailer faces significantly higher operating costs than its competitors making successful retail development less feasible. In a competitive market, retailers have no power over prices. Instead, urban retailers are price takers. Because urban retailer are price takers, they are unable to absorb higher rental and lease rates and will often fail or avoid an urban-core altogether.

Parking

Any successful redevelopment effort within an urban environment will create a parking problem. Increased economic activity is usually dependent upon increased traffic into and throughout a redevelopment district like the City's current redevelopment district. Unfortunately, the high cost of constructing new parking facilities and the relatively low availability of land within an urban environment tends to constitute a significant parking problem in any urban revitalization plans.

For urban retail revitalization, the problem of adequate parking can never be fully underappreciated. Retailers in an urban environment require a more pedestrian-oriented and pedestrian-friendly environment in order to survive. Convenient parking near urban retail districts is a precursor for any successful urban retail revitalization effort.

However, developing parking structures, which may cost eight to nine times the cost of developing surface parking lots according to a study conducted by the California Redevelopment Association in 2001, in anticipation of new retail is a significant short-term cost that could potentially "bankrupt" the initial urban retail revitalization. A delicate balance between current financial needs and future parking needs must be struck in order to ensure a successful urban retail revitalization project.

The problem and potential barrier to in-fill development of parking becomes increasingly complicated when urban retail in-fill projects are compared to typical suburban shopping centers. The majority of shoppers today, especially in the Reno-Sparks area, have become accustomed to suburban-style shopping centers. These suburban-style shopping centers are characterized by large surface parking lots, regularly patrolled by private security and typically offer more parking spaces than the existing retailer will ever need. By creating more parking spaces in front of their stores, suburban retailers guarantee the customer a parking space closely located in front of the retailers store.

Unlike the suburban-styled shopping centers of today, tomorrow's urban retail districts face parking problems not easily solved with the development of large surface parking lots. Land prices, combined with strict land constraints, make a "sea of surface parking" highly inefficient and costly. Land owners forgo significantly higher rental incomes by paving their properties in lieu of developing their property to the highest and best economic use possible. Existing parking conditions in the City of Reno's downtown redevelopment district compounds this problem considering the high amount of surface parking already available in the City's downtown redevelopment district.

Table 37 – Existing Available Parking in Downtown Reno Area North of the Truckee River

Location	Total Number of Parking Spaces
St. Mary's Regional Medical Center	2,140
Circus Circus	3,318
Silver Legacy	2,000
Eldorado	656
Fitzgerald's	833
National Bowling Stadium	299
Golden Phoenix	440
Harrah's	1,000
Cal-Neva	1,200
Harrah's Parking Tower	1,500
Parking Gallery	636
TOTAL	**14,022**

** Source: 2005 Phone Survey*

Within the City's downtown redevelopment district, just north of the Truckee River, there exists approximately 14,000 parking spaces in covered garages either along or just one to two blocks from Virginia Street.

If the total amount of parking spaces in surface parking lots just north of the Truckee River were also included, there would be almost 25,000 parking spaces within the City's urban-core. With so much of the parking free, future developers have no financial incentive to build additional parking structures.

Although existing potential consumers demand free, convenient and adequate parking in almost adjacent proximity to their desired retail destination, it is difficult for existing or future developers to build new parking in the City's urban-core where so much parking already exists.

The double-edged sword presents key stakeholders and the Reno Redevelopment District with a two-fold problem. First, retailers will be unwilling to invest in the City's downtown redevelopment district unless the City and the Redevelopment Agency can demonstrate that the parking needs of potential customers will be solved. After all, it is unlikely that new furniture stores will be likely to enter the downtown retail market unless potential customers can easily load their trucks and vans with their newly purchased furniture.

Second, the Agency will be unable to provide adequate parking unless some return on investment for future developers of new strategically placed parking structures can be provided. The construction of one, 500 to 600 parking space garage can cost between $10 million and $15 million to build. Simple rental income on ground floor retail is insufficient to trigger private development of new parking structures throughout the downtown redevelopment district.

Information

Any investment is based upon the investor's ability to properly evaluate and capitalize on their individual risk vs. reward ratio. Typically, the investor willing to assumer greater the risk is given a greater reward. Retailers, especially in urban environments like the City's existing downtown redevelopment district also face greater rewards but greater risks.

However, it is relatively unclear for new developers and new retailers within an urban environment to adequately estimate and calculate the risk to reward ratio in an urban environment. Many times, retailers and developers know that it is riskier to invest in projects within redevelopment districts but are unsure about how large a return they can expect on their investment.

Information on past, present and future economic trends is the single most important resource future investors, either developers or retailers, can have. Good information on the risk to reward ratio of a proposed in-fill retail development project or the risk to reward ratio of a proposed in-fill retail store is the gateway to adequate and affordable financing, marketing and merchandising. Without good information, lenders, suppliers and contractors will often seek other projects to invest in where the risk to reward ratio can be better calculated.

In the 2003 edition of the Journal of Property Research, a comprehensive examination of urban regeneration policies and property investment performances, primarily within redevelopment districts, was presented as a means of determining why certain investors are reluctant to engage in in-fill development. The research in the 2003 Journal of Property Research determined that the lack of available information on relevant market conditions, primarily within a redevelopment district is so low that new investment is often discouraged.

The lack of information within a redevelopment district is attributed primarily to the relatively small number of financial and investment transactions within the redevelopment district. Without an adequate history of financial and investment transactions, developers and retailers alike find themselves unable to calculate exact risk to benefit ratios and will often be disinclined to engage in in-fill retail development projects.

The City of Reno's downtown redevelopment district is not unique to other redevelopment districts across the United States in-terms of the availability of relevant information. In many cases where a City grows as quickly as Reno and Sparks, it becomes impractical and almost impossible to continually update existing market studies. At best, the Redevelopment Agency has been able to plot historical trends in population growth, income growth, retail growth as well as previous investments.

Without a central store of relevant economic information, the Redevelopment Agency and the City of Reno will find it increasingly difficult to attract a developer to develop a catalytic and transformative retail in-fill project. Even if the Agency were to successfully contract with a developer, the Agency may find it even more difficult to attract new retailers to help augment existing levels of economic activity within the current downtown redevelopment district.

Uniqueness of Reno

Although many of the barriers to potential in-fill retail development outlined above are fairly applicable to most urban-cores and redevelopment districts, the unique physical, social and economic characteristics of Reno and the City's downtown redevelopment district make future in-fill retail development difficult for the private sector to handle on its own.

Unlike many redevelopment districts throughout the United States, the City's downtown redevelopment district was already a center for commercial activity. The unique complexity of Reno's urban-core, consisting of two regional hospitals, a four-year university, a major interstate highway/freeway, a river, a commercial and passenger railway and a high concentration of hotel and casino properties along the central arterial of the City's downtown makes future retail in-fill development increasingly complex and costly.

Additionally, the City's existing downtown redevelopment district is full of complex paradoxes and oddities. Close examination of the downtown's central arterial corridor, consisting of Virginia Street running north and south, Sierra Street running south and Center Street running north, the "island of investment" primarily along the west side of Virginia Street is surrounded by an "ocean of disinvestment". Weekly motels, pawn shops, convenience stores and liquor stores dominant the downtown's landscape. The acquisition of these properties, needed to jump-start a catalytic and transformative retail in-fill development project throughout the downtown, is made more difficult by the economic realities of these existing businesses and property owners. With these structures now or nearly fully depreciated, rental income collected by the existing property owners is almost all profit. Convincing these owners to either sell their property to a new developer or participate in a new project is increasingly difficult when existing profit margins are so large.

Even though times are changing, the history of downtown also creates unique barriers to potential street-level retail in-fill development. Historically, the City's downtown urban-core had been dominated by the presence of large politically and economically influential hotel and casino properties. For new developers not acquainted with Reno's unique history, developers are confronted with a steep learning curve. For example, the way in which many of the downtown hotel and casino properties were designed was meant to "trap" visitors within the physical confines of the casino. As larger resorts grew, these hotel and casino properties began to monopolize the downtown's retail base providing sundry gift-shops, restaurants and other retail outlets to their guests without the visitor ever having to leave the casino property.

Only in recent years has this trend started to reverse itself. The development of new retail and residential mixed-use projects along the Truckee River have offered visitors to the downtown unique shopping and dinning opportunities without having to visit one of the many downtown hotel and casino properties. The recent wave of hotel casino to condominium conversion projects is further evidence that the once "all powerful" downtown hotel and casino properties have begun to loose their market share of downtown commercial, retail and visitor activity. This does not, however, mean that the downtown hotel and casino property owners are without influence. The City's and Agency's commitment to building the National Bowling Stadium and the recently opened Reno Events Center are specifically designed to enhance downtown hotel room occupancies and downtown casino gaming wins. The proposed Reno Ballroom will help complete a decade-old commitment from the City and the Agency to enhance overall downtown hotel and casino market penetration.

Furthermore, casino executives do not believe in "economies of agglomeration". Instead, casino executives throughout the Reno-Sparks area have focused solely on economies of scale, assuming that growth in their own properties can shift additional visitor dollars away from other spending opportunities and increase the hotel and casino's own financial win. Downtown Reno is unmistakably changing in ways the existing downtown hotel and casino property owners might never have once considered. Instead of focusing on economies of scale, a refocus on "economies of agglomeration", similar to the concept that a "rising tide raises all boats", emphasizes collaboration and cooperation among many different property owners to enhance the economic vitality of a larger geographic region, beyond the physical limitation of only one business.

Little historical cooperation among the major downtown and surrounding area property owners also inhibits potential catalytic and transformative retail in-fill development throughout the City's downtown redevelopment district. Many of the major property owners in and around the downtown have been content to develop property on their own, without much consideration of how their own development affects the development of other properties around them. The University of Nevada, Reno has historically developed to the north and north-east of the City' downtown without any significant investment south of Interstate 80. The downtown hotel and casino properties continue to focus on their properties without branching their operations outwards to other parts of the downtown. Both St. Mary's Regional Medical Center and Washoe Medical Center have grown apart and not towards further integration with the downtown. The "campus" concept of development, used historically by the University, both regional medical centers and the downtown hotel and casino properties, is designed to segregate themselves from other parts of the downtown.

Larger developers and larger retailers, who would be interested and more geared toward large-scale, whole-block to multi-block in-fill development, also face a perplexing "chicken or the egg" dilemma. In suburban oriented development, small, locally owned and operated retailers often follow the large developers and large retailers. Strip-malls, the most common form of suburban oriented development, are built primarily to support one or two major anchors. After the larger anchor retailers have taken possession of the space, the smaller units begin to fill in with locally owned and operated retailers.

In urban environments, especially those that are redevelopment districts like the City's downtown urban-core, larger developers and larger retailers will often wait to open new anchor locations until population density levels increase substantially enough to comfortably support their business.

This often means that smaller, locally owned and operated businesses, are the first retailers to open new stores in a redevelopment district. Unfortunately, those smaller, locally owned and operated businesses that first enter a downtown urban retail environment do not have the same advantage as their counterparts closer to major anchors in suburban oriented retail centers. The locally owned and operated retailers that first enter a downtown redevelopment district, especially one like the City' existing redevelopment district, are left to face the market almost completely alone without the added support of an anchor retailer attracting potential shoppers to the adjacent area. As has been the case in the City's own existing redevelopment district, many smaller, locally owned and operated retailers will ultimately fail within the first year of their operation.

Northern Nevada's Housing Price Bubble

Since 2000, the City of Reno, and most of Northern Nevada, has experienced a boom in its housing real-estate market. As more and more people continue to move to the City and the area, developers have found it almost impossible to keep up with the inflated demand for new houses and existing home owners have seen the value of their homes increase exponentially due to the recent migratory wave of people moving into the Truckee Meadows.

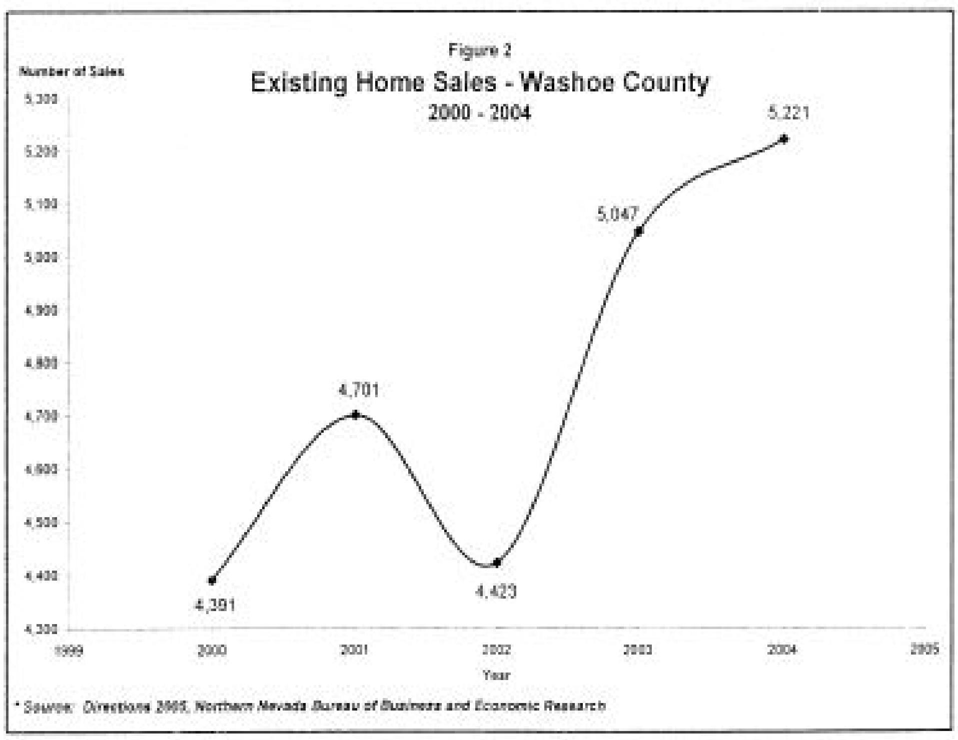


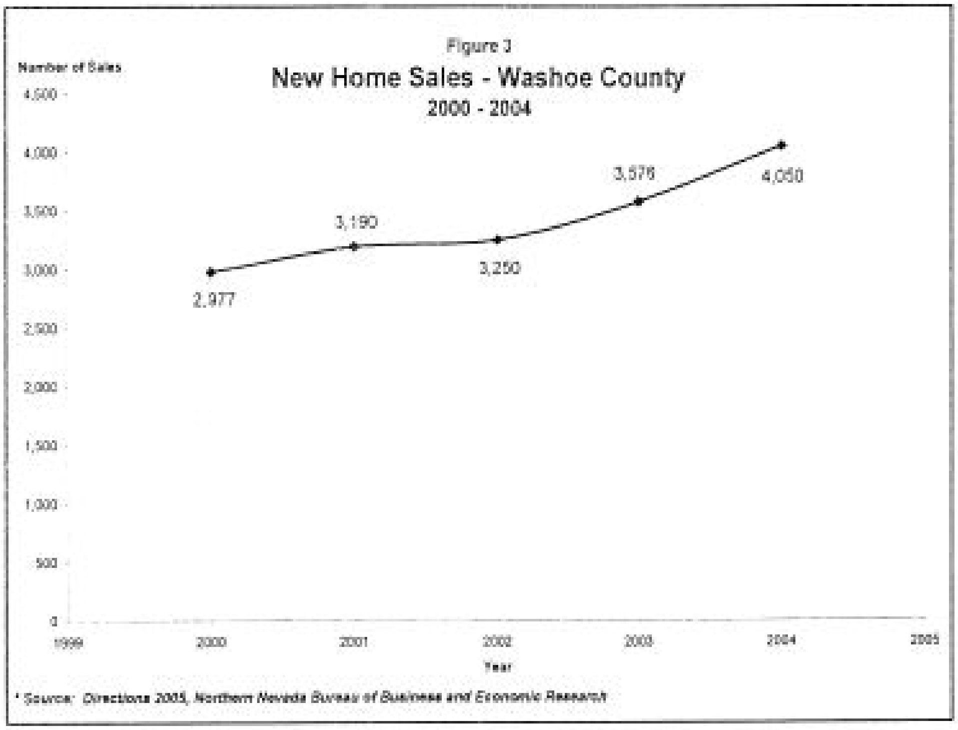
Figure 2
Existing Home Sales - Washoe County
2000 - 2004

* Source: *Directions 2005, Northern Nevada Bureau of Business and Economic Research*

Between 2000 and 2004, the total number of existing home sales for Washoe County increased from 4,391 total annual existing home sales in 2000 to 5,221 total annual existing home sales in 2004, an increase of

15.90% or 830 total annual existing home sales. On average, the total number of annual existing home sales increased by 4.00% per year. In no other period have annual existing home sales in Washoe County grown so high or so quickly.

Although existing home sales have grown at a record pace, the number of annual new home sales has grown even faster over the same period as housing developers try to keep pace with a growing demand for new housing units throughout Washoe County.

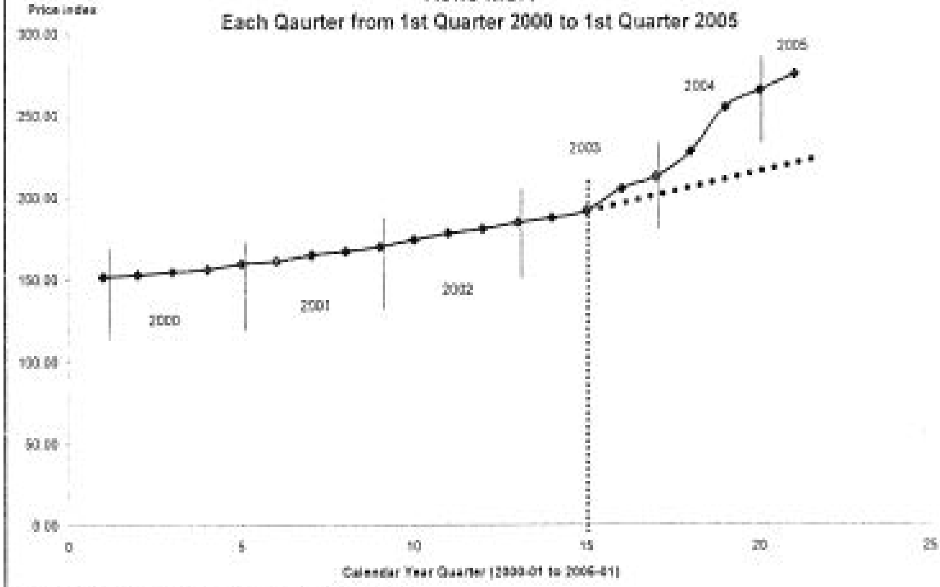


Between 2000 and 2004, the total number of new home sales for Washoe County increased from 2,977 total annual new home sales in 2000 to 4,050 total annual new home sales in 2004, an increase of 26.49% or 1,073 total annual new home sales. On average, the total number of annual new home sales increased by 7.34% per year. In no other period have annual new home sales in Washoe County grown so high or so quickly.

Although increased demand for existing and new housing units and an enhanced residential population can lead to positive gains in economic diversity, increased property and sales tax revenue, increased employment opportunity and increased retail and entertainment opportunities, the high demand for existing and new housing units also has a negative side.

When demand for any good or service, like existing and new housing units, outpaces supply, prices become inflated beyond traditional and historical trends in the market. Although this in and of itself is not necessarily a negative event, the "irrational exuberance" it generates often can have disastrous and long-lasting negative impacts on the market not only for housing, but other related goods and services as well.

Figure 4
Freddie Mac's Conventional Mortgage Home Price Index (CMHPI) - Reno MSA
Each Qaurter from 1st Quarter 2000 to 1st Quarter 2005



* Source: http://www.freddiemac.com/finance/cmhpi/#new

As the above figure presents, since the third quarter in 2003, Freddie Mac's Conventional Mortgage Home Price Index (CMHPI) for the Reno, NV MSA has significantly deviated well above the three and a half year trend in home prices represented by the large dotted line extending from the third quarter of 2003 to the first quarter of 2005.

Between the first quarter of 2000 and the first quarter of 2005, Freddie Mac's CMHPI increased by 123.03 index points, growing at an average annual rate of 2.89%. Freddie Mac's CMHPI increased from 151.81 index points in the first quarter of 2000 to 274.84 index points by the first quarter of 2005, a total growth of 44.76%.

But much of this period is characterized by stable growth in the Freddie Mac CMHPI. Between the first quarter of 2000 and the third quarter of 2003, the CMHPI for the Reno, NV MSA grew at a stable, predictable rate. Since the third quarter of 2003 however, the CMHPI for the Reno, NV MSA has not grown at either a stable or predictable rate.

The growth in the Reno, NV MSA CMHPI between the third quarter in 2003 and the first quarter in 2005 accounts for nearly two-thirds of all growth between 2000 and 2005. Over this relatively short period, the CMHPI grew by 82.67 index points, at an average annual rate of 5.26%. In all, the CMHPI between the third quarter in 2003 and the first quarter in 2005 grew by 43.02%. Compared with the entire 2000 to 2005 period, the later half of data represents a significant deviation from the overall the trend in the housing price index for the Reno, NV MSA. This significant deviation represents a clear and present "bubble" in housing prices throughout the Reno area.

Inflationary price bubbles in any market, but especially housing, can trigger far reaching declines in other areas of a localized economy. For the City of Reno, the fact that housing and real-estate is now a primary industry, a sharp and sever decline in housing and real-estate prices when the "bubble bursts", and all bubbles eventually burst, can trigger a series of economic downturns in other areas of a regional economy.

If housing prices fall quickly enough and severely enough, the construction industry for Reno, that has recently enjoyed higher profits and market expansion, could be forced to slow construction operations and reduce the overall work force. For the City's downtown redevelopment district, this downturn could mean two things. First, those potential developers interested in developing a catalytic and transformative retail project in the City's urban-core could be inclined to delay or altogether scrap any investment project. Second, a transformative and catalytic downtown retail in-fill development will be dependent on a growing population with higher disposable income levels. A downturn in construction, combined with the "economic ripples" it would create, could artificially depress population and tourism counts in the area and depress disposable income levels.

As the housing real-estate bubble continues to grow over time, it may become increasingly difficult to find developers and potential retail tenants for a downtown catalytic and transformative retail project. Many potential investors, as well as existing stakeholders within the City's urban-core, may become unwilling to risk their capital on projects that may be negatively impacted by a swelling housing real-estate bubble.

Remedies for Reno's In-Fill Development Barriers

Up to this point, the focus of this chapter has been the barriers that may prohibit the Redevelopment Agency from engaging in and completing a catalytic and transformative retail in-fill development project within the City's downtown redevelopment district. Seven individual barriers preventing retail in-fill development projects (Blight, Land Owners, Tenants, Parking, Information, Uniqueness of Reno and Northern Nevada's Housing Price Bubble) within the City's urban-core act as physical, financial and even psychological restrictions on new development projects.

To overcome these seven barriers to catalytic and transformative retail in-fill development within the City's urban-core, the Redevelopment Agency has several unique and highly specialized tools and resources. Although many different remedies to the barriers of in-fill development exist, the unique characteristics and history of the City of Reno makes five remedies more appealing than others. Those five remedies to the barriers of in-fill development are:

1. Land Assembly
2. Catalytic Projects
3. STAR Bonds
4. Permit Acceleration
5. Leveraging of State and Federal Housing Funds

When combined and used strategically, these five different remedies offer the Redevelopment Agency the opportunity to overcome the seven individual barriers to in-fill development listed above.

Land Assembly

In many ways, the Redevelopment Agency can act as a "go-between", helping developers negotiate the purchase price of occupied land, demolish existing structures and providing environmental clean-up relief from PCE's, asbestos and other contaminants typically found in many urban cities. Without doubt, the Redevelopment Agency's ability to acquire and assemble small plots of land into larger developable tracks of land is one of the Agency's greatest tools of combating and fighting continued blight.

Even the Agency's ability to acquire aging and obsolescent structures without fully demolishing a structure can significantly enhance the opportunity for new developers to complete large-scale catalytic and transformative projects. In the Agency's own history, the acquisition of the former Riverside Hotel and the Agency's further investment into converting an aging and vacated structure into ground floor retail and above ground floor lofts and apartments has made projects like BCN's Palladio and Chambolle projects feasible.

However, even land assembly can be a costly and time consuming process. First, to assemble enough developable land for a new catalytic and transformative retail in-fill development project, the Agency will have to acquire many fragmented pieces of land for the development of any project. Paying above market prices to active existing landowners for their land, paying above market prices to speculative landowners who view their land as potential investment income or even the use of eminent domain with passive existing landowners are three of the primary tools the Agency can employ when assembling land within the City's downtown redevelopment district.

Because eminent domain has recently become a socially and politically "taboo" method, the Agency will likely be required to pay above market prices to both active and passive landowners within the downtown redevelopment district as well as any existing speculative landowners currently present. Although the Agency may eventually spend more for many smaller plots of land, the return on investment from a new catalytic and transformative retail in-fill development project (primarily through enhanced incremental property tax revenue) should be significantly higher than any price the Agency will eventually pay.

After assembling the required amount of land, the Agency will most likely engage in demolition and abatement efforts in order to make previously developed land re-developable. Typically, existing structures that have reached the end of their state-mandated 50-year depreciation schedule and are dilapidated and obsolescent, require a larger investment to restore and made usable for today's modern retailer than it would cost to demolish and sell to a new developer who would likely build a larger, modern facility that can accommodate many uses and the needs of modern retailers.

Through land assembly, demolition of existing dilapidated, aged and obsolescent structures is useful for two reasons. First, a vacant lot is more attractive to a potential developer than an occupied lot with dilapidated, aged and obsolescent structures that artificially increase the cost of development. Through demolition, the Agency can significantly close the "financing gap" that exists in in-fill development projects.

Second, a vacant lot imposes fewer and lower negative externalities on adjacent property owners. Although vacant lots do tend to diminish the market and resale value of adjacent properties, vacant lots typically do not have as high a frequency for crime, fire risks and even lower property values than lots containing a vacant and dilapidated structure. Eventually, the newly created vacant lot, through the Agency's efforts in demolition of existing vacant structures will quickly invite a new developer to develop a project that will enhance the value of all properties adjacent to it.

Catalytic Projects

The success of a redevelopment district, like the City's own existing downtown redevelopment district, is often determined by the successful partnering of both public entities, like the City and the Redevelopment Agency, and private entrepreneurs, investors, developers and property owners. Typically, private developers are unwilling or unable to develop significant projects in redevelopment districts without the assistance of a public entity. The "financing gap" that exists in redevelopment projects is simply too large for the private sector to overcome alone.

More often than not, it takes several years and several tens (if not millions) of public dollars in a redevelopment district to enhance the investment climate of a redevelopment district. When public entities, like the Reno

Redevelopment Agency, invest in catalytic projects and attract a new private developer, other private developers will eventually follow.

The Reno Redevelopment Agency has a long history of successful and transformative catalytic projects within the City's urban-core. The Agency's investment in the National Bowling Stadium triggered approximately $500 million in new private investment in building the Silver Legacy, Harrah's East Tower and the Eldorado's expansion. Along the Truckee River, the Agency's long investment commitment in projects like the Parking Gallery, the Century Riverside Theater and the Truckee Riverwalk lead to the successful public-private partnership that is building the Palladio and Chambolle condominium projects. These catalytic projects along the Truckee River have sparked a wave of private investment which is transforming much of the City's downtown into a very high-end residential neighborhood.

Although the Redevelopment Agency has only improved a small percentage of the total land available within the City's downtown redevelopment district, the Agency's strategic use of scarce financial resources in strategically placed catalytic projects has triggered a wave of new private investment that, in short time, will help transform the entire downtown area. As a result of the Agency's efforts in creating transformative and catalytic projects, the overall level of economic activity has increased. New employment opportunities, increased business license fees, new sales tax revenue and increased property values area all the result of a handful of catalytic projects undertaken by the Redevelopment Agency in its earlier years.

Despite the apparent advantages of the Agency's previous catalytic projects, and the catalytic projects undertaken by hundreds of other redevelopment agencies across the United States, it becomes increasingly difficult to overestimate the power of catalytic projects within a redevelopment district. The high cost of implementing a catalytic and transformative project must be paid up front before the development is even begun and the benefits from the increased economic activity are not always as quick to be realized as any market requires some time to absorb new elements. A catalytic and transformative retail in-fill development along the City's primary downtown arterial corridors would introduce thousands if not millions of new square feet of available office, retail and residential space that the market would have to adjust to.

What is clear is the immediate impact a public entities commitment to a catalytic project can have on a city's urban-core. Even one catalytic project in a strategic location can signify to the private sector that the climate of disinvestment that existed within an urban environment has now changed to a climate of investment. Although the private sector may be cautious in committing to new projects quickly, eventually the public sectors ability to reverse downturns in investment conditions through the use of catalytic projects often makes private developers more willing to invest back into a city's urban-core.

STAR Bonds

A recent addition to the remedies public entities in the State of Nevada have to combat blight and continued urban erosion in the commercial and retail activity of their respected urban-cores is the use of Sales Tax Anticipated Revenue bonds or STAR bonds. Passed by the Nevada State Legislature in 2003, STAR bonds enable public entities to assist developers in large-scale commercial and retail development projects.

The use of STAR bonds allow the public entity to bond up to 75% of anticipated sales tax revenues a new commercial and retail project will generate to cover the usually high costs of needed infrastructure improvements. Within urban centers, like the City's own downtown redevelopment district, the costs associated with infrastructure improvements (roads, sidewalks, streetscaping, utilities, sewers, etc.) can be upwards of ten to fifteen times greater than developing these projects in previously undisturbed and undeveloped land around and along the City's periphery.

To qualify for STAR bonds, the developer of a new large-scale retail and commercial project must satisfy the requirement that the new retail and commercial project will bring new retailers, previously not in the area, to the development and be accompanied by a measurable and significant increase in new tourism dollars. The concept of "destination retail" is widely supported throughout the national retail industry and STAR bonds are designed specifically to support a "destination retail" project. Non-Nevadan tourists must be a significant component of the new sales tax revenues generated from a new retail and commercial development project in order to qualify for STAR bond financing.

In the City of Reno, the use of STAR bond financing has been proposed as a method of funding new infrastructure improvements near Boomtown Hotel and Casino, the proposed location for a possible future Cabela's 150,000 square foot destination outdoorsman outfitter. The proposed Cabela's project is anticipated to draw approximately 4 million new visitors from outside Nevada to Reno and Northern Nevada with an anticipated annual economic impact well over $500 million to $750 million annually in total taxable retail sales and other related expenses.

Even the City of Sparks is considering the use of STAR bond financing in its current redevelopment district. The Sparks Marina, part of the City of Sparks Redevelopment Project Area No. 2 is currently working with RED Development to create a destination retail center. The City of Sparks and the Sparks Redevelopment Agency hopes that the use of STAR bond financing will help RED Development create a destination retail center aimed at attracting new retailers not currently present in Sparks and significantly increase the total number of visitors and tourists who visit Sparks annually.

In the City's own downtown redevelopment district, enhancing the tourism driven economy has always been a primary goal of the Reno Redevelopment Agency. Agency projects like the National Bowling Stadium and the recently completed Reno Events Center were funded primarily through the use of hotel-room tax revenue and designed to enhance hotel room occupancies and casino gaming wins in downtown hotel and casino properties. The use of hotel room tax bonds were used as the primary funding source for these projects and will likely be used as the primary funding source for the proposed Reno Ballroom, a facility being designed specifically to encourage and enhance mid-week hotel room occupancies in downtown hotel and casino properties.

As has already been mentioned, and will become a larger part of the policy recommendations outlined latter in this report, the trend in tourism in Northern Nevada tourists is away from gambling and towards shopping. The employment of STAR bonds to fund a comprehensive catalytic and transformative retail in-fill development strategy within the City's downtown redevelopment district, the Agency can begin to successfully reposition the City's urban entertainment core as more than just adult gaming. As will be covered in the final chapter of this report, any comprehensive catalytic and transformative retail in-fill development within the City's urban-core will require a "rethinking" and re-planning of the existing infrastructure (sidewalks, streets, streetscaping, etc.) already present within the existing downtown redevelopment district. STAR bonds can be effectively used to mitigate these costs make the development a reality.

Permit Acceleration

Many developers and potential retail tenants are required to submit extensive planning documents and apply for permits when they begin to develop projects or take occupancy of a retail space. In a redevelopment district, this process can take several years to complete, forcing the developer and the retailer to incur additional costs that increase the cost of the project. The cost of their project is increased by lost revenue from delays caused by the planning and permit process.

In a redevelopment district, the potential developer of a catalytic and transformative retail in-fill project as well as the potential retailer should seek out support from the public entity, primarily the redevelopment agency, charged with the responsibility of guiding economic revitalization area within the district. Having the support of the redevelopment agency or entity can significantly decrease the time associated with the planning and permit process. By reducing the required time, through streamlining the process, the developer's and retailer's costs can be significantly reduced and revenues can be enhanced by opening their project to potential tenants and allowing the retailer to open their store to potential shoppers sooner rather than later.

In the City's current downtown redevelopment district, the Reno Redevelopment Agency has several opportunities to further streamline the City's own planning and permitting process. Support for special use permits, variances to zoning requirements and even support for changes in the type of zone (for example changing a residential zone to mixed-use) can significantly reduce the barriers that would potentially stall, delay or even prohibit a new catalytic and transformative retail in-fill project.

Although due diligence must be adhered to, the Redevelopment Agency can significantly improve the likelihood that a new transformative and catalytic retail in-fill project will happen by acting as an advocate for the project. Continued close ties with other parts of the Reno City government (planning, permits, business licensing, etc.) can help a developer and/or a potential retailer obtain the required paperwork and move forward on possible projects.

The Redevelopment Agency can also assist developers and potential retail tenants by providing them with the needed information in the early stages of developing a project. Many developers and potential retail tenants may find it difficult in the early stages of planning and developing a project to obtain the required information to calculate and estimate the financial and transaction costs associated with developing an in-fill project. The Redevelopment Agency should be able to provide potential developers and potential retail tenants with the planning and permit information upfront when a developer and/or retail tenant first proposes a possible project.

Leveraging of State and Federal Housing and Community Development Funds and Projects

Unique to the Reno Redevelopment Agency is the cooperative relationship between Redevelopment and Community Resources. Community Resources is a specialized component of the City of Reno that helps administers a variety of State and Federal funding and projects. Community Development Block Grants, quality affordable housing projects and other related activities all have some emphasis on wider economic development objectives.

Although Community Resources promotes economic development throughout the City of Reno, and their involvement with the Washoe County Home Consortium requires Community Resources to support and consider different projects throughout Washoe County, the Redevelopment Agency can provide matching funds for projects within the City's existing downtown redevelopment district for a catalytic and transformative retail in-fill project that would help enhance the downtown economy by providing additional housing and employment opportunities.

The Reno Redevelopment Agency is unique because of its ability to leverage its own and other public funds to pursue the goals and objectives associated with economic, community and neighborhood revitalization. Public monies provided by organizations and entities like the Department of Housing and Urban Development, Community Resources and the Washoe County Home Consortium can be enhanced and supplemented by Agency financing.

The use of tax increment financing in concert with other public monies can be used to help overcome the financial gap that exists in in-fill projects. Infrastructure improvements, utility upgrades, land assembly and demolition costs can be financed by the Agency through leveraging its own funds with funding from State and Federal sources.

5 – Policy Recommendations

Introduction

The Urban Land Institute (ULI), a non-profit education and research institute designed to provide responsible leadership in land use and urban in-fill development, in 2003 developed a series of ten steps to effectively guide the rehabilitation of urban neighborhood retail.

To provide the Reno Redevelopment Agency with effective recommendations regarding potential in-fill retail development of the City's downtown redevelopment district, ULI's "Ten Principles for Rebuilding Neighborhood Retail" are introduced here to provide a framework for organizing the findings and recommendations of this report.

The "Ten Principles for Rebuilding Neighborhood Retail"

In 2003, the Urban Land Institute published "Ten Principles for Rebuilding Neighborhood Retail". Since its publication, municipalities like Baltimore, Maryland, San Diego, California and Denver, Colorado have used these ten principles as a means of rejuvenating their individual downtowns.

Targeted Neighborhoods

In developing their "ten principles", ULI studied three streets in the United States chosen as representatives of different types of urban neighborhood environments.

1. H Street N.E. in Washington D.C. – chosen due to its proximity to a gentrifying neighborhood. H Street N.E. is a long arterial in

Washington D.C. and was once one of Washington D.C.'s major shopping streets. Since the 1960's, it has fallen out of favor with potential customers for new retail outlets in the outlying Washington D.C. and Baltimore, Maryland suburbs.

2. Wisconsin Avenue N.W in Washington D.C. – although situated in one of Washington D.C.'s wealthiest neighborhoods, Wisconsin Avenue was chosen primarily because of its discontinuous nature and the poorly merchandised and low quality retail outlets present.

3. Surrounding area of Charles Street and North Avenue in Baltimore, Maryland – a devastated commercial area in one of Baltimore's poorest neighborhoods characterized by above city-average crime rates.

Many of the characteristics listed above are familiar problems present within the City of Reno's own downtown redevelopment district.

For the purposes of providing retail in-fill development policy recommendations for the City of Reno's City Council, Redevelopment Agency Board and the Reno Redevelopment Agency, three streets within the City's downtown redevelopment district, that mimic the conditions listed above in the three streets modeled by ULI, were chosen as potential sites for retail in-fill projects.

1. **Virginia Street**

   Virginia Street, running north to south from Interstate 80 to 1st Street, abuts nearly $500 million in private investment on the west side of Virginia Street but abuts aging and obsolescent retail and commercial structures on the east side of Virginia Street. Circus Circus, Silver Legacy, Eldorado, Fitzgerald's and Harrah's are the primary hotel and casino properties lining most of Virginia Street.

   Like H Street N.E. in Washington D.C, Virginia Street was once one of the busiest retail streets in the City of Reno. Major department stores like Woolworth's once owned and operated a store on the north-west corner of Virginia and 1st streets and JC Penney's once owned and operated a store next to Woolworth's on the north-east corner of Sierra and 1st streets.

   Now, a large portion of Virginia Street is dominated by dilapidated commercial structures and 28-day and weekly low-income residential motels and motor-lodges. The retailers that currently now exist on Virginia Street, excluding the casinos, are primarily pawn shops, liquor stores and convenience stores that serve only the basic service needs of the existing population.