

# Fountain Valley General Plan Update Market Study

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# Table of Contents

- Executive Summary.....1**
  - Key Market Demand Findings and General Plan Implications..... 1
  - Broader Trends ..... 3
- Introduction .....5**
  - Purpose and Intent ..... 5
  - Need for Change ..... 5
  - Capacity for Change ..... 6
  - Additional Economic Analysis ..... 6
  - Data..... 6
- Economic Context .....7**
  - National Economic Output..... 7
  - Demographic Changes ..... 8
  - Changing Nature of Retail..... 10
  - Regional Economic Context ..... 12
- Socioeconomic Characteristics.....15**
  - Household Growth..... 15
  - Age ..... 16
  - Race..... 17
  - Income ..... 18
  - Education ..... 19
  - Lifestyle Segmentation..... 19
- Retail Analysis .....22**
  - Current Market Conditions ..... 22
  - Taxable Retail Sales Trends..... 22
  - Retail Types..... 23
  - Retail Market Analysis Basics..... 25
  - Retail Market Demand..... 26
  - Implications for the General Plan ..... 29

<b>Residential Analysis .....</b>	<b>30</b>
Current Market Conditions .....	30
Housing Stock.....	30
Housing Market Area .....	31
Market Area Demographics .....	31
Projected Household Growth .....	32
Implications for the General Plan .....	33
<b>Office and Industrial Analysis .....</b>	<b>34</b>
Employment Trends.....	34
Employment Projection .....	35
Office Demand .....	36
Industrial Demand.....	37
Implications for the General Plan .....	38
<b>Lodging and Entertainment .....</b>	<b>39</b>
Lodging.....	39
Entertainment.....	41
Implications for the General Plan .....	42

## List of Figures

Figure 1: US Real GDP per Capita (chained 2009 dollars), 1947 Q1 to 2019 Q1 .....	7
Figure 2: Number of Live Births and Fertility Rate with Demographic Groupings, United States, 2010 to 2017 .....	9
Figure 3: Inflation-Adjusted Monthly Retail Sales per Household, by Type, United States, 2000 to 2018.....	11
Figure 4: Manufacturing Employment and Value of Production Index (2001 = 100), Los Angeles and Orange Counties, 2001 to 2016.....	13
Figure 5: Household Growth as a Percentage of Number of Households in 1990, Fountain Valley and Comparison Cities, 1990 to 2018.....	15
Figure 6: Percentage Change in Projected Population by Age Category, Orange County, 2020 to 2045.....	16
Figure 7: Portion of Households with Children, Fountain Valley and Orange County, 2007-2017 .....	17
Figure 8: Racial and Ethnic Composition, Fountain Valley and Orange County, 2017 .....	18
Figure 9: Education Level of Population Age 25 and Older, Fountain Valley, Comparison Cities, and Orange County, 2017 .....	19
Figure 10: Percent of Population by Select Tapestry Lifestyle Segments, Fountain Valley and Subregion, 2018 .....	20
Figure 11: Real Taxable Retail Sales per Household, Fountain Valley and Neighboring Cities, 2000 to 2016.....	23
Figure 12: Retail Demand Context Areas.....	25
Figure 13: Single-Family Detached Housing’s Share of the Housing Market, Fountain Valley, Comparison Cities, and Orange County, 2010/18 ..	31
Figure 14: Employment by Major Groups of Economic Sectors, Orange County, 1990 to 2018.....	34
Figure 15: Annual Rate of Change in Real GDP and Real Travel Expenditures, United States, 2000 to 2016 .....	39
Figure 16: Average Daily Rate and Occupancy Rate, Orange County Airport Area Hotels, 2010 to 2016.....	40

## List of Tables

Table 1: Median Household Income, Fountain Valley and Select Jurisdictions, 2017.....	18
Table 2: Shopping Center Types .....	24
Table 3: Potential Retail Market Demand (GFA, sq. ft.) by Type of Store, City of Fountain Valley, 2018, 2023, 2035, and 2045 .....	28
Table 4: Residential Market Area Demographics .....	32
Table 5: Projected Household Growth, Fountain Valley, 2018 to 2023 .....	33
Table 6: Projected Change in Number of Jobs by Economic Sector, Fountain Valley, 2020 to 2025, 2030, 2040, and 2045.....	36
Table 7: Market Potential for Office Building Space, Fountain Valley, 2018 to 2045 .....	37
Table 8: Market Potential for Industrial Building Space, Fountain Valley, 2018 to 2045.....	38
Table 9: Hotel Projects in Development Pipeline, Orange County Airport Area, 2018 .....	41

## Executive Summary

This report provides a high-level assessment of socioeconomic and market trends and analyzes the market demand for real estate development products—housing, office and industrial buildings, and commercial buildings for retail, dining, lodging and entertainment—to provide guidance for the preparation and adoption of the City of Fountain Valley General Plan.

The market demand quantified in this report represents a continuation of present trends. However, the demand should not be viewed as a cap or end goal. If the General Plan results in substantial increases in the number of households, or if improvements provided through the General Plan transform the project area into an even more attractive destination, then development demand could exceed the levels presented in this report.

## Key Market Demand Findings and General Plan Implications

### Retail

Based on interviews with real estate brokers and shopping center owners, the retail market in Fountain Valley is strong. Market data confirm that lease rates are healthy, and vacancies are low. The shopping center owners interviewed for this report indicated that they have little problem filling vacancies when they do occur.

However, the retail market demand analysis indicates that within Fountain Valley there is only limited demand for additional retail businesses. Even in the retail categories that have retail leakage, most of that spending is captured in the area within two miles of the city, with the sole exception of clothing and clothing accessory stores. There is little demand for new retail development in the city.

In the near term, there should be little expectation of existing retail centers transitioning to other uses. However, as the nature of retail continues to change, and households continue to decrease their aggregate spending at bricks-and-mortar retail businesses, shopping center owners will face increasing downward pressure on their revenue. This should lead some owners to reposition their property—adding more restaurants, fitness centers, and other experience-oriented offerings. This might lead other owners, with somewhat less well positioned properties to considering transitioning their properties to new uses.

The findings of the retail analysis suggest that the General Plan Update should not focus much effort on planning for new retail development. Rather, the plan should focus on:

- + Encouraging and facilitating experience-oriented improvements to existing retail locations.
- + Providing options for alternative uses for the transition of some existing retail centers if continuing changes in the nature of retail reduce the value of retail properties over the long term. (Maintaining a market-supportable amount of retail building space will strengthen the value of remaining retail properties.)
- + Capitalizing on new residential development with horizontal or vertical mixed-use retail, dining, and entertainment when the market will support such uses.
- + Encouraging and facilitating public spaces for gathering and socializing, either as part of a private commercial property or as publicly owned and maintained property.

## Residential

Generally speaking, there is abundant market demand for additional housing in Fountain Valley. The city is viewed as a desirable place to live, with good schools and public facilities and services. The city is also regarded as a safe place to live, with convenient access to major employment centers. It is also a relatively affluent community. All of these factors translate into continued strong demand for additional housing across building types and densities.

## Office

Based on interviews with developers and brokers, Fountain Valley is generally not viewed advantageously for speculative office development, and current market conditions (lease and vacancy rates) do not support much speculative office development outside of the airport area. However, office-based businesses desiring a location in Fountain Valley may drive future demand for build-to-suit office development.

Office-based businesses are increasingly focused on attracting and retaining the skilled and educated workers that they need. And as younger generations are filling those positions, office-based businesses are increasingly viewing the quality of their office location—ease of access, proximity to affordable housing, walkability, and proximity to dining and entertainment—as a tool for talent attraction and retention. For Fountain Valley to be competitive in the office development market, the General Plan Update should focus on where and how new office development could be developed to be part of a walkable, mixed-use place.

## Industrial

The industrial market is very strong. There is no reason to expect existing industrial uses to transition to nonindustrial uses in the near future. There is market demand for additional industrial development, but the cost of land generally makes new industrial development not financially feasible.

Industrial businesses are increasingly finding themselves under pressure as large warehousing development eats up available land and as cities allow for and plan for the conversion of existing industrial areas to residential and mixed-use development. As part of the General Plan Update, the City should consider the degree to which the employment-generating and fiscal benefits of existing industrial areas are valued and focus on ways to preserve, protect, and enhance those areas for industrial uses.

## Lodging

According to CBRE Hotels' Southern California Lodging Forecast, the Orange County Airport area has seen new construction in recent years, and the market is expected to experience additional growth in occupied rooms and average daily rate as the submarket continues to strengthen.

With current occupancy, the market area could support an additional 600 hotel rooms and would still be at a healthy 70 percent occupancy rate. If the occupancy rate continues growing at the rate it has grown since 2010, a total of 992 additional hotel rooms could be added to the market area over the next five years and maintain a 70 percent occupancy rate. However, as of December 2018, approximately 1,674 hotel rooms are in the development pipeline that would serve the area.

The General Plan Update should still consider hotels as a viable development opportunity in the city, but the overall market saturation does suggest that hotel development should not be relied upon as an anchor for any particular district or location. Moreover, the fiscal analysis for the General Plan Update should only conservatively estimate transient occupancy tax revenue from potential new hotel development.

### Entertainment

In decades past, the question one might ask about a new shopping center would be, "What can I buy there." Today, that question increasingly is, "What can I do there." As Fountain Valley goes through the process of updating its General Plan, the community should ponder where they do things and what things future generations should be able to do in Fountain Valley. The plan itself should provide guidance for incorporating arts, entertainment, and recreation into existing retail centers and districts and policies for when such uses are required for new commercial development. Oftentimes these uses, while open to the public, will be provided by the private sector--the developers and owners of commercial property. However, the General Plan should also explore the conditions under which the City may be involved.

### Broader Trends

The market demand findings reflect how people live today and projected growth in population and jobs. However, there are several broad trends that will likely transform how people live, work, shop, and spend leisure time in ways that have consequences for land use and development in the plan area. The report explores these trends in more detail. However, the key implications for the General Plan are described below.

### Shift to Ecommerce

When adjusted for inflation and the number of households, in-store retail sales nationally (excluding auto sales) recovered somewhat from the recession but have not returned to prerecession levels. Indeed, over the past five years, in-store sales of convenience goods have declined 1.5 percent per year, and in-store sales of comparison goods have declined 0.3 percent per year. At the same time, online retail sales have increased 5.0 percent per year, consumer spending at restaurants and bars has increased 2.6 percent per year, and spending on entertainment and recreation has increased 2.4 percent per year.

The shift of consumer spending to ecommerce has been growing for a long time. However, since the recession, Americans have begun to make a fundamental change, in which the typical family is spending no more at bricks-and-mortar retail stores. Increased consumer spending is taking place online, at restaurants, and for entertainment and recreation.

Although the nature of retail is changing, bricks-and-mortar stores still account for the vast majority of sales (83 percent, down from 88 percent five years ago). As this trend continues, retail stores are experimenting with various approaches to online retail, including online ordering with in-store pick-up or delivery. Grocery stores in particular are experimenting with online ordering with home delivery, and if they are successful, it is likely that most chains will close some stores. The supermarket-anchored shopping center, long a staple of suburban America, may become obsolete.

Current thinking is that weaker, and even some moderately strong, shopping centers and districts will face increasing vacancies, and stronger centers and districts will continue to thrive and perhaps grow with

reduced competition. New retail development is expected to be limited mainly to areas with significant housing growth and areas that are substantially underserved.

### Baby Boomers and Millennials

There are two large demographic groups: Baby Boomers (or just Boomers, born between 1945 and 1964) and Millennials (born between 1980 and 1999). In between these two is a much smaller group, Generation X (or Gen-X, born between 1965 and 1979).

As the Boomers retire, there are fewer Gen-Xers to take their jobs. This is especially true among skilled and educated workers. Over the next ten years, this demographic shift is expected to create a structural labor shortage. One very possible outcome is that jobs will chase skilled and educated workers. This means that places where skilled and educated people live could be very competitive in attracting new businesses and new business investment. It also means that businesses will seek out the types of places where their skilled and educated employees want to work.

On the residential front, Millennials are starting to enter the family-forming and home-buying stages of life. However, Millennials earn less at this stage of life than did Baby Boomers, when adjusted for inflation, and many of them are much more burdened by student-loan debt. These financial characteristics may force Millennials into smaller and less expensive housing than previous generations. In addition, a larger percentage of Millennials have expressed a preference for more urban housing options than past generations.

Millennials are expected to continue driving demand for multifamily rental housing for many years. As more and more Millennials move into home ownership, their financial wherewithal and their preferences are expected to drive demand for more for-sale attached and multifamily housing development.

Fountain Valley is already a nice place to live. The updated General Plan provides an opportunity for the City to consider how best to position itself to capitalize on new demographic-based demand trends—as an employment center and as a more urbanized place to live.

## Introduction

### Purpose and Intent

This report presents the analysis of short- and long-term market conditions that will likely influence the type and extent of development that occurs in Fountain Valley over the next 25 years. Its purpose is to identify both market conditions that support the community's vision for the future of Fountain Valley and conditions that may create challenges to achieving the vision. It is intended to provide a factual background for community discussions about the General Plan Update and to provide a basis for refining the General Plan's existing land use plan, goals, policies, and implementation measures and for establishing new goals, policies, and implementation measures.

### Need for Change

Since Fountain Valley adopted its current General Plan, there have been several changes in state law regarding general plans. The current update process is, in part, a response to these changing state mandates. However, the long-term structural imbalance between municipal revenues and the cost to provide public facilities and services is a key reason the City is updating the General Plan.

In 2011, the state dissolved all community redevelopment agencies, thus eliminating a significant source of revenue for local redevelopment, revitalization, and affordable housing efforts. In addition, the California Public Employees Retirement System (CalPERS) reduced its discount rate, or the expected return on investments, from 7.5 percent to 7.0 percent. With the lower expected returns, CalPERS increased the amount public agencies are required to pay for current employments and to make up the shortfall (unfunded accrued liability) for current employees and current beneficiaries. As reported by the *LA Times*<sup>1</sup> in 2017, the increased annual municipal payment against the unfunded accrued liability was \$9.1 million for Newport Beach (against a \$353 million unfunded liability), \$1 million for Huntington Beach (\$363 million unfunded liability) and Fountain Valley (\$56 million unfunded liability), and \$750,000 for Costa Mesa (\$246 million unfunded liability).

In addition, total taxable sales in the city, when adjusted for inflation and the number of households, have declined since 2012. As noted later in this report, stagnant taxable retail sales (when adjusted for inflation and the number of households) indicate that sales tax revenues are keeping up with inflation and the demand for services generated by household growth. However, declines indicate increasing pressure on the City's budget.

In response to the structural budget imbalance, voters in the city approved Measure HH, a 1 percent increase in the sales tax. This increase eliminates the structural imbalance, but it returns in 2037, when the sales tax measure expires. Through the General Plan Update process, the City will explore how changes in land use could increase municipal revenues and alter the demand for service in order to eliminate the structural budget imbalance in 2037.

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<sup>1</sup> *Los Angeles Times*, 2017, "How 5 O.C. cities are working to pull down the rising cost of a pension 'mess'," <https://www.latimes.com/socal/daily-pilot/news/tn-dpt-me-pensions-package-20170623-story.html>.

## Capacity for Change

Fountain Valley has a limited capacity for changes in land use. With the exception of a few vacant parcels still used for agriculture, land use changes would require the redevelopment of existing buildings. As discussed in this report, the existing housing, retail, office, and industrial markets in Fountain Valley are strong. Generally, vacancies are low, and existing lease rates are market competitive. Under these conditions, one would not expect a substantial amount of redevelopment.

In preparing to begin the General Plan Update, the City identified 14 opportunity sites that might be considered for land use changes. These properties include vacant agricultural sites, sites with old buildings that are approaching functional obsolescence, and underutilized sites (those where the value of the existing buildings is low relative to the value of the underlying land). The market analysis presented in this report represents citywide demand, but it has been prepared with an eye toward the potential redevelopment of the limited number of opportunity sites.

## Additional Economic Analysis

This report focuses on market demand—the nature and extent of development that market conditions could support. There are two additional types of economic analyses that will be conducted for the General Plan Update—a financial feasibility analysis and a fiscal analysis.

The financial feasibility analysis estimates whether development or redevelopment is financially feasible. Just because there is market demand for a type of land use, such as lodging or manufacturing, does not mean that it is financially feasible for a developer to buy a property at a market rate value, demolish existing buildings, and build a new building for a new use. Market rate rents and sales values, coupled with land costs and construction costs, determine whether development and redevelopment are financially feasible.

The fiscal analysis estimates the municipal revenues that would be generated by new development or redevelopment and the cost to provide the public facilities and services necessary for the new uses. Just because the market will support a new use and it is financially feasible for a developer to develop new buildings does not mean that the new development or redevelopment will be fiscally beneficial for the City. As discussed above, a key objective for the General Plan Update is to promote land uses and types of development that will help eliminate the City's long-term structural budget imbalance.

Subsequent to this report, the General Plan Update process will further analyze four to five of the opportunity sites. This additional analysis will consider the types of development the sites can accommodate, what that development might look like, and what its impacts might be. This stage of the process will also include a financial feasibility analysis and a fiscal impact analysis.

## Data

The market analysis in this report uses industry-standard methodologies and is based on publicly available data sources. To complement the data analysis, interviews were conducted with City staff, developers and/or brokers active in the city, and property owners. Input from the interviews is noted in appropriate sections in this report.

## Economic Context

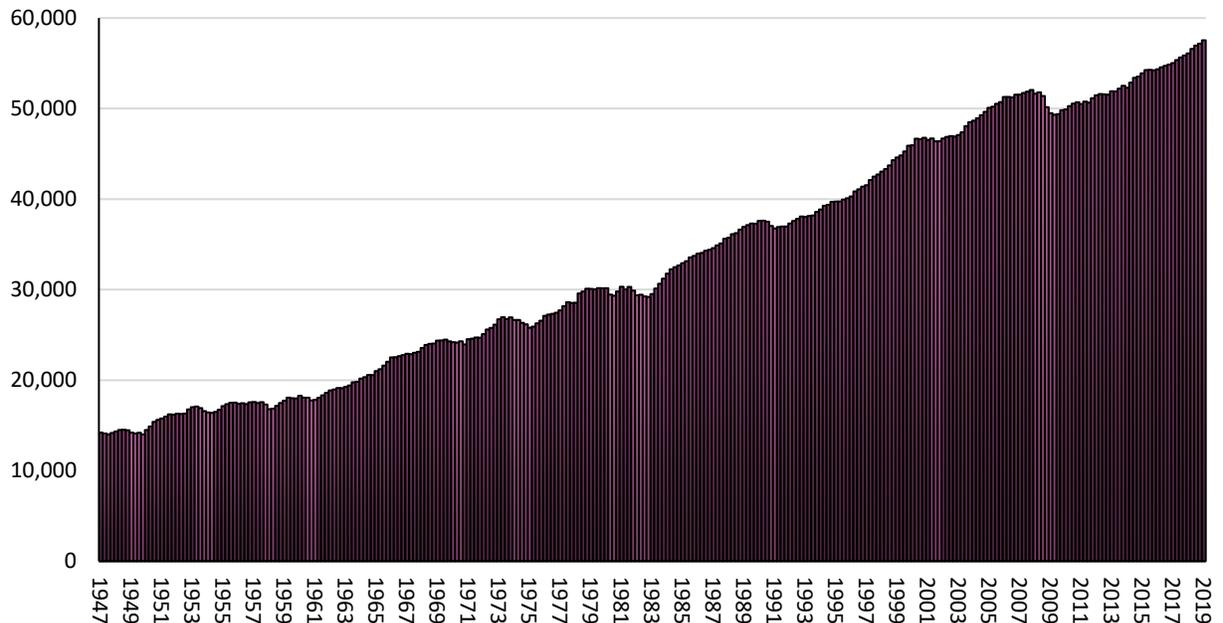
When economists discuss a local economy, they are really talking about the local area’s share of the regional economy. And in turn, the regional economy is best understood in terms of what it exports to and imports from the national economy. Before analyzing the local economy of Fountain Valley, this report provides the context of the national and regional economies.

### National Economic Output

Gross domestic product (GDP) is the total value of goods and services an economy produces, usually measured over a quarter or year. GDP provides the most basic measure of how an economy is performing. However, it only counts goods and services that are paid for; thus, it does not consider intangible values, such as the long-term value of education, an individual’s good health, unpaid housework, or volunteer service. Even with this limitation, GDP is the most basic measure of an economy and the most common indicator of an economy’s health—Is it growing, declining, or stagnating?

To understand real change in the economy, economists often adjust GDP for inflation and divide by the population. The resulting measure is real per capita GDP. Figure 1 shows the quarterly real per capita GDP from the beginning of 1947 through the beginning of 2019. Since the end of the 2008–09 recession, real per capita GDP has increased at an average rate of only 1.6 percent per year. As of July 2019, the current economic expansion became the longest on record.

Figure 1: US Real GDP per Capita (chained 2009 dollars), 1947 Q1 to 2019 Q1



Source: PlaceWorks, 2017, using GDP data from the US Bureau of Economic Analysis, National Income and Product Accounts, and recession dates data from the National Bureau of Economic Research.

Because the current economic expansion has gone on so long, one might naturally wonder when it will end. Currently, the Federal Reserve expects total GDP (not per capita) growth to slow from 2.3 percent in

2018 to 2.1 percent in 2019 and to 1.9 percent in 2020. There are reasons to believe that no recession is looming on the horizon—continued job growth and low unemployment coupled with little inflationary pressure—and reasons to believe that the next recession is about to hit—record levels of debt that limit flexibility and opportunity as the economy slows. Nevertheless, the prevailing sentiment among economists is that the economy will not enter a recession in the short term, barring exogenous shocks, such as a deepening of the current trade wars or a military war. Over the next three to eight years, a recession seems inevitable, if the past is any indication.

## Demographic Changes

After World War II, the number of births in the US increased substantially above its long-term norm, peaked around 1957, and showed a sharp decline from 1964 to 1965. Starting in 1980, the number of births then began to climb once again as the Baby Boomers began forming families. Those born between 1945 and 1964 are often referred to as the “Baby Boom” generation. Although there are not precise definitions for the subsequent “baby bust” generation, those born between 1965 and 1979 are typically referred to by the colloquial term “Gen-X.” Those born between 1980 and 1999 are typically referred to by the colloquial term “Millennials.” Finally, those born since 2000 represent another new demographic cohort, but there is no term commonly ascribed to this group, so, for now, they are referred to as “Gen-Z.”

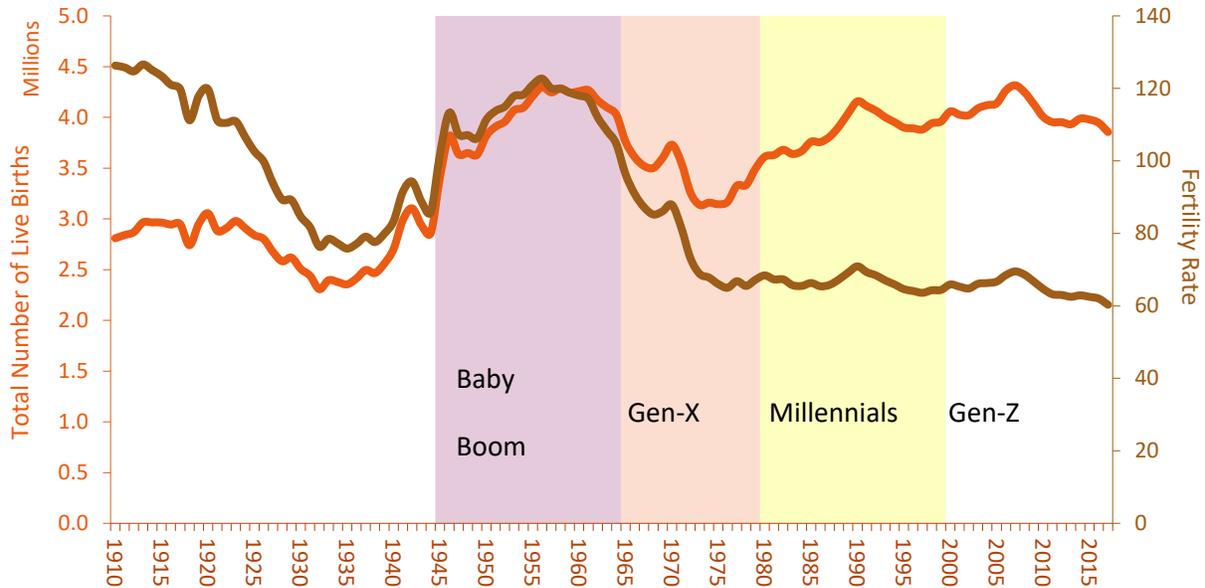
Figure 2 shows the number of live births and the fertility rate (the number of live births per woman age 15 to 45) for each year from 1910 to 2017 for the US. From a record high of 4,316,233 in 2007, the number of live births in the US has declined. The number in 2017, 3,855,500 live births, was about the same as in 1950, 1965 (the beginning of the baby bust), and 1987. The fertility rate reached a postwar high of 122.7 live births per 1,000 women age 15 to 45 in 1956, reached a record low of 63.2 in 2011, and has continued to decline since then, reaching 60.3 in 2017.

One final measure is total fertility rate, which is not shown in the chart. This measure is the expected number of lifetime births per 1,000 women given current birth rates by age. A total fertility rate of 2,100.0 births per 1,000 women is considered necessary to replace a population over time. The US total fertility rate in 2017 was 1,765.5 (and 1,692.5 in California). With the exception of 2007, the US total fertility rate has not exceeded 2,100 since 1971. Without immigration, the US population would be declining over time.

What is not known is whether the declines in total number of live births and the fertility rate are a lingering effect of the 2008–09 recession or if they represent a new longer-term trend. After all, as the data in the chart show, the fertility rate has varied up and down but remained relatively range bound from 1975 to 2010. Many will be watching birth and fertility rates over the next few years, and for now there is no way to know what course birth and fertility rates will take.

As these four generations age—Boomers out of the workforce and into retirement, Gen-X into corporate leadership and their highest earnings years, Millennials into home-buying and family-forming stages of life, and Gen Z through education and into jobs and moving out on their own—the national economy, the housing market, retail, and workplaces may experience significant changes. The following sections describe some of these potential changes in more detail.

Figure 2: Number of Live Births and Fertility Rate with Demographic Groupings, United States, 2010 to 2017



Source: PlaceWorks, 2017, using data from the US Centers for Disease Control and Prevention, National Vital Statistics Program.

### Baby Boomers Retire; Gen-X Takes Over

Each day, 10,000 people in the Baby Boomer generation retire in America. With fewer people in Gen X aging into the jobs being vacated by retiring Baby Boomers, there is a growing dearth of expert knowledge in many fields. The US labor force does not have enough skilled and educated workers to fill their jobs.

The US economy faces a monumental challenge over the next 20 years. The United States will either have to bring in more skilled and educated immigrants, or the economy will have to become more productive (just to maintain the status quo). If neither of these occur, more US jobs will be shipped overseas.

As boomer retirement progresses, one can expect American jobs to chase American workers. Regions that have the quality of life (including the cost of housing) to attract the most highly educated and most highly skilled workers will also attract the jobs that need those highly skilled and educated workers. Proximity to available labor will become the most important factor for business location decisions, surpassing land costs, perceived business climate, and where company executives reside.

### Millennial Home Buyers

The first Millennials are now in their late thirties, and the average first-time home buyer is 33 years old. As more Millennials move into home ownership, the housing market will change, and to some extent already has. From 2000 to 2007, single-family detached housing accounted for 75.7 percent of all new housing in the US. From 2010 to 2015, single-family detached housing provided only 59.4 percent of new housing.

Multifamily housing boomed in the aftermath of the recession in large part through the development of rental apartments for Millennials. As these Millennials begin buying housing, the unanswered question is whether they will continue to prefer more urban, walkable places or whether they will desire single-family detached houses like many of them were raised in.

Survey data suggests that Millennials have different preferences from previous generations—walkability, smaller houses, access to cultural centers, etc. In addition, with higher levels of student-loan debt and more difficulty finding employment than previous generations, Millennials may be forced into less expensive housing options.

At the other end of the spectrum, Baby Boomers tend to express a desire to pay off their current mortgage before they retire and to eventually sell their current home and downsize. Many may still need some of their home equity to supplement retirement savings diminished by the 2008–09 recession. To the degree that there is a similar number of Gen-X and Millennials wanting and able to buy those homes, the market should take care of itself. However, if Millennials are less willing or less able to purchase those homes, Baby Boomer retirees may find that they have less equity than they expect and may be less able to sell and downsize. However, the housing market in Orange County does not yet exhibit effects of a decreasing number of potential buyers negatively impacting home sales values.

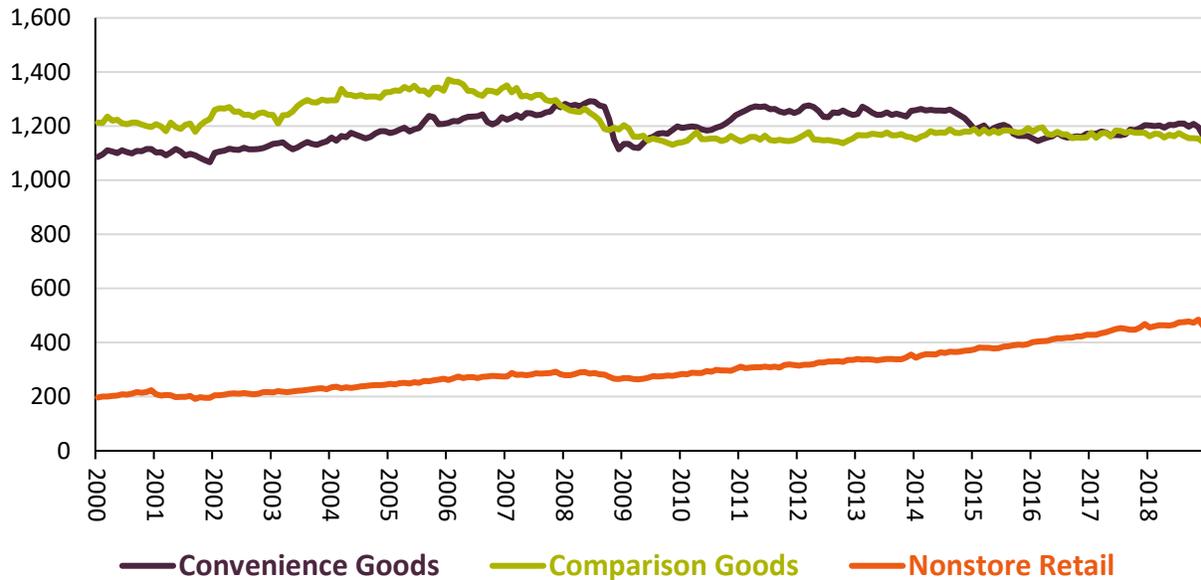
### Changing Nature of Retail

Online retail has been growing for many years. Retail sales at brick-and-mortar stores were also increasing until things started to slow with the recession. What has become clear since then is that the nature of the way Americans purchase retail goods has changed and continues to change.

Figure 3 shows the average monthly retail sales per household in the US, adjusted for inflation. The data show convenience goods (such as grocery stores, pharmacies, and gasoline stations, and fast-food restaurants), comparison goods (such as furniture, electronics, cars, and so forth), and nonstore retail (which includes catalog sales and online retail spending).

Sales at convenience goods stores and comparison goods stores have recovered somewhat since the recession, but neither has returned to prerecession levels. In contrast, sales at nonstore retailers are now 57 percent higher than the prerecession levels. From December 2013 to December 2018, sales at brick-and-mortar stores declined 1.5 percent per year for convenience goods and 0.3 percent per year for comparison goods. In contrast, inflation-adjusted spending per household for arts, entertainment, and recreation increased 2.4 percent per year; spending at restaurants and bars increased 2.6 percent per year; and spending at nonstore retailers increased 5.3 percent per year.

Figure 3: Inflation-Adjusted Monthly Retail Sales per Household, by Type, United States, 2000 to 2018



Source: PlaceWorks, 2019, using data from the US Census Bureau’s Monthly Retail Trade Report, consumer price index data from the US Bureau of Labor Statistics, and number of households data from the US Census Bureau.

Although sales at brick-and-mortar stores are stagnant at best, the growth in retail is in online commerce. New retail development can be expected to follow household growth, with little to no new retail development expected in built-out areas without sizeable housing development. Grocery stores are experimenting with online ordering and delivery. If they are successful at transitioning a significant number of customers to home delivery, it is possible that grocers will close some stores, and the supermarket-anchored shopping center, long a staple of suburban land-use patterns, eventually may become obsolete.

Current thinking suggests that, over time, weaker shopping centers and districts will lose retail businesses, and stronger shopping centers and districts will continue to thrive with less competition and, perhaps, they may expand. The response among many shopping center owners is to focus on experience-oriented retail by adding more restaurants, entertainment, and recreation—activities that cannot easily be replicated online. Interestingly, both weaker and stronger shopping centers are following this approach.

As with all such economic transitions, there will be winners and losers—communities that become retail destinations and communities that lose a substantial share of their retail businesses. One determinant will simply be money—Where is there money to be spent buying goods? But another determinant will be desire—Where do people want to spend their time and money?

Successful retail centers and districts in the future will likely be mixed-use places. They will be mixed use in the sense that they will offer other things people do as part of a shopping trip, such as dining, entertainment, activities and events, and socializing. These are things that the internet is not so good at

providing. They will also likely be mixed use in the conventional planning sense of the term—places that mix commercial uses with housing and employment, usually in a pleasant, walkable setting.

## Regional Economic Context

Fountain Valley is a part of two regional economies. At the smaller scale, Fountain Valley is a part of Orange County, the 7th largest county in the United States in terms of employment. Fountain Valley accounts for 1.8 percent of the population in the county, 1.9 percent of the employed residents, and 1.89 percent of the jobs.

Orange County, in turn, is part of the Southern California region, which, were it a country, would have the 15th largest economy in the world, after Spain and before Mexico. This region includes 18.9 million people, or one in every 17 US citizens.

## Orange County Economic Diversity

Orange County, unlike many of its neighbors, has no single “center” and no primary industries. Los Angeles has technology and entertainment, San Diego has aerospace and biomedical, and the Inland Empire has goods movement, but Orange County has no specific industry it can point to as the “bread and butter” of the economy.

The diversity of the regional economy in Orange County is a strength. It means that Orange County does not suffer the ups and downs of one industry. With a diverse workforce and employment base, the economy of Orange County can shift to accommodate a wide variety of growing industries.

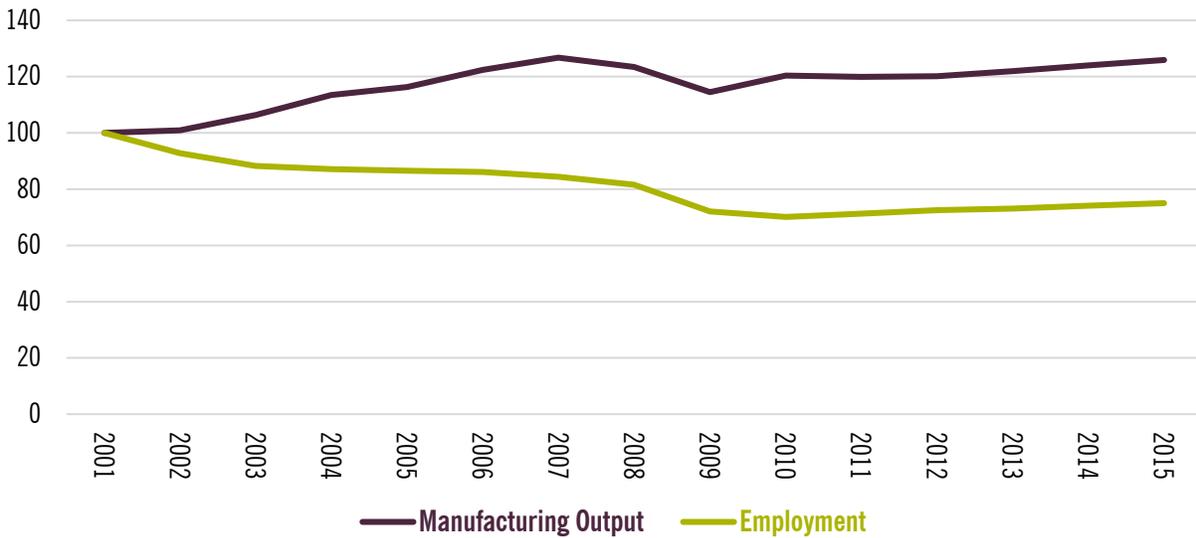
## Manufacturing Employment and Production

Over the last 50 years, manufacturing provided steady, well-paying jobs for blue-collar workers. Since 1979, though, these jobs have been declining, lost to automation and productivity and lost to foreign competition and offshoring. Nationwide, the number of manufacturing jobs has declined by 7.2 million, or 37 percent, since the peak in 1979.

This does not mean the manufacturing industry is declining; in fact, manufacturing output has increased since 2001. Figure 4 shows manufacturing employment and the value of production (indexed on 2001 numbers) for the Los Angeles and Orange Counties metropolitan area and illustrates that, despite employment being at only 66 percent of its 2001 level, manufacturing output is up 15 percent.

Manufacturing workers are becoming more productive. Today, the average factory worker makes \$180,000 worth of goods each year, which is three times what the average worker produced in 1978. As a more specific example, in the 1950s, GM produced an average of seven cars per employee per year; now the company makes 28 cars per employee per year, so the employees are four times as productive.

Figure 4: Manufacturing Employment and Value of Production Index (2001 = 100), Los Angeles and Orange Counties, 2001 to 2016



Source: PlaceWorks, 2017, using data from the US Bureau of Economic Analysis.

What has happened across the US, and even more so in Orange County and the rest of California, is that lower-value manufacturing has chased cheap labor in low-wage countries in South America and Southeast Asia. What has remained is high-value manufacturing. It is worth noting that, of the federally defined metropolitan statistical areas, the Los Angeles-Orange Counties MSA has the highest number of manufacturing employees and the highest value of manufacturing production.

Because of this, demand for manufacturing space is not necessarily related to the number of jobs. As automation and high-tech machines have been deployed, the same size facility now produces more with less workers.

### Housing Crisis

Since the recession, home construction has not kept pace with the growth in households in California. Over the last decade, annual production has averaged 100,000 new homes short of the 180,000 homes per year that were required to accommodate population growth.

In 2015, 55 percent of renters in Southern California were rent burdened, meaning over 30 percent of their household income was going to rent. Almost 30 percent were severely rent burdened, meaning over 50 percent of household income was going to rent. In a single year, between 2016 and 2017, median home value increased 4.3 percent; it has increased almost 50 percent in the five years since February 2012.

Part of the housing market response since the recession has been increased development of multifamily housing. In Orange County, from 2010 to 2016, single-family detached housing only accounted for 37.1 percent of new housing, and from 2016 to 2019 it was 35.1 percent. The simple fact is that there is little vacant land in the county on which to build single-family subdivisions and master planned communities, for which the county is well known. In addition, the next wave of homebuyers, the Millennials, do not

have the same level of income that previous generations had when starting out, and many of them are burdened by much larger student loan debt than previous generations. They may not be able to afford single-family detached housing as starter homes. The predominance of multifamily housing in the new housing market in the county is expected to continue.

## Socioeconomic Characteristics

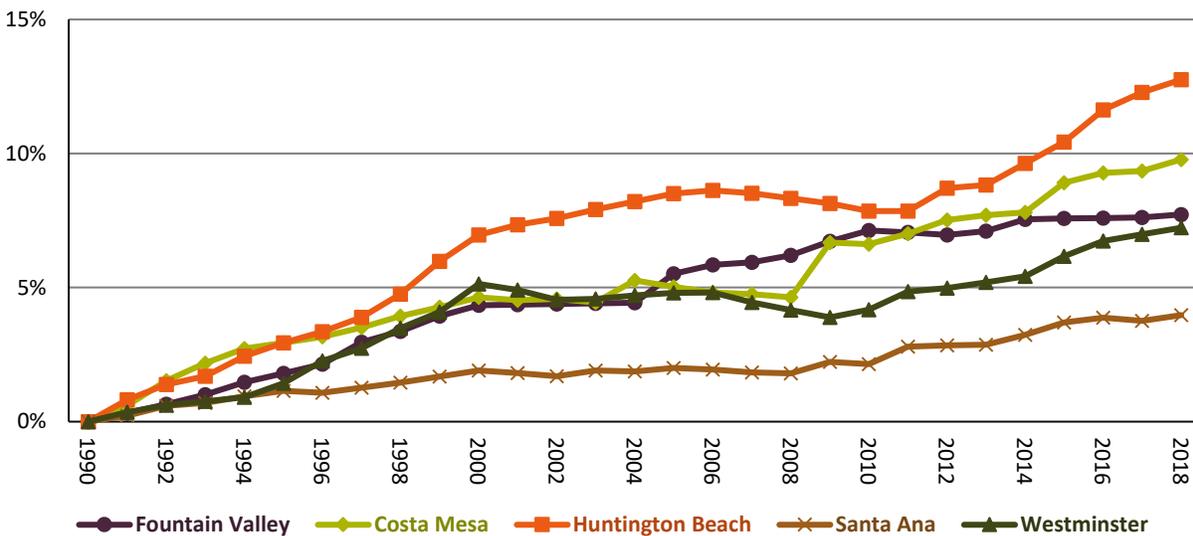
This chapter summarizes basic socioeconomic characteristics of Fountain Valley and provides the context of nearby cities. Trends in demographics and household income provide the foundation for real estate market demand.

### Household Growth

Household growth drives the demand for residential development and is a key factor in the demand for new retail development. Figure 5 shows the annual rate of household growth in Fountain Valley and neighboring cities as a percentage of the number of households in 1990.

From 1990 through 2000, the rate of household growth in Fountain Valley was about the same as in Costa Mesa, higher than the rate in Santa Ana, and lower than the rates in Huntington Beach and Westminster. Fountain Valley’s growth all but stopped between 2000 to 2004 but returned to a modest rate leading up to 2010. However, between 2010 and 2015, Fountain Valley grew less than half a percent while the neighboring cities grew faster—Costa Mesa, Huntington Beach, and Westminster grew more than 2.5 percent.

Figure 5: Household Growth as a Percentage of Number of Households in 1990, Fountain Valley and Comparison Cities, 1990 to 2018



Source: PlaceWorks, 2019, using data from the CA Department of Finance.

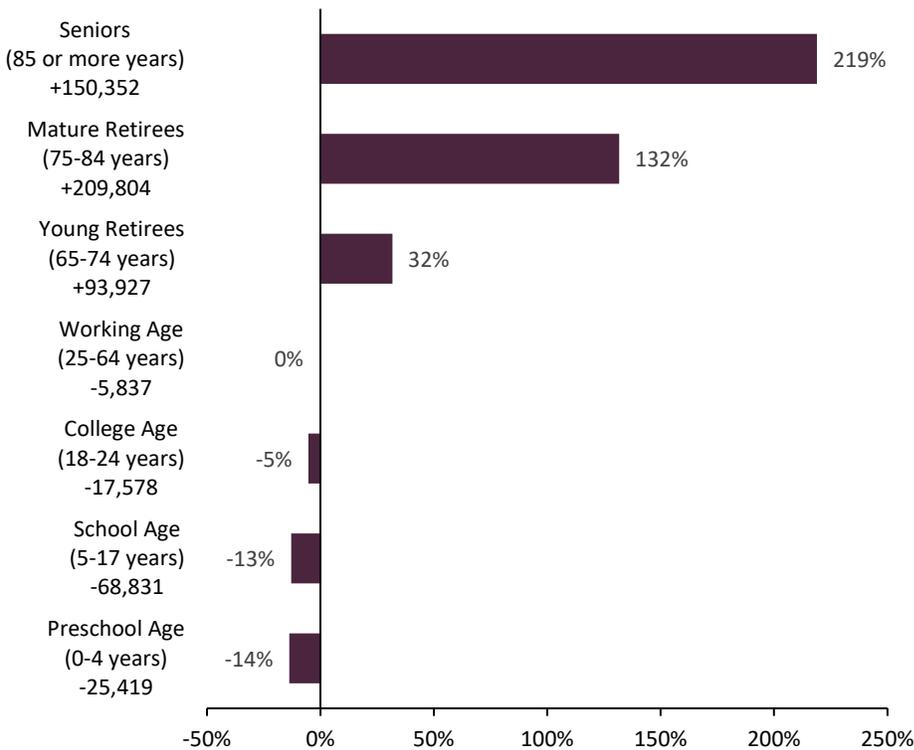
Since the recession, the annual rate of household growth in these cities ranges from a low of 0.1 percent per year in Fountain Valley to 0.5 percent per year in Huntington Beach. Each city should generally expect a corresponding increase in taxable retail sales, but these rates of growth are probably too low to drive any substantial increase in new retail development.

## Age

The median age in Fountain Valley is 43.8 years old, making it one of the older cities in Orange County. Huntington Beach and Westminster are not far behind, however, with median ages of 41.9 and 41.6 years old, respectively. Costa Mesa and Santa Ana residents are much younger by comparison, with median ages of 34.5 and 31, respectively. Despite the variation, the County as a whole is getting older; the median age has increased from 35.7 years in 2010 to 37.5 in 2017.

The aging of the population is a countywide issue. Figure 6 shows the percentage increase in population in age categories between 2020 and 2045 for Orange County, based on the CA Department of Finance’s population projections. The number of working age residents is projected to decrease slightly, and the number of college age and school age residents is projected to decrease. The only increase by age group is for ages 65 and older.

**Figure 6: Percentage Change in Projected Population by Age Category, Orange County, 2020 to 2045**

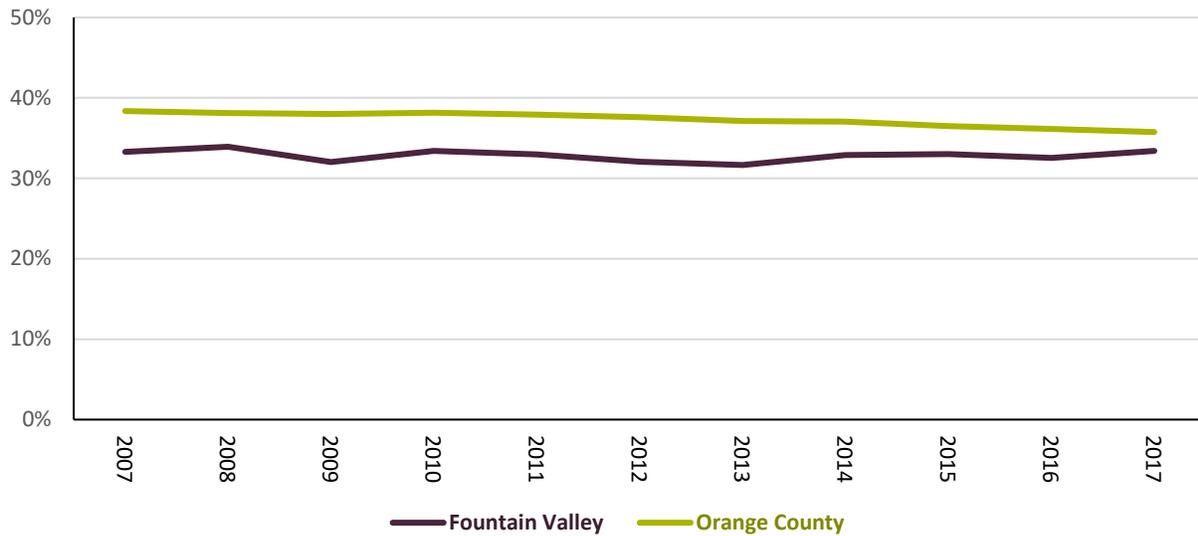


Source: PlaceWorks, 2019, using projections from the CA Department of Finance.

### Households with Children

Similar to Orange County and many comparison cities, the proportion of households with children in Fountain Valley has decreased even as the total population has increased over the last 15 years. Figure 7 shows the percentage for Fountain Valley and the county. While the rest of the county has had a steady decline in this area, Fountain Valley has fluctuated over the last decade. Although the percentage of Fountain Valley households with children has slowly increased since 2013, the overall trend since 2000 is a decline of 5 percentage points.

Figure 7: Portion of Households with Children, Fountain Valley and Orange County, 2007-2017

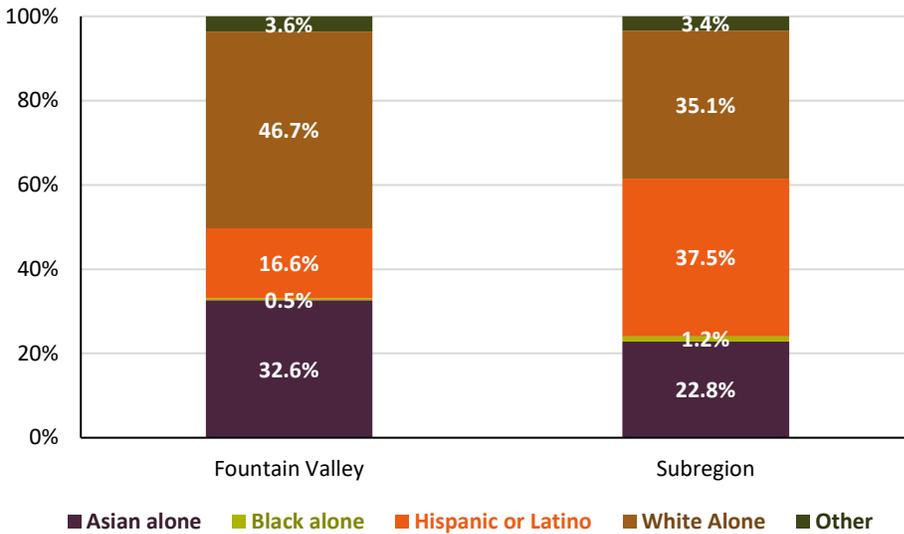


Source: PlaceWorks 2019, using data from the US Census Bureau’s American Community Survey.

### Race

Fountain Valley is a majority-minority community, meaning no race or ethnicity is more than 50 percent of the population. The city is more diverse than Costa Mesa and Huntington Beach, which are 49 and 63 percent white, respectively, but is less diverse than Westminster and the total population of Orange County.

Figure 8: Racial and Ethnic Composition, Fountain Valley and Orange County, 2017



Source: PlaceWorks, 2019, using data from the 2017 American Community Survey 5-Year Estimates.

### Income

The median household income in Orange County is about \$15,000 higher than the median income in California. Fountain Valley’s median household income is 5.8 percent higher than the County’s. Median income in Huntington Beach is slightly higher than in Fountain Valley, but incomes in Costa Mesa, Santa Ana, and Westminster fall below the County average. Table 1 provides the medium household income data.

Table 1: Median Household Income, Fountain Valley and Select Jurisdictions, 2017

Jurisdiction	Median Income
Irvine	\$95,573
Huntington Beach	\$88,079
Fountain Valley	\$86,602
Orange County	\$81,851
Los Alamitos	\$79,459
Costa Mesa	\$75,109
California	\$67,169
Seal Beach	\$65,401
Garden Grove	\$62,675
United States	\$57,652
Westminster	\$57,575
Santa Ana	\$57,151

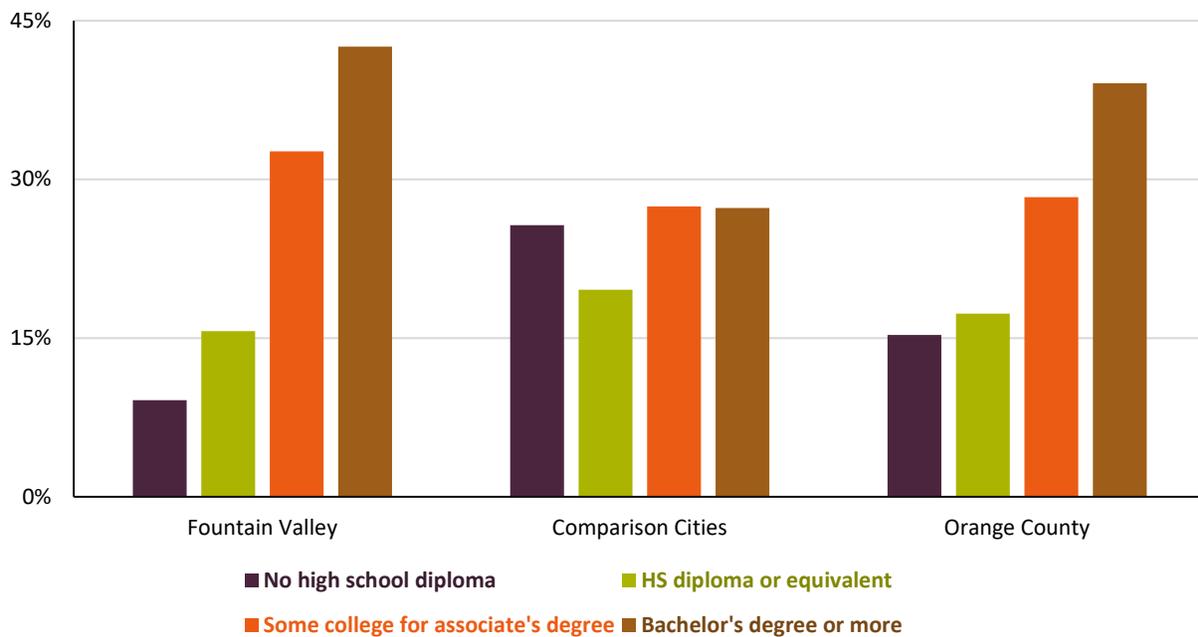
Source: PlaceWorks, 2019, 2017 ACS 5-Year Estimates

## Education

Higher levels of education are correlated with higher incomes, lower unemployment, better health, and longer life expectancy. Fountain Valley is a well-educated community—43 percent of the population over age 25 has at least a bachelor’s degree, and only 9 percent does not have a high school diploma or equivalency.

Figure 9 shows the education level of the population age 25 and older in Fountain Valley, among the neighboring cities, and in Orange County. A lower percentage of Fountain Valley’s population has no high school diploma or only a high school diploma, and a larger percentage of Fountain Valley’s population has some college or an associate’s and a bachelor’s degree or more education. Among the comparison cities, Fountain Valley’s education level is similar to that in Huntington Beach. The education levels in Costa Mesa and Westminster are similar or slightly lower than that in Orange County. Over time, educational attainment has been increasing. The percentage of Fountain Valley’s population with a bachelor’s degree or more education has increased 5 percentage points since 2010, versus just 3 percentage points in the county.

**Figure 9: Education Level of Population Age 25 and Older, Fountain Valley, Comparison Cities, and Orange County, 2017**



Source: PlaceWorks, 2019, using data from the 2017 American Community Survey 5-Year Estimates.

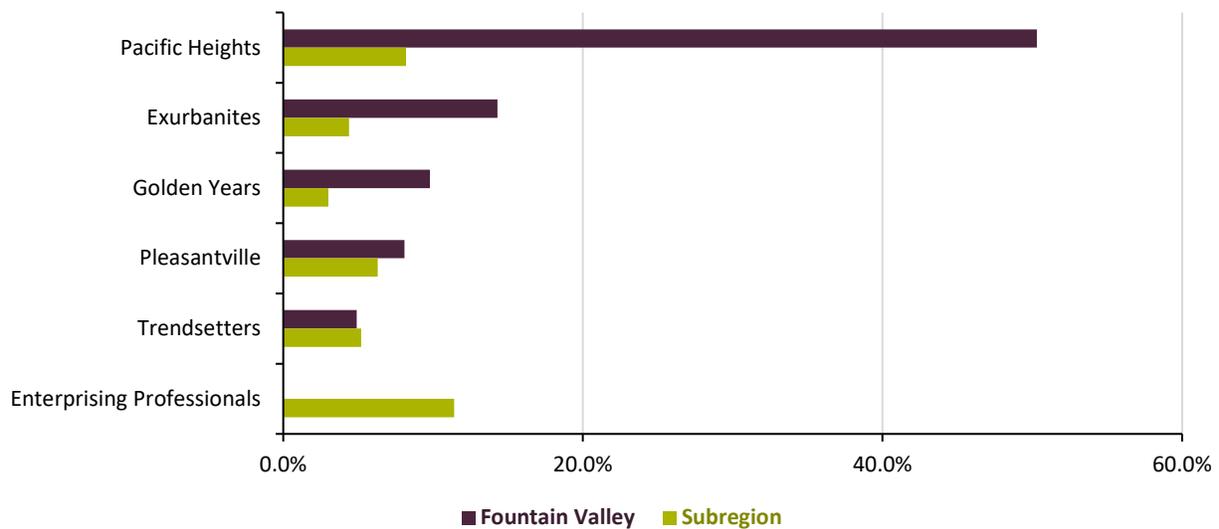
## Lifestyle Segmentation

Lifestyle segmentation provides a way to understand subgroups within a population with more detail than provided by median and average statistics. Esri Business Analyst produces a lifestyle segmentation tool, Tapestry, that provides information about activities and preferences in addition to basic measures like

education and income, for 67 segments of the population (groups of people determined to be socially and economically similar).

Following are descriptions of the top five Tapestry segments in Fountain Valley, which make up 87 percent of the population. These segments make up a smaller proportion of the population of the county and the subregion. The subregion’s top segment, Enterprising Professionals, is not found at all in Fountain Valley. Whereas Fountain Valley’s population is spread across 10 Tapestry segments, the subregion is home to more than 20. Figure 10 shows the percentage of the population in Fountain Valley’s top five segments and the top segment in the subregion.

**Figure 10: Percent of Population by Select Tapestry Lifestyle Segments, Fountain Valley and Subregion, 2018**



Source: PlaceWorks, 2019, using data from Esri Business Analyst.

### Pacific Heights

Pacific Heights is one of the smaller segments, composed of upscale neighborhoods in the urban periphery of metropolitan areas. They tend to be more affluent, with a median household income of \$93,300, and primarily work white collar jobs in business, technology, architecture, and engineering. Married-couple families, both with and without children, are most common, and many households are multigenerational. This market also includes the highest percentage of Asian and multiracial populations, many of them born outside the US.

As consumers, the Pacific Heights segment stays apprised of current trends, buying nice food and clothing and investing in the latest tech. They frequent trendy retail stores and restaurants as well as warehouse clubs and specialty markets for groceries. They are technology literate and prefer Apple products for entertainment and leisure devices. Generally speaking, they are financially conservative, preferring low-risk investments.

### Exurbanites

Exurbanites are well educated, affluent, and actively involved in their local communities. They are also sociable and hardworking, but still find time to stay physically fit. The majority of households live in the suburbs around large metropolitan markets and consist of married couples without children. Almost 85 percent of Exurbanites own their homes, preferring single-family detached houses in low-density neighborhoods. The median home value is \$423,400, driving median net worth to more than five times the national average.

Exurbanites tend to be less-price-conscious consumers, preferring quality over cost. They drive late-model luxury vehicles and choose natural or organic products when shopping. Their expendable income allows them to travel extensively but also make generous donations to the arts and public television/radio.

### Golden Years

The Golden Years market segment consists primarily of independent, active seniors approaching retirement or already retired. More than 70 percent of households are single persons or married couples without children. They are enjoying life, taking advantage of the dining and entertainment opportunities offered by the metropolitan areas where they reside. A median income of \$71,000 provides for their active and social lifestyles.

Like Exurbanites, Golden Years are seeking quality over quantity and prioritize healthy eating habits. Leisure time is spent on recreational activities like tennis, golf, boating, and fishing, in addition to visiting local arts and culture institutions and traveling abroad. Internet use is prevalent among households for entertainment and financial services, but many keep a landline for peer-to-peer communication.

### Pleasantville

The Pleasantville group, 8.1 percent of the population, enjoy what's best described as "prosperous domesticity." They are slightly older couples that are or will soon be empty nesters. Most own older, single-family homes in a peripheral suburban neighborhood. As mostly college-educated professionals, they earn a good income; their median income is \$92,900.

These consumers are not cost conscious and will spend more for quality and brands they like, and will often pay to have someone remodel their house. They use many forms of media, including internet, television, books, and newspapers, and enjoy gardening, going to the beach, visiting theme parks, frequenting museums, and attending concerts.

### Trendsetter

Trendsetters are young, well-educated individuals living life to its fullest potential. More than half of the population in this segment has a bachelor's degree or more and is generally well paid. Many reside in multiunit apartments/condos with roommates or partners and are willing to pay more for desirable locations near entertainment centers. Compared to other Tapestry segments, Trendsetters have a higher median income but a lower net worth. This is affirmed by their financial lifestyle, choosing to spend more on popular products, vacations, and experiences instead of savings. They are adventurous, active, and tech-savvy, using multiple media platforms to keep in touch with their social network.

## Retail Analysis

This chapter analyzes the current market demand for retail businesses and projects the market potential, quantifying the amount of additional retail development that could be supported in Fountain Valley.

### Current Market Conditions

According to real estate brokerage CB Richard Ellis's *MarketView for Orange County Retail*, retail vacancy in Orange County has decreased over the last several years to 3.3 percent in December 2018. The county is wealthy and diverse, and it draws over 45 million tourists annually. Orange County is an important market for retailers.

The countywide average asking lease rate is \$2.44 per square foot. The Central County market area (which includes the majority of Fountain Valley) has a slightly higher vacancy rate of 3.6 percent and has a lower average lease rate of \$2.29 per square foot. The vacancy rate is still low and indicates a healthy retail market.

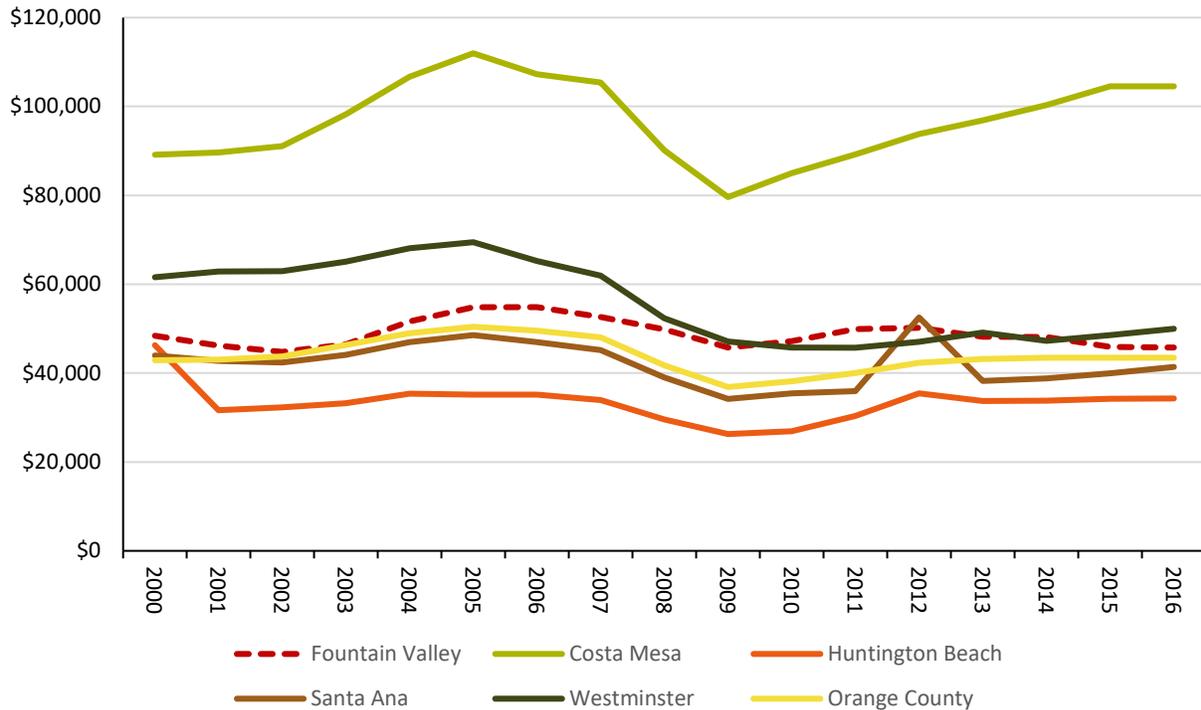
### Taxable Retail Sales Trends

Fountain Valley collects a similar amount of taxable retail sales per household when compared to nearby cities and the Orange County average. Figure 11 shows the inflation-adjusted (2018 dollars) taxable retail sales per household in Fountain Valley and comparison cities from 2000 to 2016. In 2016, Fountain Valley had \$45,475 in taxable retail sales per household—lower than Westminster's \$49,962 per household but higher than Santa Ana (\$41,417) and Huntington Beach (\$34,306). The average across Orange County was \$43,463 per household. Costa Mesa, by contrast, captured \$104,542 of taxable retail sales per household in 2016. The difference is due primarily to the South Coast Plaza shopping center, which attracts visitors from throughout the region.

Fountain Valley's taxable retail sales have not recovered to prerecession levels and have declined since 2012. The city is not alone here—retail sales growth since 2010 in neighboring cities has been limited, and none of the cities have exceeded their prerecession peak. Costa Mesa is the only city to experience a substantial rebound but it is still below prerecession sales. In this regard, stagnation is a worthy goal—it means that retail sales have increased sufficiently to keep pace with inflation and the growth of households (a proxy measure for demand for public facilities and services).

As noted, however, Fountain Valley has fared worse, declining rather than stagnating. This trend in retail sales suggests that household growth, as limited as it may be, may not result in a net increase in municipal revenue from the retail sales tax (not taking into account Measure HH). Efforts to attract new visitors and to entice existing visitors to visit more often may serve a larger role in bolstering retail activity in the city.

Figure 11: Real Taxable Retail Sales per Household, Fountain Valley and Neighboring Cities, 2000 to 2016



Source: PlaceWorks, 2017, using taxable retail sales data (retail stores and food services) from the CA Board of Equalization, number of household estimates from the CA Department of Finance, and CPI data from the US Bureau of Labor Statistics.

### Retail Types

The retail market can be categorized into two broad groups: convenience goods and services and comparison goods. Table 2 describes the conventional typology for retail centers, and the subsequent discussion in this section further describes types of retail.

#### Convenience Goods and Services

Convenience goods and services are those that people need on a regular basis. For these regular purchases, most consumers have built knowledge of where to go to get what they want, whether their discriminator is price, convenience, or quality. Groceries, medicines, and hair care are typical convenience goods and services. Because convenience goods and services usually have low cost margins and high sales volumes, convenience retailers are located throughout an area, close to concentrations of households. Convenience goods retailers typically operate in convenience-goods centers (less than 30,000 sq. ft.) and neighborhood-scale centers (less than 100,000 sq. ft.), and they typically draw customers from a ½- to 1½-mile radius.

**Table 2: Shopping Center Types**

Shopping Center Type	Building Size Range (sq. ft.)	Shopping Center Trade Area (radius in miles)
Convenience	<30,000	½
Neighborhood	30,000 – 100,000	1 ½
Community	100,000 – 450,000	3-5
Regional	300,000 – 900,000	8
Superregional	500,000 – 2 million	12

Source: Michael D. Beyard et.al., *Shopping Center Development Handbook*, 3rd. Ed., Washington D.C.: Urban Land Institute, 1999.

### Comparison Goods

Comparison goods are retail items that consumers purchase more infrequently or rarely. For these purchases, consumers tend to compare goods across brands and across retailers. This habit of comparing induces retailers to locate near each other. It also promotes larger-scale retailers who can stock many different brands of similar products. Clothing, electronics, and furniture are quintessential comparison goods. Because comparison goods have higher cost margins and lower sales volumes and because consumers purchase these goods infrequently, comparison goods retailers tend to locate close to major transportation corridors that give access to a greater number of consumers. These businesses typically locate in community-scale centers (100,000+ sq. ft.) and regional-scale centers (300,000+ sq. ft.), and they draw customers from a 3- to 5-mile radius up to an 8- to 12- mile radius, depending on the center’s size and retailer mix.

### Eating and Drinking Places

Eating and drinking places are a cross between convenience and comparison. Sometimes consumers are looking for convenience when buying food away from home. Fast food and limited service restaurants typically satisfy this convenience demand. Other times, consumers are looking for higher quality and are willing to travel longer distances and pay more for the cuisine they desire.

### Experience-Oriented Shopping

A third, hybrid type of retail is experience-oriented shopping. In this type of shopping, the experience of the trip is of equal if not greater importance than the material needs for a good or service. The experience’s value may accrue from socialization with friends, activities and entertainment, or the quality of the place. Downtowns, new town centers, lifestyle centers, and even shopping malls all attempt to enhance the shopping experience and provide a mix of businesses and amenities to create an enjoyable shopping experience. Because most consumers infrequently invest their time in experiential shopping, most are willing to travel further and forego quick and easy access for the value of the experience. Experience-oriented shopping is a destination trip and draws from a community, regional, or even super-regional size trade area, even if it does not offer the commensurate amount of retail square footage.

## Retail Market Analysis Basics

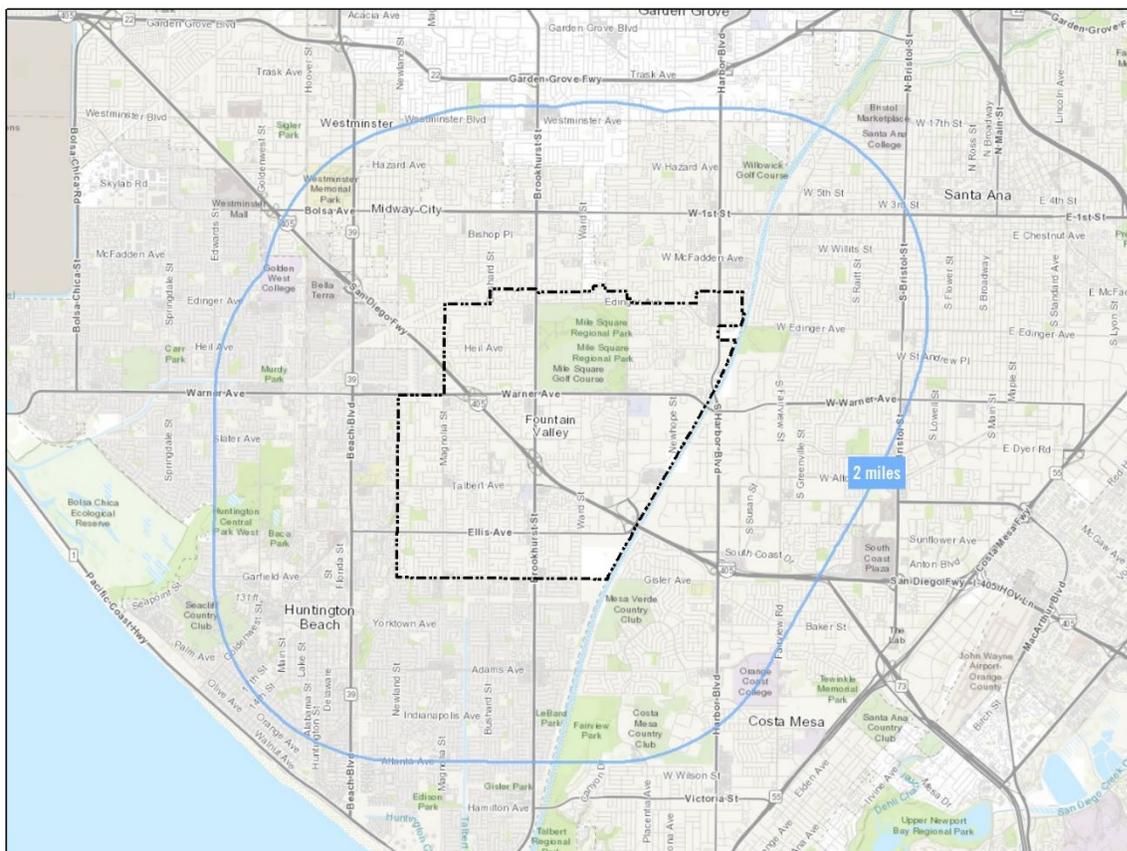
The following sections describe several specific terms used in retail market analysis.

### Trade Area

A trade area is the geographic area from which a retail center will draw the majority of its customers. Sophisticated market-analysis models for individual retailers often define primary, secondary, and even tertiary trade areas. Several factors affect the size and boundaries of the trade area, including the type of shopping center, location of competitive retail facilities, physical barriers, and visibility and access to major roads and highways.

For a market analysis supporting a general plan, the radial definition of a trade area alone is usually sufficient. This analysis uses the city’s boundary to define the convenience and comparison goods trade areas. One of the challenges of looking at market demand based on a city boundary is that there may well be competitive shopping centers and districts close to the boundary. Therefore, this analysis also looks at a retail demand context area, defined as the area within two miles of the city’s boundary. Figure 12 shows the retail demand context area.

Figure 12: Retail Demand Context Areas



Source: PlaceWorks, 2017.

### Household Spending

The household is the basic economic unit in retail analysis. The Consumer Expenditure Survey, published annually by the US Bureau of Labor Statistics, details how households spend their annual income stratified by income, age, geography, household size, and other demographic characteristics. Esri's Business Analyst interprets that data for individual locations based on the demographics and lifestyle characteristics of the households residing in that area. Esri reports the data using standard retail business categories from the North American Industrial Classification System.

### Estimated Retail Sales

The Esri spending report also estimates the amount of retail sales at businesses operating in the trade area. The Esri estimates are based on the US Census Bureau's Economic Census and information obtained from proprietary data sources, such as Dunn and Bradstreet and InfoUSA.

### Sales Efficiency

Sales efficiency is the average annual sales per square foot of retail businesses. Sales efficiency varies by store type, by individual business, and among different locations of an individual retail chain. This report estimates retail sales efficiency by type of store based on information from Dollars and Cents of Shopping Centers / The SCORE, published by the Urban Land Institute and the International Council of Shopping Centers; annual 10K reports filed by retail corporations with the US Securities and Exchange Commission; and the US Census Bureau's Economic Census.

### Calculating Retail Demand

Retail market potential is the difference between the amount of trade-area household spending and the amount of trade-area retail business sales. When trade area households spend more at a particular type of retail store than those types of stores in the trade area take in, residents are spending money outside of the trade area. This situation is often referred to as retail spending leakage, or just leakage. In the opposite situation, when a trade area's retail businesses have more retail sales than trade area households spend, the businesses are attracting customers from beyond the trade area. In this situation, the difference between sales and spending is often referred to as the retail spending capture.

Retail leakage and capture matter because it is usually easier to get a trade area's residents to shop closer to home than it is to attract more customers from beyond the trade area. In economic development, most retail business attraction efforts are focused on the retail categories from which a trade area leaks spending.

Dividing a trade area's retail leakage by the average sales efficiency determines the market demand—the amount of retail building space that can be supported by trade area spending. Dividing a trade area's retail capture by the average sales efficiency provides an estimate of the amount of retail building space supported by consumer spending from visitors from outside of the trade area.

### Retail Market Demand

Table 3 provides the potential market demand for retail building space based on the estimated consumer spending by households residing in the city and on the estimated value of sales at Fountain Valley retail stores. The data represent gross floor area, measured in square feet. The data are estimates for 2018 and

cumulative projections for 2023, 2035, and 2045, reflecting the impact of the projected increase in households. The data account only for estimated sales by stores in existence and operating in 2018; entitled or planned but not yet developed retail building space would reduce the projected market demand.

The data without parentheses indicate store types with retail leakage—there is a net loss of residents’ retail spending. In these cases, the data are estimates of the amount of retail building square footage in other cities supported by the retail spending of Fountain Valley residents.

The data in parentheses indicate store types with a retail surplus—there is a net capture of retail spending from outside the city. In these cases, the data are estimates of the amount of retail building square footage in the city supported by the retail spending of visitors and residents of other cities.

### Convenience Goods and Services

Currently, convenience-goods businesses have a net retail leakage. Fountain Valley households spend at least some of their disposable income at businesses outside the city. The following store types represent potential targets for business attraction efforts:

- + Food and beverage stores. The 54,000 square feet of potential retail market demand in 2018 represents the smaller-end size of a standard supermarket. This existing market demand might support one additional supermarket. However, in the retail demand context area, there is currently an excess of food and beverage stores. Thus, some residents may shop at food and beverage stores outside the city, but they probably do not travel far, suggesting that attracting investment in a new grocery store or supermarket may be challenging.
- + Health and personal care stores. The conventional national chain pharmacies, such as Rite Aid, maintain stores that are about 10,000 to 15,000 square feet. Thus, existing market demand should support at least one additional pharmacy in the city, and perhaps two. However, there is currently an excess of health and personal care stores in the retail demand context area, so it may be challenging to attract a new one to the city.
- + Miscellaneous store retailers. This category includes a wide variety of stores, such as florists, repair shops, and office stores. The size might range from a small in-line retail store in a shopping center at 1,000 to 1,500 square feet to a midbox office-supply store at 20,000 square feet. Existing market demand might support a few small-scale stores in this category, but the projection indicates that it might be the 2030s before there would be enough market support for a larger business in this category.

### Comparison Goods

Comparison goods retail businesses have an overall retail capture. Most of the specific retail categories attract at least some of their customers from outside of Fountain Valley. The exceptions, which represent potential targets for business attraction, are:

- + Building materials, garden equipment, and supply stores. The average Home Depot store is 105,000 square feet in size. The average Lowes store is slightly larger, at 112,000 square feet. The

analysis of trade-area market demand indicates that existing trade-area consumer spending could support one of these stores now and possibly a second by 2035. However, analysis of the area within 2 miles of the city boundary (inclusive of the city) indicates that there is retail capture in this category rather than leakage. While residents may spend money at these types of stores in other cities, they are probably not travelling far. Thus, there is demand within the city, but it is satisfied nearby. It is unlikely that a store in this category would be interested in opening a new location in the Fountain Valley.

- + Clothing and clothing accessory stores. Many stores in this category agglomerate in and near regional shopping malls. Most cities that do not have a shopping mall leak retail spending in this category. Nevertheless, the magnitude of the city’s leaked spending in this category suggests that market demand might support additional clothing and clothing accessory stores. These would likely be boutiques and smaller-size stores. They could fill in-line retail space in shopping centers and might be successful if located in an experience-oriented shopping district. There is also retail leakage in this category for the retail demand context area.

**Table 3: Potential Retail Market Demand (GFA, sq. ft.) by Type of Store, City of Fountain Valley, 2018, 2023, 2035, and 2045**

	<b>2018 Estimate</b>	<b>2023 Projection</b>	<b>2035 Projection</b>	<b>2045 Projection</b>
<b>Convenience Goods</b>				
Food & Beverage Stores	54,000	60,200	66,700	72,300
Health & Personal Care Stores	22,200	24,000	25,800	27,400
Gasoline Stations	(16,400)	(15,600)	(14,600)	(13,800)
Miscellaneous Store Retailers	9,100	12,700	16,600	19,900
Food & Drinking Places	(23,700)	(21,300)	(18,700)	(16,500)
Subtotal	45,200	60,000	75,800	89,300
<b>Comparison Goods</b>				
Furniture & Home Furnishings Stores	(19,400)	(16,300)	(13,100)	(10,200)
Electronics & Appliance Stores	(386,200)	(385,400)	(384,600)	(383,900)
Bldg. Materials, Garden Equip. & Supply Stores	201,100	207,800	214,800	220,900
Clothing & Clothing Accessories Stores	172,000	177,200	182,700	187,500
Sporting Goods, Hobby, Book & Music Stores	(19,600)	(18,300)	(16,900)	(15,700)
General Merchandise Stores	(131,000)	(127,800)	(124,400)	(121,500)
Subtotal	(183,100)	(162,800)	(141,500)	(122,900)
<b>Grand Total</b>	<b>(137,900)</b>	<b>(102,800)</b>	<b>(65,700)</b>	<b>(33,600)</b>

Source: PlaceWorks, 2019, using estimated consumer spending data and estimated retail store sales data from Esri Business Analyst Online, average sales-per-square-foot data from the Urban Land Institute and the International Council of Shopping Centers, and sales-per-store adjustment data from the US Census Bureau.

## Implications for the General Plan

Based on interviews with real estate brokers and shopping center owners, the retail market in Fountain Valley is strong. Market data confirm that lease rates are healthy and vacancies are low. The shopping center owners interviewed for this report indicated that they have little problem filling vacancies when they do occur.

However, the retail market demand analysis indicates that within Fountain Valley there is only limited demand for additional retail businesses. Even in the retail categories that have retail leakage, most of that spending is captured in the area within two miles of the city, with the sole exception of clothing and clothing accessory stores. There is little demand for new retail development in the city.

In the near term, there should be little expectation of existing retail centers transitioning to other uses. However, as the nature of retail continues to change and households continue to decrease their aggregate spending at bricks-and-mortar retail businesses, shopping center owners will face increasing downward pressure on their revenue. This should lead some owners to reposition their property—adding more restaurants, fitness centers, and other experience-oriented offerings. This might lead other owners with somewhat less-well-positioned properties to consider transitioning their properties to new uses.

The findings of the retail analysis suggest that the General Plan Update should not focus much effort on planning for new retail development. Rather, the plan should focus on:

- + Encouraging and facilitating experience-oriented improvements to existing retail locations.
- + Providing options for alternative uses for the transition of some existing retail centers if continuing changes in the nature of retail reduce the value of retail properties over the long term. (Maintaining a market-supportable amount of retail building space will strengthen the value of remaining retail properties.)
- + Capitalizing on new residential development with horizontal or vertical mixed-use retail, dining, and entertainment when the market will support such uses.
- + Encouraging and facilitating public spaces for gathering and socializing, either as part of a private commercial property or as publicly owned and maintained property.

## Residential Analysis

Demand for new housing is driven primarily by the growth in the number of households. Regionally, economic and employment growth attracts domestic and international migration and helps to retain a larger share of existing residents. The rate at which population turns into households depends on a variety of regional trends, such as the age at which children move out of their parents' houses and the age at which residents form households and families.

The local share of regional growth depends on a variety of real and perceived characteristics, such as quality of schools, personal safety, proximity to jobs, and a desirable mix of amenities. Local regulations, adequate infrastructure, and the availability of sites for development or redevelopment also influence the local share of regional growth.

### Current Market Conditions

The median sales price of homes in Orange County dipped slightly to \$792,500 in February 2019, down 1.6 percent from February 2018. The number of February sales was 1 percent higher than January but dropped 16.5 percent from February 2018. Even though the housing market is strong, it is limited by affordability and a lack of inventory.

The median rent per square foot for multifamily residential units in Orange County was \$2.31 per square foot in September 2018. Orange County multifamily rents are the highest in Southern California. Vacancy is very low, around 3.8 percent. The Westminster/Fountain Valley submarket has a lower vacancy rate, 3.0 percent, and averages \$2.06 per square foot.

### Housing Stock

The housing stock in Orange County and in Fountain Valley is predominantly detached single-family housing. People tend to own instead of rent, with a 69.5 percent homeownership rate in Fountain Valley and 57.4 percent countywide.

Single-family detached housing is the dominant housing type. In 2017, single-family detached housing accounted for 64.9 percent of the housing stock in Fountain Valley, between 38 and 55 percent in the comparison cities, and 50.9 percent in the county (see Figure 13). However, multifamily housing has played a larger role in new housing since the recession. From 2010 to 2018, multifamily housing accounted for 62.9 percent of all new housing constructed in Orange County. This dramatic change reflects, in part, changing housing preferences and, in part, the fact that there are few large vacant tracts of land available in the county for master planned communities. Similarly, in Fountain Valley from 2010 to 2018, multifamily housing accounted for 60.5 percent of the new housing constructed in the city.

Figure 13: Single-Family Detached Housing’s Share of the Housing Market, Fountain Valley, Comparison Cities, and Orange County, 2010/18



Source: PlaceWorks, 2019, using data from the CA Department of Finance.

### Housing Market Area

The residential market area, generally speaking, is the area that will generate and attract new households and the area in which a residential development in the city might compete for those new households. The market area might differ among different products types. However, for planning purposes, a single market area should suffice. The analysis defines the residential market area as the area within a 15-minute (off-peak) drive of the city.

The analysis explored larger market areas. However, these larger areas did not change the basic findings on residential demand, and they included areas that become quite different from Fountain Valley. The defined area includes a diversity of incomes and education but is not out of character with the city.

### Market Area Demographics

The market area demographics are similar to the demographics for Fountain Valley. Table 4 compares key demographic data for Fountain Valley and the residential market area. The market area is somewhat younger than Fountain Valley in terms of median age; a higher percentage of the population is under the age of 18, and a lower percentage of the population is age 65 and older.

The market area has a larger average household size, 3.12 persons per household, than Fountain Valley, 2.99. This is in part due to the market area containing fewer one-person households and more households with children. The median household income in the market area is 14 percent lower than in Fountain Valley. The difference in the estimated median home value, 5.8 percent, is less than the difference in income.

Finally, the education level of residents of the market area is lower than the education level in Fountain Valley, with the market area having a higher percentage of the population without a high school diploma and lower percentage with a bachelor’s degree or higher education.

**Table 4: Residential Market Area Demographics**

	<b>Fountain Valley</b>	<b>Market Area</b>
Median Age	44.7	37.8
- Under 18	18.2%	21.1%
- 65 and older	21.7%	14.2%
Average Household Size	2.99	3.12
Med. Household Income	\$94,548	\$81,441
Median Home Value	\$695,856	\$655,210
Education		
- No HS diploma	9.8%	19.1%
- Bachelor's degree +	42.8%	38.8%
Households		
- 1-person	22.1%	18.1%
- With children	35.7%	38.2%

Source: PlaceWorks, 2019, using data from Esri Business Analyst.

The analysis projects residential market demand based on the market area, but this does not mean that all the market area growth is potential growth in Fountain Valley. If new housing is available at incomes somewhat less than the Fountain Valley average, it could have the potential to attract a larger share of market area growth and a variety of residents. On the other hand, if the cost of developing the plan area is not substantially lower than the citywide average, there may be less diversity of housing options and new residents.

### Projected Household Growth

Table 5 provides the projected growth in households in the residential market area by household income groups from 2018 to 2023. The projections indicate a decrease in the number of households with incomes between \$15,000 and \$99,000 per year. In some cases, the decreases represent households that may relocate out of the market area. In other cases, however, the decreases represent households that may move from one income group to another due to inflation and higher earnings.

Overall, the projections indicate that the market area could grow by 366 households over the next five years. This is an annual growth rate of 0.38 percent per year.

**Table 5: Projected Household Growth, Fountain Valley, 2018 to 2023**

<b>Household Income</b>	<b>2018</b>	<b>2023</b>	<b>5-Year Change</b>
<\$15,000	996	800	-196
\$15,000 - \$24,999	1,034	820	-214
\$25,000 - \$34,999	976	780	-196
\$35,000 - \$49,999	1,589	1,366	-223
\$50,000 - \$74,999	2,987	2,751	-236
\$75,000 - \$99,999	2,412	2,361	-51
\$100,000 - \$149,999	4,155	4,507	353
\$150,000 - \$199,999	2,604	2,966	362
\$200,000+	2,393	3,161	768
<b>TOTAL</b>	<b>19,146</b>	<b>19,512</b>	<b>366</b>

Source: PlaceWorks, 2019, using data from Esri Business Analyst.

For long-term projections, the analysis uses the Southern California Association of Government’s projections for Orange County from 2010 to 2016. This analysis indicates Fountain Valley could see a total of 1,200 new households over the next 20 years. During the General Plan Update process, SCAG will be updating its projections to coincide with the update of the Regional Transportation Plan and the Regional Housing Needs Assessment (RHNA). The General Plan Update will need to reflect the RHNA when those numbers are made available, and an additional assessment of housing demand will be conducted at that time.

### Implications for the General Plan

Generally speaking, there is abundant market demand for additional housing in Fountain Valley. The city is viewed as a desirable place to live, with good schools and public facilities and services. The city is also regarded as a safe place to live, with convenient access to major employment centers. It is also a relatively affluent community. All of these factors translate into demand for additional housing.

## Office and Industrial Analysis

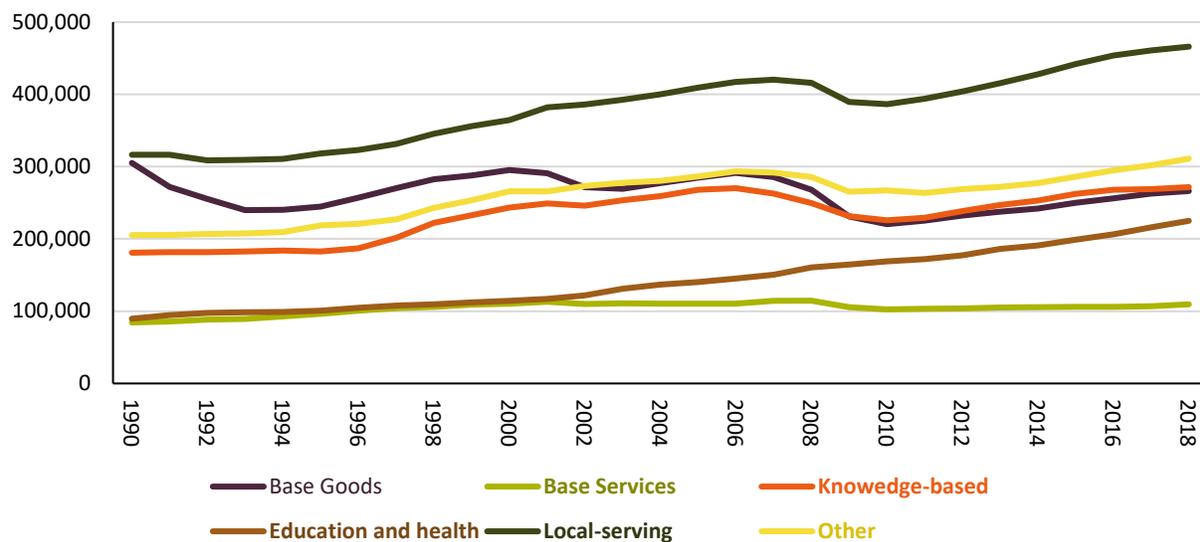
Office and industrial land uses are generally important because they generate more in municipal revenue than they cost for public facilities and services. New office development could be beneficial in the city by providing a daytime population to support retail and restaurant businesses. The existing Industrial area in the southeastern part of the city is part of a larger industrial complex that includes parts of Costa Mesa and Santa Ana.

### Employment Trends

The Orange County economy generated employment growth of 1.6 percent per year from 1990 to 2006, the peak prior to the 2008–09 recession. Over the course of the recession, the number of jobs in the county decreased 10.2 percent. In contrast, the national economy experienced an overall job decline of 6.3 percent. From 2010 to 2016, the Orange County economy has generated employment growth at a rate of 2.4 percent per year, more than double the national rate of job growth. Countywide, employment exceeded the prerecession peak in 2015.

Different sectors of the countywide economy have experienced different rates of employment growth and were affected differently by the recession. Figure 14 shows the total number of jobs in each of six major groups of economic sectors from 1990 to 2018.

Figure 14: Employment by Major Groups of Economic Sectors, Orange County, 1990 to 2018



Source: PlaceWorks, 2019, using data from the CA Employment Development Department.

The education and health group (which includes public and private education services and the health care and social services sector) has had the highest rate of employment growth since the end of the recession. However, this group of sectors, unlike all others, has seen continuous job growth every year since 1990, including during the recession. Employment in these sectors is now 55.1 percent higher than in 2006, the employment peak prior to the recession. Local-serving sectors (which include: retail sales; real estate, rental, and leasing; arts, entertainment and recreation; accommodation and food services; and other

services) has had the second highest rate of growth since the recession. Even though these sectors declined during the recession, they exceeded the prerecession peak in employment in 2014.

At the other end of the spectrum are the base goods–producing group of sectors (which includes: mining and logging; construction; and manufacturing) and the base services–producing group of sectors (which includes: wholesale trade; utilities; and transportation and warehousing). The base goods sectors saw employment decline by 24.3 percent during the recession. Since the recession, employment in these sectors has grown by a robust 2.4 percent per year. However, this growth has not made up for the steep decline during the recession and what has been a lengthy trend of declining employment—the number of jobs in 2018 was about the same as the number of jobs in 1997. The base services group experienced an employment decline of 10.1 percent during the recession and has since grown by 0.8 percent per year. Nevertheless, employment in these sectors is only about where it was in 2002.

In the middle of the pack are the knowledge-based group of sectors (which includes: information; finance and insurance; professional, scientific, and technical services; and management of companies and enterprises) and the group of other economic sectors (which includes: administrative and support; waste management and remediation services; and government). Employment in both these groups of sectors has grown since the recession and returned to the prerecession level of employment in 2018.

### Employment Projection

Increases in employment drive demand for new office and industrial development. Table 6 provides the projected changes in employment in Fountain Valley for each economic sector based on the city’s projected share of countywide employment growth. The analysis projects that the total number of jobs in the city would increase by 3,878, growing from 31,644 in 2020 to 35,542 in 2045, for an annual growth rate of 0.5 percent per year.

The market demand for office and industrial uses is based on projected employment growth. The analysis derives employment projections for Fountain Valley based on the city’s share of employment growth in each economic sector from 2003 to 2015 (the most recent year for which employment estimates at the municipal level are available). The analysis then applies the city’s share to the projected countywide growth.

**Table 6: Projected Change in Number of Jobs by Economic Sector, Fountain Valley, 2020 to 2025, 2030, 2040, and 2045**

	Number of Jobs 2020	Change in Number of Jobs			
		2020–25	2020–30	2020–40	2020–45
Agriculture, Forestry, Fishing & Hunting	2	(2)	(2)	(2)	(2)
Mining	0	0	0	0	0
Utilities	402	50	71	139	174
Construction	1,287	32	59	99	112
Manufacturing	2,103	(152)	(294)	(546)	(659)
Wholesale Trade	1,402	10	18	27	29
Retail Trade	3,019	48	95	191	239
Transportation and Warehousing	335	19	39	84	108
Information	184	26	56	129	174
Finance and Insurance	1,238	75	151	311	395
Real Estate and Rental and Leasing	394	22	43	83	101
Professional and Technical Services	3,094	165	314	578	697
Management of Companies and Enterprises	385	22	46	96	124
Administrative and Waste Services	1,718	30	60	120	149
Educational Services	2,643	80	159	316	394
Health Care and Social Assistance	8,038	114	219	423	532
Arts, Entertainment, and Recreation	507	(40)	(79)	(150)	(182)
Accommodation and Food Services	3,188	220	446	933	1,204
Other Services, Ex. Public Admin	1,260	41	83	166	209
Public Administration	467	16	31	64	80
<b>Total</b>	<b>31,664</b>	<b>777</b>	<b>1,518</b>	<b>3,061</b>	<b>3,878</b>

Source: PlaceWorks, 2019, using employment estimates from the US Census Bureau's Local Household Employer Dynamics Program and from the CA Employment Development Department.

## Office Demand

### Current Market Conditions

CB Richard Ellis's *Orange County Office MarketView Report* (Q4 2018) indicates that office vacancy in Orange County has declined compared to Q4 2017—10.1 percent versus 11.1 percent—but that the office market will be only moderate in terms of growth and demand in the near future. Even though the market is healthy and employment is increasing, lease rates are still too low to support new development. Average office lease rates in Central Orange County are \$2.48 per square foot compared to the countywide average of \$2.96 and \$3.21 in the airport area.

### Demand Analysis

The projected market demand for offices is based on the projected increase in employment in the following sectors: Information; Finance and insurance; Real estate and rental and leasing; Professional, scientific, and technical services; Management of companies and enterprises; part of Administration and support and waste management and remediation; and Health care and social assistance, excluding the

estimated number of jobs at hospitals. Table 7 provides the projected market potential for office building space. This is the potential amount of office development that Fountain Valley might capture if sufficient land area is available for office development at a competitive price. The potential is based on overall office-based employment growth in central Orange County. The analysis finds that there is the potential for the development of up to 657,000 square feet of new office development through 2045.

**Table 7: Market Potential for Office Building Space, Fountain Valley, 2018 to 2045**

<b>Year</b>	<b>Supportable Building Square Footage</b>	<b>Cumulative Increase</b>
2018	4,229,151	
2020	4,257,308	28,156
2025	4,389,142	159,990
2030	4,515,170	286,018
2040	4,761,587	532,435
2045	4,886,759	657,607

Source: PlaceWorks, 2019.

## Industrial Demand

### Current Market Conditions

Industrial space is experiencing record low vacancy throughout Orange County and Southern California. According to CB Richard Ellis’s *MarketView Orange County Industrial* (Q4 2018), rising demand has continued to push lease rates up and vacancy down for several years—the vacancy rate is less than half of what it was four years ago. Vacancy in the Greater Airport Area, which includes Fountain Valley, is 2.8 percent.

With little to no land available for future industrial developments, development activity remains low. In 2018, 805,297 square feet of industrial facilities were under construction, and 934,754 square feet were delivered to market. The Greater Airport Area accounted for 572,943 square feet of construction but did not deliver any product. Industrial development remains constricted due to available land being developed for residential and commercial buildings.

### Demand Analysis

The projected market demand for industrial building space is based on the projected increase in employment in the following sectors: part of Construction; Manufacturing; Wholesale trade; and Transportation and warehousing. Table 8 provides the projected market potential for industrial building space. This is the potential amount of industrial development that Fountain Valley might capture if sufficient land area is available for industrial development at a competitive price. The potential is based on overall industrial employment growth in central Orange County and assumes that one-fourth of industrial productivity growth results in an increase in building square footage per employee. The analysis finds that there is potential for the development of up to 421,000 square feet of new industrial development through 2045.

**Table 8: Market Potential for Industrial Building Space, Fountain Valley, 2018 to 2045**

<b>Year</b>	<b>Supportable Building Square Footage</b>	<b>Increase from Prior Period</b>
2018	4,220,712	--
2020	4,233,837	13,125
2025	4,282,862	62,150
2030	4,347,186	126,474
2040	4,525,628	304,916
2045	4,642,108	421,396

Source: PlaceWorks, 2019.

### Implications for the General Plan

Based on interviews with developers and brokers, Fountain Valley is generally not viewed advantageously for speculative office development, and current market conditions (lease and vacancy rates) do not support much speculative office development outside of the airport area. However, office-based businesses desiring a location in Fountain Valley may drive future demand for build-to-suit office development. The industrial market is very strong. There is no reason to expect existing industrial uses to transition to nonindustrial uses. There is market demand for additional industrial development, but the cost of land generally makes new industrial development not financially feasible.

Office-based businesses are increasingly focused on attracting and retaining the skilled and educated workers that they need. And as younger generations are filling those positions, office-based businesses are increasingly viewing the quality of their office location—ease of access, proximity to affordable housing, walkability, and proximity to dining and entertainment—as a tool for talent attraction and retention. For Fountain Valley to be competitive in the office development market, the General Plan Update should focus on where and how new office development could be developed to be part of a walkable, mixed-use place.

Industrial businesses are increasingly finding themselves under pressure as large warehousing development eats up available land and as cities allow for and plan for the conversion of existing industrial areas to residential and mixed-use development. As part of the General Plan Update, the City should consider the degree to which the employment-generating and fiscal benefits of existing industrial areas are valued and focus on ways to preserve, protect, and enhance those areas for industrial uses.

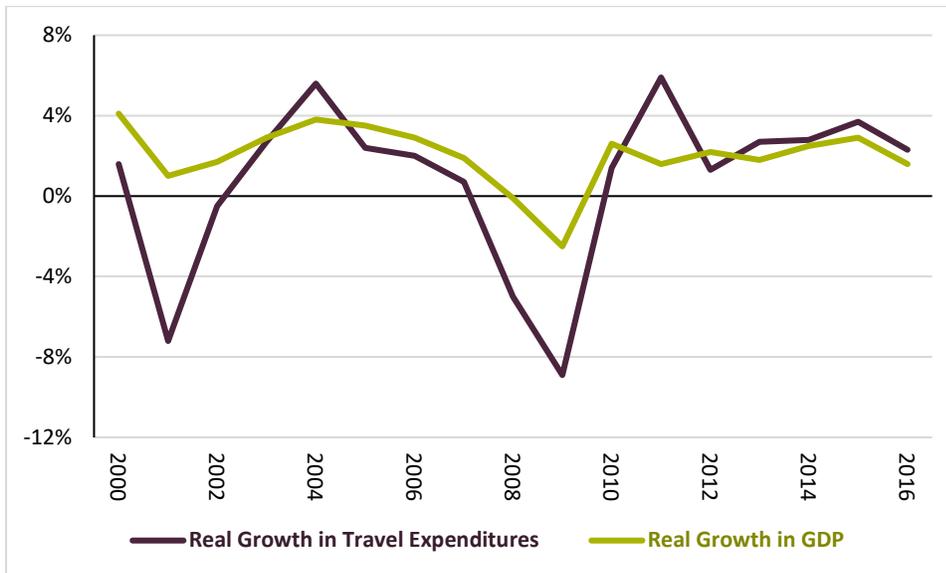
## Lodging and Entertainment

This final chapter provides an overview of the market potential for lodging facilities and entertainment businesses and the role these uses could play.

### Lodging

The travel and tourism industry typically follows economic growth, but the highs are higher, and lows are lower. When the economy and GDP are growing, tourism tends to grow even faster. However, when the economy struggles, travel expenditures plummet. For example, in the 2008-09 recession, GDP shrank 1.7 percent between 2008 and 2009, and travel expenditures shrank by 9.1 percent. Figure 15 illustrates this trend.

Figure 15: Annual Rate of Change in Real GDP and Real Travel Expenditures, United States, 2000 to 2016



Source: PlaceWorks, 2019, using data from the US Bureau of Economic Analysis.

### Hotel Market Basics

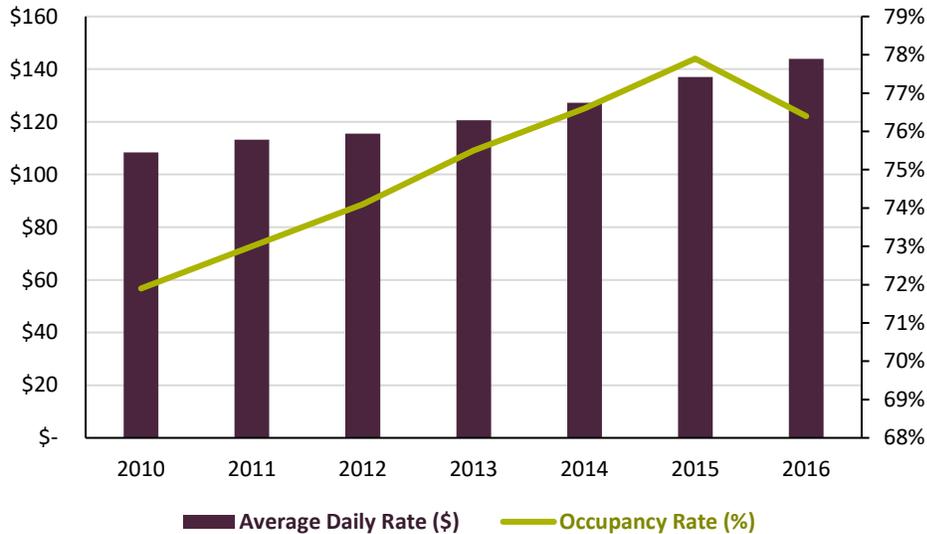
Hotel customers choose hotels based on price, quality, and proximity to destination. Hotels seek to provide the combination of these features that will capture customers from the hotel’s target market segment. Each hotel operator may define market segments in their own way, but typically, segmentation is based on socioeconomics (price point) and purpose of travel, such as business or leisure. There can, of course, be overlaps among market segments, and some hotels try to grow their business by attracting customers from more than one market segment.

Lodging around the Orange County Airport, which includes Fountain Valley, is driven by a combination of business and leisure travel. The area generates substantial demand related to the large number of businesses and jobs in the area, as well as the proximity to leisure destinations such as Disneyland and the beaches.

### Current Market Conditions

According to CBRE Hotels’ Southern California Lodging Forecast, the Orange County Airport area has seen new construction in recent years, and the market is expected to experience additional growth in occupied rooms and average daily rate as the submarket continues to strengthen. The occupancy rate is expected to reach 77.8 percent. Figure 16 shows the trends in average daily rate and occupancy for Orange County Airport area hotels from 2010 to 2016.

Figure 16: Average Daily Rate and Occupancy Rate, Orange County Airport Area Hotels, 2010 to 2016



Source: PlaceWorks, 2017, using data from CBRE Hotels.

### Demand Analysis

Occupancy rates below 60 percent are generally problematic, representing an unhealthy market. In contrast, occupancy rates around 70 percent are considered healthy, and higher rates tend to indicate a need for additional supply. The current occupancy rate, 76.4 percent, indicates that there is market demand for more hotel rooms in the market area.

With current occupancy, the market area could support an additional 600 hotel rooms and would still be at a healthy 70 percent occupancy rate. If the occupancy rate continues growing at the rate it has grown since 2010, a total of 992 additional hotel rooms could be added to the market area over the next five years and maintain a 70 percent occupancy rate.

As of December 2018, approximately 1,674 hotel rooms are in the development pipeline, as described in Table 9. The new rooms will slowly come online as individual projects are completed, but the backlog will likely satisfy overall projected demand for eight to ten years.

**Table 9: Hotel Projects in Development Pipeline, Orange County Airport Area, 2018**

<b>Hotel Name</b>	<b>Capacity</b>	<b>City</b>
Banc & Office Hotel	225	Irvine
Staybridge Hotel	208	Irvine
Landmark	386	Irvine
Towneplace Hotel	165	Irvine
Marriott Gateway	252	Irvine
Homewood Suites	161	Irvine
Hampton Inn	135	Santa Ana
Tapestry Hotel	142	Santa Ana

Source: Notable Development Projects Map, City of Irvine; Major Development Activity Report, City of Santa Ana.

Not all these projects will necessarily move forward in the near term. And some new hotels may effectively outcompete existing hotels, forcing them to transition to other uses. In addition, economic and employment growth in the airport area could generate additional demand.

More importantly, individual hotels compete for a specific segment of the hotel market, and Fountain Valley is at the edge of the airport area. There may well be locations in Fountain Valley that an individual hotel may find attractive simply because there is little nearby competition in a particular segment of the market.

The General Plan Update should still consider hotels as a viable development opportunity in the city. However, the overall market saturation does suggest that hotel development should not be relied upon as an anchor for any particular district or location. Moreover, the fiscal analysis for the General Plan Update should only conservatively estimate transient occupancy tax revenue from potential new hotel development.

### Entertainment

As ecommerce takes a greater share of retail, the traditional shopping center is looking less and less appealing to shoppers. If buying everyday items is so easy and convenient on Amazon, why should consumers go out of their way and fight crowds to make a purchase?

Retail must now be an experience, and a shopping trip should be an enjoyable social outing. To make shopping a pleasant experience, shopping centers are adding entertainment, dining, and other uses that complement what is already on the ground. As indicated in the Tapestry section of this report, Fountain Valley residents enjoy recreation and family-oriented entertainment along with dining and eating out. Entertainment would be a welcome addition to the community.

Some uses are not necessarily complementary—for example, a pool in a mall sounds like a fun idea, but most people don’t transition from splashing in the sun to perusing a clothing shop very easily. The following are some of the more common types of entertainment that are incorporated into experience-oriented shopping centers and districts:

**Movie Theaters.** There are nearby theaters at Bella Terra and the South Coast Plaza area, limiting the support for a theater in Fountain Valley. Also, movie theaters are coming under pressure for online streaming and facing their own market challenges.

**Comedy Club.** Comedy clubs are more often one component of a bar or restaurant than a stand-alone activity.

**Bowling Alley.** Over the last 20 years, bowling alleys have gone from the blue-collar country club with weekly league nights to family-oriented entertainment centers with good food, disco lights, and birthday parties. This is an appealing idea for a family-oriented downtown or retail area. However, bowling alleys do not typically generate large revenue and often garner a subsidy as an anchor use in a center or district. Fountain Valley already has a bowling alley, and the question may be how to parley this facility as an asset.

**Fitness Centers.** One out of every five Americans belongs to a gym, and the average gym member visits their club over 100 times a year. Thus, a gym could be an effective way to bring people to a retail center or district. People who work out in groups and in classes often form social networks. A health club could support surrounding retail, as people finish their workout routine and stop at a coffee shop to refuel or talk to friends. While a large portion of society does not work out, a growing portion forego other leisure activity to work out.

**Retail and Entertainment.** Retail shops themselves are trying to figure out how to appeal to the experience-oriented nature of the current consumer. This means offering things that an online retailer may not offer. Lululemon offers yoga classes, Michaels offers crafting classes, and Williams-Sonoma offers cooking classes. Coffee shops may offer events like open-mic nights or book readings, and restaurants host fundraising nights.

**Parks and Recreation.** While these uses alone don't often generate revenue, recreational and public spaces help bring the community together and are somewhere people want to visit. Community events, organizations, and families need places to gather. Public parks and plazas, if pleasant and enjoyable to visit, can bring people out of their homes. Events, decorations, and art installations help remind people that the area is alive and vibrant. A shopping center or district with the reputation for having "something going on" will get more traffic and could bring consumers from a larger trade area. A weekly farmers market, quarterly sidewalk art show, or summer concert series fosters community and works as a marketing tool for a vibrant retail district.

## Implications for the General Plan

In decades past, the question one might ask about a new shopping center would be, "What can I buy there." Today, that question increasingly is, "What can I do there." As Fountain Valley goes through the process of updating its General Plan, the community should ponder where they do things and what things future generations should be able to do in Fountain Valley. The plan itself should provide guidance for incorporating arts, entertainment, and recreation into existing retail centers and districts and policies for when such uses are required for new commercial development. Oftentimes these uses, while open to the public, will be provided by the private sector--the developers and owners of commercial property. However, the General Plan should also explore the conditions under which the City may be involved.