

4 ECONOMIC AND MARKET ANALYSIS

This chapter addresses the market conditions and economic factors that contributed to the creation of the Preferred Land Use and Circulation Alternative for Santa Rosa’s Downtown Station Area Specific Plan.

Based upon a previously completed analysis,¹ the following section examines and summarizes the overall market conditions influencing the Specific Plan Area, as well as the anticipated market responsiveness and feasibility of development proposed for each of the identified opportunity sites in the Preferred Alternative. The analysis of market conditions and development feasibility for specific sites provides the basis for the conclusions presented later in this chapter regarding the total value added and the ability of the proposed development to support public infrastructure and amenities that may be required or desired as a part of the Specific Plan.

A. Market Conditions and Development Potential

The recent market analysis prepared by Gruen Gruen + Associates (GG+A) for the City of Santa Rosa² indicates that there is considerable market demand for additional residential, retail and office uses in Downtown Santa Rosa. It is projected that demand for multifamily housing, similar to the types of development proposed in the Preferred Land Use and Circulation Alternative, may result in 50 to 100 new units annually between 2005 and 2015 in the Specific Plan Area. Depending upon the success of the City’s efforts to create an attractive and “livable” downtown environment, as well as the state of overall residential market trends in Sonoma County, residential absorption could be higher than currently reflected in the GG+A Study. Projected demand for region-serving specialty retail, local and neighborhood-serving retail, and eating and drinking venues in the Specific Plan Area is estimated to total ap-

¹ Gruen Gruen + Associates, “The Market for Retail, Residential, and Office Space in Downtown Santa Rosa,” December 2005.

² Ibid.

proximately 267,000 to 311,000 square feet between 2005 and 2015.³ Demand for office space that accommodates business services and professional offices is projected to reach approximately 320,000 total square feet between 2005 and 2015.

The Preferred Alternative for the Specific Plan, as shown in Table 4-1, reflects a level of development that meets or exceeds the real estate demand projected for the Plan Area over the next 20 years. One of the objectives of MTC's grant for the Downtown Station Area is to determine the City's ability to achieve a targeted number of housing units within a half-mile study area. According to MTC's projections for the entire SMART corridor, each station should include an average of 2,200 housing units within a half-mile radius of the station site. Currently it is estimated that within a half-mile radius there are nearly 1,700 housing units. Therefore, to meet the targeted average proposed by MTC, only 500 new units are needed in the Plan Area.

Although the Preferred Alternative significantly exceeds this figure, the additional development capacity is appropriate from a market perspective given the potential for stronger than projected market conditions; the fact that some of the opportunity sites, even given the possibility of redevelopment to higher density uses, may be difficult to redevelop because of site-related constraints, such as hazardous materials remediation; the relatively high value of existing income producing uses; and the development and infrastructure costs associated with the proposed higher density uses. Furthermore, the establishment of a development capacity that is consistent with the long-term vision for the Specific Plan Area, the investment in related infrastructure improvements and the provision of other development incentives, such as parking improvements, maximizes the possibility for desired changes in the Downtown Station Area in the future.

³ Since expansion of retail will mostly consist of specialty retail, eating and drinking venues, as well as neighborhood-serving retail, the capture rate is likely to be lower than the 19.6 percent rate used in the GG+A study. A ten percent capture rate forecasts between 136,000 to 159,000 square feet of additional supportable retail in the next ten years.

TABLE 4-1 **PREFERRED ALTERNATIVE LAND USE SUMMARY**

	Residential	Office	Retail
	(Units)	(Sq. Ft.)	(Sq. Ft.)
Preferred Alternative	3,267	340,000	375,500
Estimated Annual Demand (1)	50-100	32,000	26,700-31,100
Absorption Estimate (Years)	33-65	11	12-14

(1) Estimated using projected annual demand from GG+A market study for years 2005-2015

B. Development Feasibility

Building-off of the analysis conducted during the formation of the three initial Land Use and Circulation Alternatives, the Preferred Alternative includes market-supported development products and prototypes on each of the identified opportunity sites. Accordingly, the development types and levels reflect what is believed to be financially feasible under current conditions and assumptions.

Specific site conditions and related development costs for each opportunity site will, however, influence feasibility, and some sites with lower site assembly and preparation costs will inherently be more feasible and will most likely develop earlier. Sites that are costly because of the value of current uses, site contamination or other existing constraints will be difficult or even unlikely to redevelop in the near term.

The form of development proposed within the Specific Plan Area primarily consists of mixed use multi-story buildings. This development type, historically common in urban areas throughout the country, is typically less prevalent in midsize communities. In recent years, however, multi-story mixed use buildings have become more common in these communities and have devel-

oped in Santa Rosa, Petaluma and San Rafael. A pro forma financial analysis, examining a variety of building prototypes, enabled a better understanding of the development potential for the Plan Area. A summary of the results of this financial analysis are provided in Table 4-2. The pro forma financial analysis for each building prototype accounts for expected development costs and potential sale prices or rents and calculates the anticipated value of the development. The development value calculation yields an estimate of “residual land value” and is used to assess the value created and to determine if it is sufficient to overcome site redevelopment-related costs, including the acquisition of existing income-producing buildings.

1. Pro Forma Financial Analysis Findings for the Preferred Alternative

Single use or mixed use buildings, including a substantial for-sale residential program, will generate the greatest value and highest related residual land value. As the market for the multi-family for-sale products improves, the economics of such developments will also improve, particularly for mid-rise buildings. On a per unit basis, the mid-rise condominium prototypes currently generate less value relative to the townhouses due to significantly higher construction costs.

TABLE 4-2 SUMMARY OF PRELIMINARY FEASIBILITY ANALYSIS FINDINGS

Building Prototype	Opportunity Sites	D.U./Gross Acre F.A.R.	Threshold (1) Unit Price/ Rent (per Sq. Ft.)	Unit Price/ Rent (per Sq. Ft.)	Achievable (2) Residual Land Value per Unit or Bldg. Sq. Ft. per Acre
For-Sale Residential					
Townhouses with Surface Parking (3-Story)	1, 2, 6, 15	20	\$240	\$375	\$202,601 /Unit
Townhouses with Individual Garages (3-Story)	1, 2, 6, 15	20	\$283	\$375	\$138,334 /Unit
Townhouses over Common Parking (3-Story)	2, 3, 6, 15	20	\$275	\$375	\$149,926 /Unit
Townhouse over Retail and Common Parking (3-Story)	2, 3, 6, 15	20	\$275	\$375	\$149,926 /Unit
Townhouses with Individual Garages (4-Story)	2, 3, 15	30	\$283	\$375	\$138,334 /Unit
Townhouses over Common Parking (4-Story)	2, 3, 14, 15	30	\$275	\$375	\$134,933 /Unit
Townhouse over Retail and Common Parking (4-Story)	2, 3, 14, 15	30	\$275	\$375	\$134,933 /Unit
Mid-Rise Condominium over Retail and Common Parking (6 to 8-Story)	7-10, 12, 14	60	\$349	\$400	\$60,867 /Unit
Mid-Rise Condominium over Retail and Common Parking (9 to 10-Story)	9, 10, 12	80	\$358	\$400	\$50,585 /Unit
Rental Residential					
Apartments with Surface Parking (3-Story)	1, 2, 6, 15	25	\$1.54	\$1.65	\$22,023 /Unit
Rental Townhouses with Individual Garages (3-Story)	1, 2, 6, 15	20	\$1.72	\$1.65	\$0
Apartments over Common Parking (3-Story)	2, 3, 6, 15	25	\$1.68	\$1.65	\$0
Apartments over Retail and Common Parking (3-Story)	2, 3, 6, 15	25	\$1.68	\$1.65	\$0
Rental Townhouses with Individual Garages (4-Story)	2, 3, 15	30	\$1.72	\$1.65	\$0
Apartments over Common Parking (4-Story)	2, 3, 14, 15	35	\$1.68	\$1.65	\$0
Apartments over Retail and Common Parking (4-Story)	2, 3, 14, 15	35	\$1.68	\$1.65	\$0
Apartments over Common Parking (5-Story)	5, 7, 8, 15	45	\$2.02	\$1.75	\$0
Apartments over Retail and Common Parking (5-Story)	5, 7, 8, 15	45	\$2.02	\$1.75	\$0
Apartments over Retail and Common Parking (6 to 8-Story)	7-10, 12, 14	60	\$2.04	\$1.75	\$0
Apartments over Retail and Common Parking (9 to 10-Story)	9, 10, 12	80	\$2.04	\$1.75	\$0
Office					
Office over Retail and Common Parking (6 to 8-Story)	7-10, 12, 14	1.40	\$3.13	\$2.25	\$0
Office over Retail and Common Parking (9 to 10-Story)	9, 10, 12	2.50	\$3.13	\$2.25	\$0
Retail (3)					
Downtown Retail Without Parking (Stand-Alone Buildings)					
Retail Without Parking (in Mixed-Use Buildings)	2, 3, 5-10, 12, 14, 15	-	\$1.91	\$2.00	\$11 /Bldg. Sq. Ft. -

(1) Price points required for value necessary to completely cover development costs (i.e. \$0 residual land value).

(2) Based on near-term market potential.

\$0 indicates that land value under this prototype is less than \$0.

(3) Retail estimates do not include land value per acre, as the density of retail can vary widely.

Source: Economic & Planning Systems, Inc.

Rental housing, given current market rents, appears feasible for a three-story product with surface parking, although it does not add as much value as for-sale housing. All other rental products appear infeasible at this time because the value of the units does not sufficiently outweigh the cost to construct them. As market rents increase, however, such development, as stand alone or in a mixed use format, will become feasible. Additionally, affordable rental housing provided by a non-profit developer is feasible and will be an important method for achieving affordable housing requirements.

Currently, office development appears infeasible due to the relatively low value of office space as a result of low market rents in relation to construction costs. It is, however, necessary to allow and plan for these uses now to ensure that there are future opportunities for office development once market rents increase and it becomes feasible to include it as part of a vibrant mix of uses.

2. Feasibility of Proposed Public Improvements

Development of the Specific Plan necessitates a range of public improvements, including those required to expand capacity of public services and utilities, as well as those necessary to create a livable downtown environment. It is assumed that new development in the Plan Area, in one manner or another, will help fund these required public improvements.

Additionally, the Preferred Alternative necessitates several major public and private investments, including the relocation of City Hall, major improvements to the Santa Rosa Creek, the creation of a performing arts center and the reconfiguration of the Santa Rosa Plaza shopping mall. Each of these improvements require substantial funding from sources not exclusively related to the real estate value created as a result of the new development in the Preferred Alternative. Value created over the next ten years, assuming market conditions hold, will range between approximately \$90 and \$180 million. Table 4-3 provides a summary of the projected tax increment estimates over this ten year period. Under the assumption that the majority of the Specific Plan Area is within a designated redevelopment area, tax increments to the redevelopment agency will likely range from \$590,000 to \$1.2 million annually and is potentially sufficient to issue bonds of roughly \$6 to \$12 million.

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DOWNTOWN STATION AREA SPECIFIC PLAN
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TABLE 4-3 **TEN-YEAR TAX INCREMENT ESTIMATES**

Item	Distribution (1)	Amount	
		Scenario 1 (2)	Scenario 2 (3)
New Assessed Value		\$91,000,000	\$182,000,000
Property Tax (Gross TI)	1%	\$910,000	\$1,820,000
Housing Set Aside (4)	35%	(\$318,500)	(\$637,000)
Pass-Throughs (5)	35%	<u>(\$318,500)</u>	<u>(\$637,000)</u>
Tax Increment		\$273,000	\$546,000
Annual Revenue for Redevelopment		\$273,000	\$546,000
Annual Revenue for Affordable Housing		<u>\$318,500</u>	<u>\$637,000</u>
Total Annual RDA Revenues		\$591,500	\$1,183,000
Annual Revenue for Redevelopment		\$273,000	\$546,000
County Administrative Fee (6)	2.4%	(\$21,840)	(\$43,680)
Redevelopment Administration Cost (7)	13%	<u>(\$35,490)</u>	<u>(\$70,980)</u>
Revenue Available for Bond Debt Service		\$215,670	\$431,340
Bonding Capacity (8)		\$2,249,000	\$4,498,000
Cost of Bond Sale and Funding Reserves	12%	<u>(\$269,880)</u>	<u>(\$539,760)</u>
Net Bonding Revenues		\$1,979,120	\$3,958,240

(1) Assumptions provided by City of Santa Rosa Economic Development and Housing Department. (2) Annual demand of 50 units.

(3) Annual demand of 100 units. (4) A plan amendment will be necessary in the Santa Rosa Center Redevelopment Area in order to incur new debt, which will trigger a higher LMIHF setaside of 35%. (5) Assumes a Pass-Through proxy rate of 35% as under AB1290. (6) As a percentage of gross TI. (7) As a percentage of net non-housing revenues (annual revenue for redevelopment). (8) Assumes 20-year term, 6% interest rate, and debt cover ratio of 1.1. Sources: City of Santa Rosa Economic Development and Housing Department; and Economic & Planning Systems, Inc.

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